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December 28, 2017


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

We have reviewed the report prepared by Charter School of the Dunes, Inc. and opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2016 to June 30, 2017. Per the *Independent Auditors' Report* the financial statements included in the report present fairly the financial condition of Charter School of the Dunes, Inc., as of June 30, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Donovan CPAs prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

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 audited Financial Statements and Supplemental Audit Report are filed in our office as a matter of public record.


Paul D. Joyce, CPA
State Examiner

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS

Together with Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016



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Donovan CPAs

Independent Auditors' Report

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

Report on the Consolidated 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, 2017 and 2016, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditors' 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 auditors' 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 auditors consider 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Charter School of the Dunes, Inc. and Affiliate as of June 30, 2017 and 2016 and the consolidated activities and change in net assets, functional expenses, and 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 is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the consolidated financial statements. Additionally, the accompanying consolidating schedules of financial position and activities and change in net assets on pages 14 through 17 are presented for purposes of additional analysis and are not a required part of the consolidated 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 audit 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 Schedule of Expenditures of Federal Awards, and consolidating schedules of financial position and activities and change in net assets are 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 December 7, 2017 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.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, stylized 'D'.

Indianapolis, Indiana
December 7, 2017

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 456,710	\$ 547,493
Cash - lender restricted	99,572	99,572
Grants receivable	63,115	93,049
Interest income receivable	53,885	53,885
Prepaid expenses	9,609	11,092
<i>Total current assets</i>	<u>682,891</u>	<u>805,091</u>
PROPERTY AND EQUIPMENT		
Land	485,842	485,842
Buildings and improvements	11,229,279	11,199,279
Furniture and equipment	554,934	554,934
Textbooks	293,201	244,939
Less: accumulated depreciation	<u>(1,817,424)</u>	<u>(1,397,791)</u>
<i>Property and equipment, net</i>	<u>10,745,832</u>	<u>11,087,203</u>
OTHER ASSETS		
Cash - lender restricted	175,888	270,360
Note receivable	9,237,456	9,237,456
<i>Total other assets</i>	<u>9,413,344</u>	<u>9,507,816</u>
TOTAL ASSETS	<u>\$ 20,842,067</u>	<u>\$ 21,400,110</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 640,415	\$ 631,198
Accounts payable and accrued expenses	516,411	542,133
<i>Total current liabilities</i>	<u>1,156,826</u>	<u>1,173,331</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	19,125,835	19,764,108
Less: unamortized debt issuance costs	<u>(646,363)</u>	<u>(668,509)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>18,479,472</u>	<u>19,095,599</u>
<i>Total liabilities</i>	19,636,298	20,268,930
NET ASSETS, UNRESTRICTED	<u>1,205,769</u>	<u>1,131,180</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,842,067</u>	<u>\$ 21,400,110</u>

See independent auditors' report and accompanying notes to the consolidated financial statements

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
REVENUE AND SUPPORT		
State education support	\$ 3,431,545	\$ 3,439,323
Grant revenue	1,471,271	1,349,264
Student fees	34,867	16,382
Interest income	93,242	93,335
Contributions	1,738	8,331
Fundraising income	170	9,590
Other income	18,491	21,772
	<u>5,051,324</u>	<u>4,937,997</u>
 <i>Total revenue and support</i>		
EXPENSES		
Program services	4,033,324	3,830,507
Management and general	943,411	1,018,352
	<u>4,976,735</u>	<u>4,848,859</u>
 <i>Total expenses</i>		
CHANGE IN NET ASSETS	74,589	89,138
 NET ASSETS, BEGINNING OF YEAR	<u>1,131,180</u>	<u>1,042,042</u>
 NET ASSETS, END OF YEAR	<u>\$ 1,205,769</u>	<u>\$ 1,131,180</u>

See independent auditors' report and accompanying notes to the consolidated financial statements

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended June 30, 2017 and 2016

