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January 12, 2016

Charter School Board
Charter School of the Dunes, Inc.
7300 East Melton Road
Gary, IN 46403

We have reviewed the Financial Statements and Independent Auditors' Report prepared by Fitzgerald/Isaac LLC, Independent Public Accountants, for the period July 1, 2014 to June 30, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the Charter School of the Dunes, Inc., as of June 30, 2015, and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report. Pages 26 and 27 contain one current audit finding. Management's response and corrective action is provided in the Attachment.

In addition to the report presented herein, a Supplemental Audit Report for Charter School of the Dunes, Inc. was prepared in accordance with the guidelines established by the State Board of Accounts.

The Financial Statements and Independent Auditors' Report and the Supplemental Audit Report are filed in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidated Financial Statements and Federal Single Audit Report

June 30, 2015 and 2014

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Charter School of the Dunes, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Charter School of the Dunes, Inc. and Affiliate**, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Charter School of the Dunes, Inc.** and its affiliate as of June 30, 2015 and 2014 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 15, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Likewise, the consolidating schedules of financial position on pages 17 and 18 and the consolidating schedules of activities on pages 19 and 20 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2015 on our consideration of **Charter School of the Dunes, Inc.**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Charter School of the Dunes, Inc.**'s internal control over financial reporting and compliance.



Indianapolis, IN
November 11, 2015

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidated Statements of Financial Position

	June 30	
Assets	2015	2014
Current assets:		
Cash	\$ 367,786	280,251
Cash - lender restricted	99,572	99,572
Accounts receivable	-	11,696
Grants receivable	186,576	94,567
Interest income receivable	53,885	53,885
Prepaid expenses	4,087	772
Total current assets	711,906	540,743
Cash - lender restricted	374,251	460,064
Note receivable	9,237,456	9,237,456
Deferred loan costs, net	690,655	712,801
Property and equipment:		
Land	485,842	485,842
Building and improvements	11,095,430	11,095,430
Furniture and equipment	401,277	329,011
Textbooks	207,809	205,726
Less: accumulated depreciation	(945,029)	(510,358)
Property and equipment, net	11,245,329	11,605,651
	\$ 22,259,597	22,556,715
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 745,276	713,172
Current portion of long-term debt	532,611	457,698
Current portion of capital lease obligation	-	9,535
Total current liabilities	1,277,887	1,180,405
Long-term debt	19,939,668	20,465,941
Total liabilities	21,217,555	21,646,346
Unrestricted net assets	1,042,042	910,369
	\$ 22,259,597	22,556,715

See accompanying notes to financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidated Statements of Activities

	Year Ended June 30	
	2015	2014
<u>Revenue and Support</u>		
State education support	\$ 4,563,621	3,892,327
Grant revenue	1,036,277	904,641
Student fees	17,939	27,829
Interest income	93,578	94,301
Contributions	1,009	10,251
Fundraising	18,486	17,346
Other	16,844	12,235
Total revenue and support	<u>5,747,754</u>	<u>4,958,930</u>
<u>Expenses</u>		
Program services	4,615,442	4,651,841
Management and general	1,000,639	918,932
Total expenses	<u>5,616,081</u>	<u>5,570,773</u>
Change in net assets before non-operating income	131,673	(611,843)
<u>Non-Operating Income</u>		
Developer fees	<u>-</u>	<u>65,100</u>
Change in net assets	131,673	(546,743)
Net assets, beginning of year	<u>910,369</u>	<u>1,457,112</u>
Net assets, end of year	<u>\$ 1,042,042</u>	<u>910,369</u>

