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March 18, 2021

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

We have reviewed the audit report of Charter School of the Dunes, Inc., which was opined upon by Donovan CPAs, Independent Public Accountants, for the period July 1, 2019 to June 30, 2020. 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, 2020 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 the audit report in accordance with guidelines established by the State Board of Accounts.

The audited Financial Statements are filed in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

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, 2020 and 2019



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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, 2020 and 2019, 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, 2020 and 2019 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 15 through 18 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 February 18, 2021 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



Indianapolis, Indiana
February 18, 2021

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,853,890	\$ 1,689,939
Cash - lender restricted	-	83,614
Grants receivable	192,732	135,426
Interest income receivable	-	53,885
<i>Total current assets</i>	<u>3,046,622</u>	<u>1,962,864</u>
PROPERTY AND EQUIPMENT		
Land	750,641	485,842
Buildings and improvements	11,306,585	11,342,504
Furniture and equipment	604,084	472,695
Textbooks	299,465	309,007
Less: accumulated depreciation	<u>(2,661,297)</u>	<u>(2,245,486)</u>
<i>Property and equipment, net</i>	<u>10,299,478</u>	<u>10,364,562</u>
OTHER ASSETS		
Note receivable	-	9,237,456
TOTAL ASSETS	<u>\$ 13,346,100</u>	<u>\$ 21,564,882</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of notes payable	\$ 377,000	\$ 614,000
Paycheck Protection Program note payable	760,200	-
Accounts payable and accrued expenses	<u>264,585</u>	<u>470,198</u>
<i>Total current liabilities</i>	<u>1,401,785</u>	<u>1,084,198</u>
LONG-TERM LIABILITIES		
Notes payable, net of current portion	4,682,500	17,864,413
Less: unamortized debt issuance costs	<u>(549,717)</u>	<u>(602,071)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>4,132,783</u>	<u>17,262,342</u>
<i>Total liabilities</i>	5,534,568	18,346,540
NET ASSETS, WITHOUT DONOR RESTRICTIONS	<u>7,811,532</u>	<u>3,218,342</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,346,100</u>	<u>\$ 21,564,882</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE AND SUPPORT		
State education support	\$ 5,191,219	\$ 4,839,304
Grant revenue	2,041,941	1,828,723
Student fees	19,851	30,031
Interest income	57,065	94,838
Contributions	3,317	2,844
Fundraising income	1,996	5,219
Other income	48,055	47,671
	<u>7,363,444</u>	<u>6,848,630</u>
<i>Total revenue and support</i>		
EXPENSES		
Program services	5,195,475	5,065,909
Management and general	1,142,323	1,132,573
	<u>6,337,798</u>	<u>6,198,482</u>
<i>Total expenses</i>		
CHANGE IN NET ASSETS FROM OPERATIONS	1,025,646	650,148
FORGIVENESS OF DEBT	<u>3,567,544</u>	<u>-</u>
CHANGE IN NET ASSETS	4,593,190	650,148
NET ASSETS, BEGINNING OF YEAR	<u>3,218,342</u>	<u>2,568,194</u>
NET ASSETS, END OF YEAR	<u>\$ 7,811,532</u>	<u>\$ 3,218,342</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, 2020 and 2019