	2017			2016		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
FUNCTIONAL EXPENSES						
Salaries and wages	\$ 2,028,922	\$ 390,925	\$ 2,419,847	\$ 1,849,655	\$ 456,003	\$ 2,305,658
Employee benefits	525,883	90,071	615,954	474,943	112,090	587,033
Staff development and recruitment	23,669	640	24,309	42,288	1,646	43,934
Authorizer oversight fees	-	71,547	71,547	-	72,409	72,409
Food service	279,811	-	279,811	237,317	-	237,317
Transportation service	163,489	-	163,489	192,785	-	192,785
Other professional services	106,246	234,877	341,123	113,322	224,269	337,591
Classroom, kitchen, and office supplies	55,875	10,503	66,378	70,750	14,683	85,433
Occupancy	228,810	-	228,810	194,548	-	194,548
Depreciation	419,633	-	419,633	452,762	-	452,762
Interest	198,640	-	198,640	198,967	-	198,967
Insurance	-	37,973	37,973	-	31,976	31,976
Asset management fees	-	86,946	86,946	-	87,211	87,211
Other	2,346	19,929	22,275	3,170	18,065	21,235
<i>Total functional expenses</i>	<u>\$ 4,033,324</u>	<u>\$ 943,411</u>	<u>\$ 4,976,735</u>	<u>\$ 3,830,507</u>	<u>\$ 1,018,352</u>	<u>\$ 4,848,859</u>

See independent auditors' report and accompanying notes to the consolidated financial statements

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 74,589	\$ 89,138
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Restricted cash expended for operations	94,472	103,891
Depreciation	419,633	452,762
Amortization of debt issuance costs	22,146	22,146
Changes in certain assets and liabilities:		
Grants receivable	29,934	93,527
Prepaid expenses	1,483	(7,005)
Accounts payable and accrued expenses	<u>(25,722)</u>	<u>(203,143)</u>
<i>Net cash provided by operating activities</i>	<u>616,535</u>	<u>551,316</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(78,262)</u>	<u>(294,636)</u>
FINANCING ACTIVITIES		
Proceeds from note payable	-	450,000
Principal repayment of notes payable	<u>(629,056)</u>	<u>(526,973)</u>
<i>Net cash used in financing activities</i>	<u>(629,056)</u>	<u>(76,973)</u>
NET CHANGE IN CASH	(90,783)	179,707
CASH, BEGINNING OF YEAR	<u>547,493</u>	<u>367,786</u>
CASH, END OF YEAR	<u>\$ 456,710</u>	<u>\$ 547,493</u>
SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 178,750	\$ 158,916

See independent auditors' report and accompanying notes to the consolidated financial statements

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 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.

Debt Issuance Costs – The School incurred costs associated with securing financing under the loan agreements with BMO Harris Bank and NNMF SUB-CDE XVII, LLC. Total costs incurred were \$124,500 and \$600,804, respectively. Amortization is provided on a straight-line basis over the term of the agreements (25 and 35 years, respectively). Accumulated amortization as of June 30, 2017 and 2016 was \$78,941 and \$56,795, respectively. Amortization expense for both years ended June 30, 2017 and 2016 was \$22,146 and is included in interest expense. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs is presented as a direct deduction from the carrying amount of the related debt liability.

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 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.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Property and Equipment, Continued – 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:

Buildings 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, 2017 and 2016 no accounting for federal and state income taxes was required to be included in the accompanying consolidated financial statements.

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 2013 are open to audit for both federal and state purposes.

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 for which it filed an appeal requesting the penalty be waived. No liability for this assessment has been included in the accompanying consolidated financial statements and no correspondence has been received from the Internal Revenue Service since the appeal was filed.

Subsequent Events – The School evaluated subsequent events through December 7, 2017, 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.

NOTE 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:

	<u>2017</u>	<u>2016</u>
Asset management fees	\$ 275,359	\$ 369,831
Stabilization asset management fee	<u>101</u>	<u>101</u>
	<u>\$ 275,460</u>	<u>\$ 369,932</u>

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 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.

NOTE 4 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Note payable to BMO Harris Bank	\$ 6,480,913	\$ 7,063,913
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.	52,837	76,393
Note payable to the Indiana Common School Fund	427,500	450,000
	19,766,250	20,395,306
Less: current portion	(640,415)	(631,198)
Long-term portion	\$ 19,125,835	\$ 19,764,108

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 (1.20/1) and minimum levels of student enrollment. The School was not in compliance with covenants for the 2017 fiscal year relating to debt service coverage ratio or minimum levels of student enrollment. Management has requested and anticipates receiving a waiver on both covenant violations.