See accompanying notes to financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2015	2014
Operating Activities		
Change in net assets	\$ 131,673	(546,743)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Restricted cash expended for operating costs	85,813	-
Depreciation	434,671	397,653
Amortization of deferred loan fees	22,146	12,503
Change in:		
Accounts receivable	11,696	(11,696)
Grants receivable	(92,009)	20,237
Prepaid expenses	(3,315)	28,370
Accounts payable and accrued expenses	32,104	261,261
Net cash provided by operating activities	622,779	161,585
Investing Activities		
Acquisition of property and equipment	(74,349)	(3,408,306)
Net cash used by investing activities	(74,349)	(3,408,306)
Financing Activities		
Principal reduction of capital lease obligation	(9,535)	(15,343)
Principal reduction of long-term indebtedness	(451,360)	(316,239)
Restricted cash expended for construction related costs	-	3,766,682
Net cash provided (used) by financing activities	(460,895)	3,435,100
Net increase in cash	87,535	188,379
Cash, beginning of year	280,251	91,872
Cash, end of year	\$ 367,786	280,251
Supplemental disclosures:		
Cash paid for interest expense (including capitalized interest of \$59,640 in 2014)	\$ 180,158	191,320
Equipment obtained in exchange for note payable	-	134,878

See accompanying notes to financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

June 30, 2015 and 2014

(1) Summary of Significant Accounting Policies

General

Charter School of the Dunes, Inc. is a public benefit not-for-profit organization incorporated under the laws of the State of Indiana that operates a public charter school established under Indiana Code 20-24. Charter School of the Dunes, Inc. maintains control over CSOTD Holdings, Inc., a public benefit not-for-profit organization established in April 2012 and organized for the purpose of construction of a building to serve as an educational facility.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Charter School of the Dunes, Inc. and its affiliate, CSOTD Holdings, Inc., collectively referred to as the "School". All significant intercompany transactions and balances have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Grants Receivable

Grants receivable relate to activities funded under federal grants and legislation enacted by the State of Indiana. The School believes that it is operating in compliance with regulatory requirements and as such no allowance for doubtful accounts is deemed necessary.

Deferred Loan Costs

Costs associated with securing financing under loan agreements with BMO Harris Bank and NNMF SUB-CDE XVII, LLC have been deferred and are being amortized over the terms of the loans using the straight-line method. Amortization of deferred loan costs is included in interest expense and amounted to \$22,146 and \$12,503 for the years ended June 30, 2015 and 2014, respectively.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Revenue Recognition

Revenues primarily come from resources provided under the Indiana Charter Schools Act. Under the Act, the School receives an amount per student in relation to the funding received by other public schools in the same geographic area. Funding from the State of Indiana is based on enrollment, and is paid in monthly installments in July through June coinciding with the academic school year. Revenue is recognized in the year in which educational services are rendered.

A portion of the School's revenue is the product of cost reimbursement grants. Accordingly, the School recognizes revenue under these grants in the amount of costs and expenses at the time they are incurred.

Property and Equipment

Purchases of these assets and expenditures that materially increase value or extend useful lives are capitalized and are included in the accounts at cost. Routine maintenance and repairs and minor replacement costs are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. The estimated useful lives generally are as follows:

Building and improvements	35 years
Furniture and equipment	3 to 5 years
Textbooks	5 years

Taxes on Income

Charter School of the Dunes, Inc. and its affiliate, CSOTD Holdings, Inc., have received determinations from the U.S. Treasury Department stating that they qualify under the provisions of Section 501(c)(3) of the Internal Revenue Code as tax-exempt organizations; however, each entity would be subject to tax on income unrelated to its tax-exempt purpose. For the years ended June 30, 2015 and 2014, no accounting for federal and state income taxes was required to be included in the accompanying consolidated financial statements.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies, Continued

Taxes on Income, Continued

Professional accounting standards require the School to recognize a tax liability only if it is more likely than not the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax liability that is greater than 50% likely of being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax liability is recorded. The School has examined this issue and has determined that there are no material contingent tax liabilities or questionable tax positions. The tax years ending after 2011 are open to audit for both federal and state purposes.

Subsequent Events

The School evaluated subsequent events through November 11, 2015, the date these financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the financial statements or related disclosures would be required.

Reclassifications

Certain figures for 2014 that were previously reported have been reclassified for comparative purposes.