	<u>2020</u>			<u>2019</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries and wages	\$ 2,662,924	\$ 556,508	\$ 3,219,432	\$ 2,397,661	\$ 523,579	\$ 2,921,240
Employee benefits	627,373	130,016	757,389	607,048	100,773	707,821
Other professional services	317,515	124,539	442,054	273,552	90,294	363,846
Depreciation	497,876	-	497,876	478,814	-	478,814
Food service	279,732	-	279,732	333,394	-	333,394
Transportation service	263,312	-	263,312	297,704	-	297,704
Authorizer oversight fees	-	176,675	176,675	-	81,444	81,444
Interest	173,547	-	173,547	193,210	-	193,210
Occupancy	244,085	-	244,085	240,374	-	240,374
Loss on disposal of assets	0	-	-	25,033	-	25,033
Classroom, kitchen, and office supplies	108,533	33,858	142,391	142,739	18,640	161,379
Insurance	-	56,529	56,529	-	54,675	54,675
Staff development and recruitment	19,132	3,255	22,387	71,001	10,237	81,238
Asset management fees	-	20,673	20,673	-	81,871	81,871
Contribution	-	-	-	-	130,000	130,000
Other	1,446	40,270	41,716	5,379	41,060	46,439
<i>Total functional expenses</i>	<u>\$ 5,195,475</u>	<u>\$ 1,142,323</u>	<u>\$ 6,337,798</u>	<u>\$ 5,065,909</u>	<u>\$ 1,132,573</u>	<u>\$ 6,198,482</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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 4,593,190	\$ 650,148
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	497,876	478,814
Amortization of debt issuance costs	52,354	22,146
Loss on disposal of assets	-	25,033
Forgiveness of debt	(3,567,544)	-
Changes in certain assets and liabilities:		
Grants receivable	(57,306)	(84,478)
Interest income receivable	53,885	-
Accounts payable and accrued expenses	<u>(205,613)</u>	<u>103,261</u>
<i>Net cash provided by operating activities</i>	<u>1,366,842</u>	<u>1,194,924</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(432,792)</u>	<u>(341,979)</u>
FINANCING ACTIVITIES		
Proceeds from Paycheck Protection Program note payable	760,200	-
Principal repayment of notes payable	<u>(613,913)</u>	<u>(616,000)</u>
<i>Net cash provided by (used in) financing activities</i>	<u>146,287</u>	<u>(616,000)</u>
NET CHANGE IN CASH	1,080,337	236,945
CASH, BEGINNING OF YEAR	<u>1,773,553</u>	<u>1,536,608</u>
CASH, END OF YEAR	<u>\$ 2,853,890</u>	<u>\$ 1,773,553</u>
 CASH, END OF YEAR		
Cash - unrestricted	\$ 2,853,890	\$ 1,689,939
Cash - lender restricted	<u>-</u>	<u>83,614</u>
<i>Total cash, end of year</i>	<u>\$ 2,853,890</u>	<u>\$ 1,773,553</u>
 SUPPLEMENTAL INFORMATION		
Cash paid for interest	\$ 189,700	\$ 171,064

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, 2020 and 2019

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 operating a public charter school established under Indiana Code 20-24 which served approximately 650 students in kindergarten through eighth grade during the 2019-2020 school year (600 students during the 2018-2019 school year). Charter School of the Dunes, Inc. maintains control over CSOTD Holdings, Inc., a public benefit not-for-profit organization established for the purpose of constructing and owning 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.

Basis of Accounting and Use of Estimates – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Financial Statement Presentation – The School reports its financial position and activities according to two classes of net assets:

- net assets without donor restrictions - which include unrestricted resources that are available for the operating objectives of the School; and
- net assets with donor restrictions - which represent resources restricted by donors for specific time or purpose.

As of June 30, 2020 and 2019, the School had only net assets without donor restrictions.

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 significant 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.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

The School has elected to defer implementation of Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 replaces most existing revenue recognition guidance under U.S. GAAP and requires disclosure relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 was to take effect for fiscal years beginning after December 15, 2018, but in May 2020, the Financial Accounting Standards Board allowed for a one-year deferral. Management believes the implementation of ASU 2014-09 will not significantly affect how the School reports revenue.

Cash and Cash Equivalents – Cash consists of cash held in bank accounts and cash equivalents consists of short-term, highly liquid investments with original maturities of three months or less. There were no cash equivalents at June 30, 2020 and 2019.

Grants Receivable – Grants receivable relate to activities funded under federal programs and legislation enacted by the State of Indiana. The School believes 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 totaling \$725,304 associated with securing financing for the construction of the school facility. Amortization of these debt issuance costs is provided on a straight-line basis over the term of the agreements. Accumulated amortization as of June 30, 2020 and 2019 was \$175,587 and \$123,233, respectively. Amortization expense for the years ended June 30, 2020 and 2019 was \$52,354 and \$22,146, respectively, and is included in interest expense. As provided by ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability on the statements of financial position.

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.

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, 2020 and 2019 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 THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, 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 2016 are open to audit for both federal and state purposes.