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.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 4 - NOTES PAYABLE, Continued

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.

The note payable to Indiana Common School Fund requires semi-annual payments of principal and interest from January 2017 to July 2026, with interest at 1% per annum.

Annual principal maturities of the notes payable are as follows for the years ending June 30:

2018	\$	640,415
2019		647,422
2020		614,000
2021		377,000
2022		377,000
Thereafter		<u>17,110,413</u>
	\$	<u>19,766,250</u>

NOTE 5 - LEASES

The School leases office equipment under an operating lease which expires in September 2018. Total lease expense under operating leases for the years ended June 30, 2017 and 2016 was \$18,778 and \$27,507, respectively. A schedule of minimum lease obligations is as follows for the years ending June 30:

2018	\$	16,164
2019		4,041

NOTE 6 - 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 not to exceed 3% of state tuition support. Payments under this agreement were \$71,547 and \$72,409 for the years ended June 30, 2017 and 2016, respectively.

As part of the financing of the school facilities, the School has 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. In addition, the School is responsible for certain tax and accounting fees incurred by NNMF SUB-CDE XVII, LLC. Expense for the years ended June 30, 2017 and 2016 relating to these fees was \$86,946 and \$87,211, respectively.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2017 and 2016

NOTE 7 - 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, 2016 (the latest year reported), both TRF and PERF were more than 80% funded.

Retirement plan expense was \$201,314 and \$217,416 for the years ended June 30, 2017 and 2016, respectively.

NOTE 8 - 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.

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of receivables from the State of Indiana. At June 30, 2017 and 2016, 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.

NOTE 9 - FUNCTIONAL EXPENSE REPORTING

The costs of providing educational activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain expenses have been allocated between program and management services.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

<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		\$ 73,464
National School Lunch Program	10.555		<u>207,506</u>
Total for cluster			<u>280,970</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	16-9310/17-9310	723,061
Special Education Cluster			
Special Education - Grants to States	84.027	14217-575-PN01	92,417
Improving Teacher Quality State Grants	84.367	16-9310/17-9310	<u>100,615</u>
Total for federal grantor agency			<u>916,093</u>
Total federal awards expended			\$ <u>1,197,063</u>

See independent auditors' report and accompanying notes to this schedule

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2017

NOTE 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, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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.

NOTE 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 the Uniform Guidance, 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, 2017

	<u>Charter School of the Dunes, Inc.</u>	<u>CSOTD Holdings, Inc.</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
	ASSETS			
CURRENT ASSETS				
Cash	\$ 456,710	\$ -	\$ -	\$ 456,710
Cash - lender restricted	-	99,572	-	99,572
Grants receivable	63,115	-	-	63,115
Due from affiliate	-	64,893	(64,893)	-
Interest income receivable	53,885	-	-	53,885
Prepaid expenses	9,609	-	-	9,609
<i>Total current assets</i>	<u>583,319</u>	<u>164,465</u>	<u>(64,893)</u>	<u>682,891</u>
PROPERTY AND EQUIPMENT				
Land	-	485,842	-	485,842
Building and improvements	133,849	11,095,430	-	11,229,279
Furniture and equipment	554,934	-	-	554,934
Textbooks	293,201	-	-	293,201
Less: accumulated depreciation	<u>(602,211)</u>	<u>(1,215,213)</u>	-	<u>(1,817,424)</u>
<i>Property and equipment, net</i>	<u>379,773</u>	<u>10,366,059</u>	-	<u>10,745,832</u>
OTHER ASSETS				
Cash - lender restricted	-	175,888	-	175,888
Note receivable	<u>9,237,456</u>	-	-	<u>9,237,456</u>
<i>Total other assets</i>	<u>9,237,456</u>	<u>175,888</u>	-	<u>9,413,344</u>
	<u>\$ 10,200,548</u>	<u>\$ 10,706,412</u>	<u>\$ (64,893)</u>	<u>\$ 20,842,067</u>
	LIABILITIES AND NET ASSETS (DEFICIENCY)			
CURRENT LIABILITIES				
Current portion of notes payable	\$ 640,415	\$ -	\$ -	\$ 640,415
Accounts payable and accrued expenses	428,261	88,150	-	516,411
Due to affiliate	<u>64,893</u>	-	<u>(64,893)</u>	-
<i>Total current liabilities</i>	<u>1,133,569</u>	<u>88,150</u>	<u>(64,893)</u>	<u>1,156,826</u>
LONG-TERM LIABILITIES				
Notes payable, net of current portion	6,320,835	12,805,000	-	19,125,835
Less: unamortized debt issuance costs	<u>(107,070)</u>	<u>(539,293)</u>	-	<u>(646,363)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>6,213,765</u>	<u>12,265,707</u>	-	<u>18,479,472</u>
<i>Total liabilities</i>	7,347,334	12,353,857	(64,893)	19,636,298
NET ASSETS (DEFICIENCY)	<u>2,853,214</u>	<u>(1,647,445)</u>	-	<u>1,205,769</u>
	<u>\$ 10,200,548</u>	<u>\$ 10,706,412</u>	<u>\$ (64,893)</u>	<u>\$ 20,842,067</u>