(2) Restricted Cash

Restricted cash represents loan proceeds received by CSOTD Holdings, Inc. that are restricted by the lender for payment of financing related costs. Restricted cash was comprised of the following account balances as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Asset management fees.....	\$ 473,722	559,535
Stabilization asset management fee.....	<u>101</u>	<u>101</u>
	<u>\$ 473,823</u>	<u>559,636</u>

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

(3) Note Receivable

The note receivable is due from Chase NMTC CSOTD Investment Fund, LLC, an entity created to facilitate the funding and construction of the School's facility. The note carries an interest rate of 1% per annum and is secured by all assets of Chase NMTC CSOTD Investment Fund, LLC, consisting primarily of its interest in NNMF SUB-CDE XLII, LLC. Interest only is payable on the note until December 1, 2019, at which time it converts to an amortizing loan payable in equal installments of principal and interest through December 1, 2042.

The School borrowed funds from BMO Harris Bank, which when combined with its own resources were loaned to Chase NMTC CSOTD Investment Fund, LLC. Chase NMTC CSOTD Investment Fund, LLC was able to secure an additional equity investment in order to complete the funding required for the project. Chase NMTC CSOTD Investment Fund, LLC, in turn, loaned the amount necessary for construction of the facility to CSOTD Holdings, Inc. through an affiliated entity (NNMF SUB-CDE XVII, LLC). See Note 4 for information regarding these debt obligations.

(4) Long-Term Debt

Long-term debt at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Note payable to BMO Harris Bank	\$ 7,570,913	8,003,000
Note payable to NNMF SUB-CDE XVII, LLC ..	9,237,456	9,237,456
Note payable to NNMF SUB-CDE XVII, LLC ..	3,567,544	3,567,544
Note payable to Food Service Professionals, Inc.	<u>96,366</u>	<u>115,639</u>
	20,472,279	20,923,639
Less: current portion.....	<u>(532,611)</u>	<u>(457,698)</u>
	<u>\$19,939,668</u>	<u>20,465,941</u>

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

(4) Long-Term Debt, Continued

The note payable to BMO Harris Bank required interest payments only until January 2014, when it converted to an amortizing loan with a term of 25 years. The loan provides for interest at 5.39%, of which interest at 4.91% is subsidized by the U.S. Treasury from the purchase of Qualified School Construction Bonds; however, the subsidy is subject to reduction dependent upon federal sequestration adjustments. The loan is secured by a blanket lien on all School business assets, including a collateral assignment of the School's loan to Chase NMTC CSOTD Investment Fund, LLC. The loan agreement contains certain covenants that limit the School's ability to create liens, incur debt, and change management. The loan agreement also contains covenants requiring the maintenance of required reserves, and establishes a minimum debt service coverage ratio and minimum levels of student enrollment. The School was not in compliance with the student enrollment covenant for the 2015 or 2014 fiscal years.

The notes payable to NNMF SUB-CDE XVII, LLC relate to borrowings by CSOTD Holdings, Inc. to finance the construction of the school facility. The loans each provide for interest only at .9% per annum to be paid until December 1, 2019, when they convert to amortizing loans with a term of 27 years. The loans are secured by all business assets.

The note payable to Food Service Professionals, Inc. is non-interest bearing and is payable in monthly installments of \$2,142 through December 2019. The note is collateralized by specific items of equipment.

Future maturities of long-term debt are as follows:

<u>Year Ended June 30:</u>	
2016	\$ 532,611
2017	608,698
2018	599,698
2019	590,272
2020	569,000
Thereafter	<u>17,572,000</u>
	<u>\$20,472,279</u>

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

(5) Leases

The School leased computer equipment under a capital lease. At June 30, 2015, the cost and accumulated depreciation of the equipment relating to this lease were \$44,610 and \$44,610, respectively (\$44,610 and \$35,936, respectively, as of June 30, 2014). The lease obligation was fully paid in 2015.

The School also leases office equipment under an operating lease which expires in September 2018. Total lease expense under operating leases for the years ended June 30, 2015 and 2014 was \$21,384 and \$37,916. A schedule of minimum lease obligations as of June 30, 2015 follows:

<u>Year Ended June 30:</u>	
2016	\$16,164
2017	16,164
2018	16,164
2019	4,041

(6) Retirement Plan

The School provides retirement benefits covering substantially all full-time employees. Retirement benefits are provided by the Indiana State Teachers' Retirement Fund ("TRF") and the Indiana Public Employees' Retirement Fund ("PERF"), both of which are cost-sharing multiple-employer defined benefit retirement plans governed by the State of Indiana and administered by the Indiana Public Retirement System ("INPRS") Board. Contribution requirements of plan members are determined annually by the INPRS Board. Under the plans, the School contributed 7.5% of compensation for eligible teaching faculty to TRF and 11.2% of compensation for other eligible employees to PERF. Should the School elect to withdraw from TRF or PERF, the School could be subject to a withdrawal fee. The School's contributions represent an insignificant percentage of the total contributions received by TRF or PERF. As of June 30, 2014 (the latest year reported), both TRF and PERF were more than 80% funded. A copy of the complete annual report for the year ended June 30, 2014 can be obtained at:

www.in.gov/inprs/files/2014INPRSCAFRBook_Web.pdf

Retirement plan expense was \$210,600 and \$191,153 for the years ended June 30, 2015 and 2014, respectively.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

(7) Contingency

In 2014, the School received a penalty assessment from the Internal Revenue Service in the amount of \$50,000 relating to the late filing of Form 990, Return of Organization Exempt from Income Tax, for the year ended June 30, 2012. The School has filed an appeal of this assessment requesting that the penalty be waived. A final determination has not been made. No liability for this assessment has been included in the accompanying financial statements.

(8) Commitments

The School operates under a charter granted by Calumet College of Saint Joseph. As the sponsoring organization, Calumet College of Saint Joseph exercises certain oversight responsibilities. Under the charter, the School agreed to pay the sponsor an annual administrative fee equal to 3% of state tuition support. Payments under this agreement were \$87,122 and \$78,045 for the years ended June 30, 2015 and 2014.

Associated with the financing of the school facility, the School is obligated to pay certain administrative fees. Upon completion of construction, the School paid National New Markets Fund, LLC a Stabilization Asset Management Fee in the amount of \$65,000. The School has also agreed to pay NNMF SUB-CDE XVII, LLC an asset management fee in the amount of \$78,571 per year for as long as the construction project loans remain outstanding. Expense for the years ended June 30, 2015 and 2014 relating to these fees was \$78,571 and \$155,401, respectively.

(9) Risks and Uncertainties

The School provides education services to families residing in Lake and surrounding counties in Indiana, and is subject to the risks of economic and competitive forces at work within this geographic area.

The majority of revenues relate to legislation enacted by the State of Indiana and grants awarded under federal programs. Changes in state or federal legislation could significantly affect the School. Additionally, the School is subject to monitoring and audit by state and federal agencies. Those examinations may result in additional liability to be imposed on the School.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

(9) Risks and Uncertainties, Continued

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2015 and 2014, substantially all of the accounts receivable balance was due from the State of Indiana. In addition, deposits are maintained at BMO Harris Bank and are insured up to the FDIC insurance limit.

(10) Functional Expense Reporting

The costs of providing the educational activities have been summarized on a functional basis in the statements of activities. Accordingly, certain expenses have been allocated between program and management services. Following is a summary of expenses comprising each program and service for the years ended June 30, 2015 and 2014:

	<u>2015</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$2,358,021	349,987
Employee benefits	600,233	119,623
Staff development and recruitment	50,427	1,171
Authorizer's oversight fee	-	87,122
Food service	282,683	-
Transportation service	272,344	-
Other professional services	124,325	276,504
Classroom, kitchen and office supplies	54,153	16,724
Occupancy	236,983	-
Depreciation	434,671	-
Interest	201,496	-
Insurance	-	25,883
Asset management fees	-	78,571
Other	<u>106</u>	<u>45,054</u>
	<u>\$4,615,442</u>	<u>1,000,639</u>

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Notes to Consolidated Financial Statements

(10) Functional Expense Reporting, Continued

	<u>2014</u>	
	<u>Program Services</u>	<u>Management and General</u>
Salaries and wages.....	\$2,449,429	473,234
Employee benefits	622,347	96,626
Staff development and recruitment	29,964	2,907
Authorizer's oversight fee	-	78,045
Food service	208,809	-
Transportation service	253,510	-
Other professional services	150,284	125,256
Classroom, kitchen and office supplies	105,948	8,941
Occupancy	272,282	-
Depreciation	397,653	-
Interest	161,009	-
Insurance	-	31,218
Asset management fees	-	78,571
Other	<u>606</u>	<u>24,134</u>
	<u>\$ 4,651,841</u>	<u>918,932</u>