Functional Expense Reporting – The costs of providing educational activities have been summarized on a functional basis in the consolidated statements of activities and change in net assets. Management of the School has categorized expenses as program services or management and general according to the underlying nature of the expense. As such, no allocation of specific transactions between these categories was required.

Subsequent Events – The School evaluated subsequent events through February 18, 2021, the date these consolidated financial statements were available to be issued. Events occurring through that date have been evaluated to determine whether a change in the consolidated 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 totaled \$83,614 at June 30, 2019. There was no restricted cash at June 30, 2020.

NOTE 3 - PAYCHECK PROTECTION PROGRAM NOTE PAYABLE

In response to the COVID-19 pandemic, the United States federal government adopted the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act which includes the Paycheck Protection Program (“PPP”) administered through the Small Business Administration. The proceeds from the PPP notes payable can be used for costs related to payroll, employee healthcare, rent, and utilities. On April 9, 2020, the School was granted a note payable from BMO Harris Bank in the amount of \$760,200 pursuant to the PPP under Division A, Title I of the CARES Act. The note matures on April 9, 2022 and bears interest at a rate of 1.00%. To the extent the funds are used for qualifying expenses under the program during the 24-week period beginning on the date of the loan funding, the School may apply for loan forgiveness. The School has determined the PPP note payable represents a financial liability and has accounted for it in accordance with FASB ASC 470, *Simplifying the Classification of Debt*, until forgiveness is obtained. Management believes the funds will be used for qualified expenses and will be fully forgiven. Accordingly, the note payable is included as a current liability on the statement of financial position as of June 30, 2020.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 4 - NOTES RECEIVABLE AND PAYABLE

To facilitate the construction of its school facilities, during 2011, 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”). Chase NMTC was able to secure an additional equity investment in order to complete the funding required for the project. Chase NMTC, in turn, loaned the amount necessary for construction of the facility to CSOTD Holdings, Inc. through an affiliated entity, NNMF SUB-CDE XVII, LLC (“SUB-CDE”).

During December 2019 on the eighth anniversary of the financing, as part of a put/call agreement, Chase NMTC and SUB-CDE were removed from the financing structure. The note receivable on Charter School of the Dunes, Inc.’s books was assigned by Chase NMTC to CSOTD Holdings, Inc. and the corresponding note payable on CSOTD Holdings, Inc.’s books was assigned by SUB-CDE to Charter School of the Dunes, Inc. Therefore, as of December 2019, the \$9,237,456 note receivable and payable get eliminated in consolidation.

In addition, as part of the original financing agreement, the note payable from CSOTD Holdings, Inc. to SUB-CDE in the amount of \$3,567,544 was canceled. This was possible due the tax credits received by SUB-CDE as part of the financing structure.

The note receivable was due from Chase NMTC, an entity created to facilitate the funding and construction of the School’s facility. The note carried an interest rate of 1% per annum and was secured by all assets of Chase NMTC, consisting primarily of its interest in SUB-CDE. Interest only was payable on the note until December 1, 2019.

Notes payable consisted of the following at June 30:

	<u>2020</u>	<u>2019</u>
Note payable to BMO Harris Bank	\$ 4,767,000	\$ 5,335,913
Note payable to NNMF SUB-CDE XVII, LLC	-	9,237,456
Note payable to NNMF SUB-CDE XVII, LLC	-	3,567,544
Note payable to the Indiana Common School Fund	<u>292,500</u>	<u>337,500</u>
	5,059,500	18,478,413
Less: current portion	<u>(377,000)</u>	<u>(614,000)</u>
Long-term portion	<u><u>\$ 4,682,500</u></u>	<u><u>\$ 17,864,413</u></u>

The note payable to BMO Harris Bank 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 note payable amortizes through December 2030. The loan is secured by a blanket lien on all school assets. 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 a minimum debt service coverage ratio (1.20/1) and minimum levels of student enrollment. The School met all debt covenants as of and for the year ended June 30, 2020.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 4 - NOTES RECEIVABLE AND PAYABLE, Continued

The notes payable to SUB-CDE relate to borrowings by CSOTD Holdings, Inc. to finance the construction of the school facility. The loans each provided for interest only at .9% per annum to be paid until December 1, 2019. The loans are secured by all School assets.

The note payable to Indiana Common School Fund requires semi-annual payments of \$22,500 plus interest through July 2026. Interest accrues at 1% per annum.