See independent auditors' report

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2016

	<u>Charter School of the Dunes, Inc.</u>	<u>CSOTD Holdings, Inc.</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
	ASSETS			
CURRENT ASSETS				
Cash	\$ 547,493	\$ -	\$ -	\$ 547,493
Cash - lender restricted	-	99,572	-	99,572
Grants receivable	93,049	-	-	93,049
Due from affiliate	-	61,385	(61,385)	-
Interest income receivable	53,885	-	-	53,885
Prepaid expenses	11,092	-	-	11,092
<i>Total current assets</i>	<u>705,519</u>	<u>160,957</u>	<u>(61,385)</u>	<u>805,091</u>
PROPERTY AND EQUIPMENT				
Land	-	485,842	-	485,842
Building and improvements	103,849	11,095,430	-	11,199,279
Furniture and equipment	554,934	-	-	554,934
Textbooks	244,939	-	-	244,939
Less: accumulated depreciation	<u>(499,590)</u>	<u>(898,201)</u>	-	<u>(1,397,791)</u>
<i>Property and equipment, net</i>	<u>404,132</u>	<u>10,683,071</u>	-	<u>11,087,203</u>
OTHER ASSETS				
Cash - lender restricted	-	270,360	-	270,360
Note receivable	9,237,456	-	-	9,237,456
<i>Total other assets</i>	<u>9,237,456</u>	<u>270,360</u>	-	<u>9,507,816</u>
	<u>\$ 10,347,107</u>	<u>\$ 11,114,388</u>	<u>\$ (61,385)</u>	<u>\$ 21,400,110</u>
LIABILITIES AND NET ASSETS (DEFICIENCY)				
CURRENT LIABILITIES				
Current portion of long-term debt	\$ 631,198	\$ -	\$ -	\$ 631,198
Accounts payable and accrued expenses	455,264	86,869	-	542,133
Due to affiliate	61,385	-	(61,385)	-
<i>Total current liabilities</i>	<u>1,147,847</u>	<u>86,869</u>	<u>(61,385)</u>	<u>1,173,331</u>
LONG-TERM LIABILITIES				
Notes payable, net of current portion	6,959,108	12,805,000	-	19,764,108
Less: unamortized debt issuance costs	<u>(112,050)</u>	<u>(556,459)</u>	-	<u>(668,509)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>6,847,058</u>	<u>12,248,541</u>	-	<u>19,095,599</u>
<i>Total liabilities</i>	7,994,905	12,335,410	(61,385)	20,268,930
NET ASSETS (DEFICIENCY)	<u>2,352,202</u>	<u>(1,221,022)</u>	-	<u>1,131,180</u>
	<u>\$ 10,347,107</u>	<u>\$ 11,114,388</u>	<u>\$ (61,385)</u>	<u>\$ 21,400,110</u>