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

<u>Federal Grantor Agency/Pass-Through Entity/ Cluster Title/Program Title/Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Federal Awards Expended</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 54,017
National School Lunch Program	10.555		<u>178,779</u>
Total for cluster			<u>232,796</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Part A Cluster			
Grants to Local Educational Agencies	84.010	14-9310/15-9310	618,163
Special Education Cluster			
Special Education - Grants to States	84.027	14215-575-PN01	91,862
Improving Teacher Quality State Grants	84.367	14-9310/15-9310	73,692
Total for federal grantor agency			<u>783,717</u>
Total federal awards expended			<u><u>\$ 1,016,513</u></u>

See accompanying Independent Auditor's Report.
See accompanying notes to this schedule.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2015

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Charter School of the Dunes, Inc. (the "School") under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, changes in net assets or cash flows of the School.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidating Schedule of Financial Position

	June 30, 2015			
	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consoli- dating Entries	Consolidated
<u>Assets</u>				
Current assets:				
Cash	\$ 367,786	-	-	367,786
Cash - lender restricted	-	99,572	-	99,572
Grants receivable	186,576	-	-	186,576
Due from affiliate	-	63,710	(63,710)	-
Interest income receivable	53,885	-	-	53,885
Prepaid expenses	4,087	-	-	4,087
Total current assets	<u>612,334</u>	<u>163,282</u>	<u>(63,710)</u>	<u>711,906</u>
Cash - lender restricted	-	374,251	-	374,251
Note receivable	9,237,456	-	-	9,237,456
Deferred loan costs, net	117,030	573,625	-	690,655
Property and equipment:				
Land	-	485,842	-	485,842
Building and improvements	-	11,095,430	-	11,095,430
Furniture and equipment	401,277	-	-	401,277
Textbooks	207,809	-	-	207,809
Less: accumulated depreciation	(363,840)	(581,189)	-	(945,029)
Property and equipment, net	<u>245,246</u>	<u>11,000,083</u>	<u>-</u>	<u>11,245,329</u>
	<u>\$ 10,212,066</u>	<u>12,111,241</u>	<u>(63,710)</u>	<u>22,259,597</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 658,407	86,869	-	745,276
Due to affiliate	63,710	-	(63,710)	-
Current portion of long-term debt	532,611	-	-	532,611
Total current liabilities	<u>1,254,728</u>	<u>86,869</u>	<u>(63,710)</u>	<u>1,277,887</u>
Long-term debt	<u>7,134,668</u>	<u>12,805,000</u>	<u>-</u>	<u>19,939,668</u>
Total liabilities	<u>8,389,396</u>	<u>12,891,869</u>	<u>(63,710)</u>	<u>21,217,555</u>
Net assets (deficiency)	<u>1,822,670</u>	<u>(780,628)</u>	<u>-</u>	<u>1,042,042</u>
	<u>\$ 10,212,066</u>	<u>12,111,241</u>	<u>(63,710)</u>	<u>22,259,597</u>

See accompanying Independent Auditor's Report.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidating Schedule of Financial Position