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

2021	\$	377,000
2022		377,000
2023		377,000
2024		377,000
2025		377,000
Thereafter		<u>3,174,500</u>
	\$	<u>5,059,500</u>

NOTE 5 - 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 \$176,675 and \$81,444 for the years ended June 30, 2020 and 2019, respectively.

As part of the financing of the school facilities, the School agreed to pay SUB-CDE an asset management fee in the amount of \$78,571 per year for as long as the construction project loans remained outstanding. In addition, the School was responsible for certain tax and accounting fees incurred by SUB-CDE. The management fee ended in December 2019 with the exit of SUB-CDE from the financing structure. Expense for the years ended June 30, 2020 and 2019 relating to these fees was \$20,673 and \$81,871, respectively.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended June 30, 2020 and 2019

NOTE 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, 2019 (the latest year reported), both TRF and PERF were approximately 80% and 100% funded, respectively.

Retirement plan expense was \$290,998 and \$250,906 for the years ended June 30, 2020 and 2019, respectively.

NOTE 7 - 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, 2020 and 2019, substantially all of the grants 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. As of June 30, 2020 and 2019, cash balances exceeded FDIC insurance limits.

NOTE 8 - LIQUIDITY

Financial assets held by the School include unrestricted cash, grants receivable, and interest income receivable. Financial assets available to meet cash needs for general expenditures within one year totaled \$3,046,622 and \$1,879,250 as of June 30, 2020 and 2019, respectively.

From time to time, the School receives donor restricted contributions. Because donor restrictions require resources to be used in a particular manner or in a future period, the School must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the School's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

SUPPLEMENTARY INFORMATION

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2020

Federal Grantor Agency/Pass-Through Entity/Cluster Title/Program Title/ Project Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Pass-through Indiana Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553		\$ 86,269
COVID-19 School Breakfast Program	10.553		7,020
National School Lunch Program	10.555		235,604
COVID-19 National School Lunch Program	10.555		13,436
Commodities – Noncash Assistance	10.555		19,814
 Fresh Fruits and Vegetables Program	 10.582		 <u>14,461</u>
 <i>Total U.S. Department of Agriculture</i>			 <u>376,604</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I, Grants to Local Educational Agencies	84.010	18611-001-PN01	781,105
Title I, School Improvement Grants	84.377A		7,002
Special Education Cluster			
Special Education - Grants to States	84.027	20611-564-PN01	108,909
Title II, Supporting Effective Instruction State Grants	84.367	S367A190013	52,248
Title IV, Student Support and Academic Enrichment Grants	84.424A	2019-424-312	<u>52,600</u>
 <i>Total U.S. Department of Education</i>			 <u>1,001,864</u>
 <i>Total federal awards expended</i>			 \$ <u>1,378,468</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, 2020

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, 2020. 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, functional expenses, 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.

NOTE 3 - INDIRECT COST RATE

The School has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2020

	<u>Charter School of the Dunes, Inc.</u>	<u>CSOTD Holdings, Inc.</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 2,853,890	\$ -	\$ -	\$ 2,853,890
Grants receivable	<u>192,732</u>	<u>-</u>	<u>-</u>	<u>192,732</u>
<i>Total current assets</i>	<u>3,046,622</u>	<u>-</u>	<u>-</u>	<u>3,046,622</u>
PROPERTY AND EQUIPMENT				
Land	264,799	485,842	-	750,641
Building and improvements	211,155	11,095,430	-	11,306,585
Furniture and equipment	604,084	-	-	604,084
Textbooks	299,465	-	-	299,465
Less: accumulated depreciation	<u>(495,048)</u>	<u>(2,166,249)</u>	<u>-</u>	<u>(2,661,297)</u>
<i>Property and equipment, net</i>	<u>884,455</u>	<u>9,415,023</u>	<u>-</u>	<u>10,299,478</u>
OTHER ASSETS				
Note receivable	<u>9,237,456</u>	<u>-</u>	<u>(9,237,456)</u>	<u>-</u>
	<u>\$ 13,168,533</u>	<u>\$ 9,415,023</u>	<u>\$ (9,237,456)</u>	<u>\$ 13,346,100</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current portion of notes payable	\$ 377,000	\$ -	\$ -	\$ 377,000
Paycheck Protection Program note payable	760,200	-	-	760,200
Accounts payable and accrued expenses	<u>264,585</u>	<u>-</u>	<u>-</u>	<u>264,585</u>
<i>Total current liabilities</i>	<u>1,401,785</u>	<u>-</u>	<u>-</u>	<u>1,401,785</u>
LONG-TERM LIABILITIES				
Notes payable, net of current portion	4,682,500	9,237,456	(9,237,456)	4,682,500
Less: unamortized debt issuance costs	<u>(88,666)</u>	<u>(461,051)</u>	<u>-</u>	<u>(549,717)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>4,593,834</u>	<u>8,776,405</u>	<u>(9,237,456)</u>	<u>4,132,783</u>
<i>Total liabilities</i>	5,995,619	8,776,405	(9,237,456)	5,534,568
NET ASSETS	<u>7,172,914</u>	<u>638,618</u>	<u>-</u>	<u>7,811,532</u>
	<u>\$ 13,168,533</u>	<u>\$ 9,415,023</u>	<u>\$ (9,237,456)</u>	<u>\$ 13,346,100</u>