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CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2017

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidating Entries	Consolidated
REVENUE AND SUPPORT				
State education support	\$ 3,431,545	\$ -	\$ -	\$ 3,431,545
Grant revenue	1,471,271	-	-	1,471,271
Student fees	34,867	-	-	34,867
Interest income	92,769	473	-	93,242
Contributions	1,738	-	-	1,738
Fundraising	170	-	-	170
Rental income	-	125,000	(125,000)	-
Other	18,491	-	-	18,491
<i>Total revenue and support</i>	<u>5,050,851</u>	<u>125,473</u>	<u>(125,000)</u>	<u>5,051,324</u>
EXPENSES				
Program services	3,707,620	450,704	(125,000)	4,033,324
Management and general	842,219	101,192	-	943,411
<i>Total expenses</i>	<u>4,549,839</u>	<u>551,896</u>	<u>(125,000)</u>	<u>4,976,735</u>
CHANGE IN NET ASSETS	501,012	(426,423)	-	74,589
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR				
	<u>2,352,202</u>	<u>(1,221,022)</u>	<u>-</u>	<u>1,131,180</u>
NET ASSETS (DEFICIENCY), END OF YEAR				
	<u><u>\$ 2,853,214</u></u>	<u><u>\$ (1,647,445)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,205,769</u></u>

See independent auditors' report

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended June 30, 2016

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidating Entries	Consolidated
REVENUE AND SUPPORT				
State education support	\$ 3,439,323	\$ -	\$ -	\$ 3,439,323
Grant revenue	1,349,264	-	-	1,349,264
Student fees	16,382	-	-	16,382
Interest income	92,716	619	-	93,335
Contributions	8,331	-	-	8,331
Fundraising	9,590	-	-	9,590
Rental income	-	125,000	(125,000)	-
Other	21,772	-	-	21,772
<i>Total revenue and support</i>	<u>4,937,378</u>	<u>125,619</u>	<u>(125,000)</u>	<u>4,937,997</u>
EXPENSES				
Program services	3,506,084	449,423	(125,000)	3,830,507
Management and general	901,762	116,590	-	1,018,352
<i>Total expenses</i>	<u>4,407,846</u>	<u>566,013</u>	<u>(125,000)</u>	<u>4,848,859</u>
CHANGE IN NET ASSETS	529,532	(440,394)	-	89,138
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR				
	<u>1,822,670</u>	<u>(780,628)</u>	<u>-</u>	<u>1,042,042</u>
NET ASSETS (DEFICIENCY), END OF YEAR				
	<u>\$ 2,352,202</u>	<u>\$ (1,221,022)</u>	<u>\$ -</u>	<u>\$ 1,131,180</u>

See independent auditors' report



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER CONSOLIDATED 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, 2017, and the related consolidated statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 7, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated 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 consolidated 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 consolidated 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

www.cpadonovan.com

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Northside Office | 9292 N. Meridian Street, Suite 150, Indianapolis, IN 46260 | 317.844.8300

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's consolidated 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 consolidated 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*.

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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DONOVAN

A handwritten signature in black ink that reads "DONOVAN". The signature is written in a cursive style with a large, looped initial "D".

Indianapolis, Indiana
December 7, 2017



Donovan CPAs

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *THE UNIFORM GUIDANCE*

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 U.S. *Office of Management and Budget (OMB) 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, 2017. The School's major federal programs are identified in the summary of auditors' 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.

Auditors' 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 the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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, 2017.

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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 as a basis for designing 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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DONOVAN

A handwritten signature in blue ink that reads "DONOVAN". The signature is written in a cursive style with a large, stylized 'D'.

Indianapolis, Indiana
December 7, 2017

**CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2017**

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness identified?	No
• Significant deficiency identified?	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	

CFDA Number

Name of Federal Program or Cluster

84.010

Title I, Part A Cluster
Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

II. Financial Statement Findings

No matters were reportable.

III. Federal Award Findings and Questioned Costs

No matters were reportable.

**CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
OTHER REPORT
For the Year Ended June 30, 2017**

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*.