Assets	June 30, 2014			
	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consoli- dating Entries	Consolidated
Current assets:				
Cash	\$ 280,251	-	-	280,251
Cash - lender restricted	-	99,572	-	99,572
Accounts receivable	11,696	-	-	11,696
Grants receivable	94,567	-	-	94,567
Due from affiliate	-	66,079	(66,079)	-
Interest income receivable	53,885	-	-	53,885
Prepaid expenses	772	-	-	772
Total current assets	441,171	165,651	(66,079)	540,743
Cash - lender restricted	-	460,064	-	460,064
Note receivable	9,237,456	-	-	9,237,456
Deferred loan costs, net	122,010	590,791	-	712,801
Property and equipment:				
Land	-	485,842	-	485,842
Building and improvements	-	11,095,430	-	11,095,430
Furniture and equipment	329,011	-	-	329,011
Textbooks	205,726	-	-	205,726
Less: accumulated depreciation	(246,181)	(264,177)	-	(510,358)
Property and equipment, net	288,556	11,317,095	-	11,605,651
	\$ 10,089,193	12,533,601	(66,079)	22,556,715
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued expenses	\$ 626,303	86,869	-	713,172
Due to affiliate	66,079	-	(66,079)	-
Current portion of long-term debt	457,698	-	-	457,698
Current portion of capital lease obligation	9,535	-	-	9,535
Total current liabilities	1,159,615	86,869	(66,079)	1,180,405
Long-term debt	7,660,941	12,805,000	-	20,465,941
Capital lease obligation	-	-	-	-
Total liabilities	8,820,556	12,891,869	(66,079)	21,646,346
Net assets (deficiency)	1,268,637	(358,268)	-	910,369
	\$ 10,089,193	12,533,601	(66,079)	22,556,715

See accompanying Independent Auditor's Report.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidating Schedule of Activities

	Year Ended June 30, 2015			
	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consoli- dating Entries	Consolidated
<u>Revenue and Support</u>				
State education support	\$ 4,563,621	-	-	4,563,621
Grant revenue	1,036,277	-	-	1,036,277
Student fees	17,939	-	-	17,939
Interest income	92,819	759	-	93,578
Contributions	1,009	-	-	1,009
Fundraising	18,486	-	-	18,486
Rental income	-	125,000	(125,000)	-
Other	16,844	-	-	16,844
Total revenue and support	<u>5,746,995</u>	<u>125,759</u>	<u>(125,000)</u>	<u>5,747,754</u>
<u>Expenses</u>				
Program services	4,291,018	449,424	(125,000)	4,615,442
Management and general	901,944	98,695	-	1,000,639
Total expenses	<u>5,192,962</u>	<u>548,119</u>	<u>(125,000)</u>	<u>5,616,081</u>
Change in net assets	554,033	(422,360)	-	131,673
Net assets (deficiency), beginning of year	<u>1,268,637</u>	<u>(358,268)</u>	<u>-</u>	<u>910,369</u>
Net assets (deficiency), end of year	<u>\$ 1,822,670</u>	<u>(780,628)</u>	<u>-</u>	<u>1,042,042</u>

See accompanying Independent Auditor's Report.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Consolidating Schedule of Activities

	Year Ended June 30, 2014			
	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consoli- dating Entries	Consolidated
<u>Revenue and Support</u>				
State education support	\$ 3,892,327	-	-	3,892,327
Grant revenue	904,641	-	-	904,641
Student fees	27,829	-	-	27,829
Interest income	92,905	1,396	-	94,301
Contributions	10,251	-	-	10,251
Fundraising	17,346	-	-	17,346
Rental income	-	125,000	(125,000)	-
Other	12,235	-	-	12,235
Total revenue and support	4,957,534	126,396	(125,000)	4,958,930
<u>Expenses</u>				
Program services	4,447,046	329,795	(125,000)	4,651,841
Management and general	834,390	84,542	-	918,932
Total expenses	5,281,436	414,337	(125,000)	5,570,773
Change in net assets before non-operating income	(323,902)	(287,941)	-	(611,843)
<u>Non-Operating Income</u>				
Developer fees	65,100	-	-	65,100
Change in net assets	(258,802)	(287,941)	-	(546,743)
Net assets (deficiency), beginning of year	1,527,439	(70,327)	-	1,457,112
Net assets (deficiency), end of year	\$ 1,268,637	(358,268)	-	910,369

See accompanying Independent Auditor's Report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Charter School of the Dunes, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of **Charter School of the Dunes, Inc.** (the "School") **and Affiliate**, which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 11, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Item 2015-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's Response to Findings

Charter School of the Dunes, Inc.'s response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Charter School of the Dunes, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Indianapolis, IN
November 11, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Directors
Charter School of the Dunes, Inc.

Report on Compliance for Each Major Federal Program

We have audited **Charter School of the Dunes, Inc.**'s (the "School") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2015. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School's compliance.