See independent auditors' report

CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE

CONSOLIDATING SCHEDULE OF FINANCIAL POSITION

June 30, 2019

	<u>Charter School of the Dunes, Inc.</u>	<u>CSOTD Holdings, Inc.</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
ASSETS				
CURRENT ASSETS				
Cash	\$ 1,689,939	\$ -	\$ -	\$ 1,689,939
Cash - lender restricted	-	83,614	-	83,614
Grants receivable	135,426	-	-	135,426
Due from affiliate	-	96,919	(96,919)	-
Interest income receivable	53,885	-	-	53,885
<i>Total current assets</i>	<u>1,879,250</u>	<u>180,533</u>	<u>(96,919)</u>	<u>1,962,864</u>
PROPERTY AND EQUIPMENT				
Land	-	485,842	-	485,842
Building and improvements	247,074	11,095,430	-	11,342,504
Furniture and equipment	472,695	-	-	472,695
Textbooks	309,007	-	-	309,007
Less: accumulated depreciation	<u>(396,249)</u>	<u>(1,849,237)</u>	-	<u>(2,245,486)</u>
<i>Property and equipment, net</i>	<u>632,527</u>	<u>9,732,035</u>	-	<u>10,364,562</u>
OTHER ASSETS				
Note receivable	<u>9,237,456</u>	-	-	<u>9,237,456</u>
	<u>\$ 11,749,233</u>	<u>\$ 9,912,568</u>	<u>\$ (96,919)</u>	<u>\$ 21,564,882</u>
LIABILITIES AND NET ASSETS (DEFICIENCY)				
CURRENT LIABILITIES				
Current portion of notes payable	\$ 614,000	\$ -	\$ -	\$ 614,000
Accounts payable and accrued expenses	387,218	82,980	-	470,198
Due to affiliate	<u>96,919</u>	-	<u>(96,919)</u>	-
<i>Total current liabilities</i>	<u>1,098,137</u>	<u>82,980</u>	<u>(96,919)</u>	<u>1,084,198</u>
LONG-TERM LIABILITIES				
Notes payable, net of current portion	5,059,413	12,805,000	-	17,864,413
Less: unamortized debt issuance costs	<u>(97,110)</u>	<u>(504,961)</u>	-	<u>(602,071)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>4,962,303</u>	<u>12,300,039</u>	-	<u>17,262,342</u>
<i>Total liabilities</i>	6,060,440	12,383,019	(96,919)	18,346,540
NET ASSETS (DEFICIENCY)	<u>5,688,793</u>	<u>(2,470,451)</u>	-	<u>3,218,342</u>
	<u>\$ 11,749,233</u>	<u>\$ 9,912,568</u>	<u>\$ (96,919)</u>	<u>\$ 21,564,882</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, 2020