Opinion on Each Major Federal Program

In our opinion, **Charter School of the Dunes, Inc.** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of **Charter School of the Dunes, Inc.** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Indianapolis, IN
November 11, 2015

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
▪ Material weaknesses:	Yes
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
Noncompliance noted which is material to financial statements:	No

Federal Awards

Internal control over major programs:	
▪ Material weaknesses:	None Reported
▪ Significant deficiencies that are not considered to be material weaknesses:	None Reported
Type of auditor's report issued on compliance for major program:	Unmodified
Audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133:	No

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

I. Summary of Auditor's Results, Continued

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I, Part A Cluster Grants to Local Educational Agencies

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee: No

II. Financial Statement Findings

MATERIAL WEAKNESS

FINDING NO. 2015-001
FINANCIAL ACCOUNTING

Condition

In our audit, we noted certain conditions that resulted in a misstatement of the financial statements relating primarily to the failure to record liabilities for employment contracts.

Criteria

OMB Circular A-133, Subpart C, §____.300 states in part:

“The auditee shall...

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs...
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §____.310....”

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

II. Financial Statement Findings, Continued

Cause

Efforts were made to account for liabilities with regard to employment contracts, but they were not properly implemented.

Effect

The effect of these matters resulted in an overstatement of operating results for the 2015 fiscal year by \$199,129. Such misstatement has been corrected in the accompanying financial statements.

Recommendation

Procedures should be implemented to assure effective coordination and communication of contractual obligations with the contracted accountants. Financial reports should also be subject to formal internal review to assure that they reflect all significant transactions.

Views of Responsible Officials and Corrective Action

See attached letter of response from School officials.

III. Federal Award Findings and Questioned Costs

No matters are reportable.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2015

FINANCIAL STATEMENT FINDINGS

FINDING 2014-001

FINANCIAL ACCOUNTING

Condition

In 2014, it was noted that various conditions existed that resulted in a misstatement of the financial statements relating primarily to the failure to record liabilities for employment contracts, purchase contracts, and operating expenses. Numerous audit entries were required to correct account balances.

Recommendation

The auditor recommended that procedures be implemented to assure prompt communication of contractual obligations to the contracted accountants, and that financial reports be subject to formal internal review to assure that they reflect all significant transactions.

Current Status

Efforts were made to correct the condition noted above, which were effective in many regards; however, the treatment of liabilities for employment contracts was not effective and resulted in audit adjustments in 2015.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

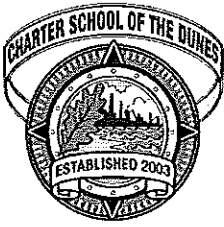
Other Reports

Year Ended June 30, 2015

The reports presented herein were prepared in addition to another official report prepared for the School as listed below:

Supplemental Audit Report of Charter School of the Dunes, Inc.

The Supplemental Audit Report contains the results of compliance testing required by the Indiana State Board of Accounts under its *Guidelines for the Audits of Charter Schools Performed by Private Examiners* pertaining to matters addressed in its *Accounting and Uniform Compliance Guidelines Manual for Indiana Charter Schools*.



Charter School of the Dunes

7300 East Melton Road, Gary, IN 46403 ♦ Phone: (219) 939-9690 ♦ Fax: (219) 939-9031
www.csdunes.org

November 23, 2015

Mr. Eugene P. Fitzgerald,

This letter is in response to the findings in the July 1, 2014 to June 30, 2015 Financial Audit.

Financial Reporting: We have improved our accounting procedures to assure the condition that resulted in a misstatement and timeliness of reporting of financial statements does not occur again. We have retained necessary school leadership, financial personnel and external consultant to ensure accuracy. In addition, we are implementing policies and procedures to guarantee accurate and timely reporting to the State Board of Education and Indiana Department of Education.

Please feel free to contact me if you have any questions.

A handwritten signature in cursive script that reads "Tom Cera".

Tom Cera,
Board Chair
Charter School of the Dunes
tjcera@gmail.com

cc:

Mr. Paul Orner, Board Treasurer
Charter School of the Dunes

Dr. Joi Patterson, President
Charter School of the Dunes

Ms. Michelle McCollough, Director of Finance
Charter School of the Dunes

Mr. Geoffrey Cherry, external consultant
Orbital