	<u>Charter School of the Dunes, Inc.</u>	<u>CSOTD Holdings, Inc.</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
REVENUE AND SUPPORT				
State education support	\$ 5,191,219	\$ -	\$ -	\$ 5,191,219
Grant revenue	2,041,941	-	-	2,041,941
Student fees	19,851	-	-	19,851
Interest income	57,039	26	-	57,065
Contributions	3,317	-	-	3,317
Fundraising income	1,996	-	-	1,996
Other	48,055	-	-	48,055
	<u>7,363,418</u>	<u>26</u>	<u>-</u>	<u>7,363,444</u>
<i>Total revenue and support</i>				
EXPENSES				
Program services	4,760,935	434,540	-	5,195,475
Management and general	1,118,362	23,961	-	1,142,323
	<u>5,879,297</u>	<u>458,501</u>	<u>-</u>	<u>6,337,798</u>
<i>Total expenses</i>				
CHANGE IN NET ASSETS FROM OPERATIONS	1,484,121	(458,475)	-	1,025,646
FORGIVENESS OF DEBT	<u>-</u>	<u>3,567,544</u>	<u>-</u>	<u>3,567,544</u>
CHANGE IN NET ASSETS	1,484,121	3,109,069	-	4,593,190
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<u>5,688,793</u>	<u>(2,470,451)</u>	<u>-</u>	<u>3,218,342</u>
NET ASSETS, END YEAR	<u>\$ 7,172,914</u>	<u>\$ 638,618</u>	<u>\$ -</u>	<u>\$ 7,811,532</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, 2019

	<u>Charter School of the Dunes, Inc.</u>	<u>CSOTD Holdings, Inc.</u>	<u>Consolidating Entries</u>	<u>Consolidated</u>
REVENUE AND SUPPORT				
State education support	\$ 4,839,304	\$ -	\$ -	\$ 4,839,304
Grant revenue	1,828,723	-	-	1,828,723
Student fees	30,031	-	-	30,031
Interest income	94,131	707	-	94,838
Contributions	2,844	-	-	2,844
Fundraising income	5,219	-	-	5,219
Rental income	-	125,000	(125,000)	-
Other	47,671	-	-	47,671
<i>Total revenue and support</i>	<u>6,847,923</u>	<u>125,707</u>	<u>(125,000)</u>	<u>6,848,630</u>
EXPENSES				
Program services	4,733,487	457,422	(125,000)	5,065,909
Management and general	1,048,709	83,864	-	1,132,573
<i>Total expenses</i>	<u>5,782,196</u>	<u>541,286</u>	<u>(125,000)</u>	<u>6,198,482</u>
CHANGE IN NET ASSETS	1,065,727	(415,579)	-	650,148
NET ASSETS (DEFICIENCY), BEGINNING OF YEAR	<u>4,623,066</u>	<u>(2,054,872)</u>	<u>-</u>	<u>2,568,194</u>
NET ASSETS (DEFICIENCY), END OF YEAR	<u>\$ 5,688,793</u>	<u>\$ (2,470,451)</u>	<u>\$ -</u>	<u>\$ 3,218,342</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, 2020, 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 February 18, 2021.

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.

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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 dark ink that reads "DONOVAN". The letters are cursive and slightly slanted to the right.

Indianapolis, Indiana
February 18, 2021



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, 2020. 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, the School 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, 2020.

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Report on Internal Control over Compliance

Management of the School 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



Indianapolis, Indiana
February 18, 2021

**CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2020**

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with GAAP:	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 federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major federal programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.553	Child Nutrition Cluster
10.555	School Breakfast Program
	National School Lunch Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

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
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2020

FINDING 2019-001 (FINANCIAL STATEMENT FINDING)
SIGNIFICANT DEFICIENCY
FINANCIAL REPORTING

Condition

Charter School of the Dunes, Inc. and Affiliate (the “School”) did not post the necessary adjustments for accurate accrual basis U.S. GAAP compliant consolidated financial statements as of and for the year ended June 30,2019. Independence rules governing ethics for certified public accountants preclude auditors from performing internal controls functions for clients. This includes identifying and recording material journal entries necessary to comply with the reporting requirements of accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Recommendation

We recommended the School develop internal controls governing financial reporting, including standardized month-end closing entries. These controls should specifically address ensuring all accounts payable and accrued expenses are recorded accurately and in the proper period.

Current Status

The School was able to materially remedy issues related to accurate financial reporting under U.S. GAAP.