

**CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS**

Together with Independent Auditors' Report

For the Years Ended June 30, 2019 and 2018



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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, 2019 and 2018, 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, 2019 and 2018 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 December 12, 2019 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  
December 12, 2019

**CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2019 and 2018**

<b>ASSETS</b>	<b><u>2019</u></b>	<b><u>2018</u></b>
<b>CURRENT ASSETS</b>		
Cash	\$ 1,689,939	\$ 1,350,661
Cash - lender restricted	83,614	99,572
Grants receivable	135,426	50,948
Interest income receivable	53,885	53,885
<i>Total current assets</i>	<u>1,962,864</u>	<u>1,555,066</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	485,842	485,842
Buildings and improvements	11,342,504	11,239,967
Furniture and equipment	472,695	737,162
Textbooks	309,007	354,715
Less: accumulated depreciation	<u>(2,245,486)</u>	<u>(2,291,256)</u>
<i>Property and equipment, net</i>	<u>10,364,562</u>	<u>10,526,430</u>
<b>OTHER ASSETS</b>		
Cash - lender restricted	-	86,375
Note receivable	<u>9,237,456</u>	<u>9,237,456</u>
<i>Total other assets</i>	<u>9,237,456</u>	<u>9,323,831</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 21,564,882</u></b>	<b><u>\$ 21,405,327</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of notes payable	\$ 614,000	\$ 616,000
Accounts payable and accrued expenses	<u>470,198</u>	<u>366,937</u>
<i>Total current liabilities</i>	<u>1,084,198</u>	<u>982,937</u>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of current portion	17,864,413	18,478,413
Less: unamortized debt issuance costs	<u>(602,071)</u>	<u>(624,217)</u>
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>17,262,342</u>	<u>17,854,196</u>
<i>Total liabilities</i>	18,346,540	18,837,133
<b>NET ASSETS, WITHOUT DONOR RESTRICTIONS</b>	<u>3,218,342</u>	<u>2,568,194</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 21,564,882</u></b>	<b><u>\$ 21,405,327</u></b>

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>REVENUE AND SUPPORT</b>		
State education support	\$ 4,839,304	\$ 4,362,226
Grant revenue	1,828,723	2,112,695
Student fees	30,031	20,259
Interest income	94,838	93,596
Contributions	2,844	770
Fundraising income	5,219	4,082
Other income	47,671	77,616
	<u>6,848,630</u>	<u>6,671,244</u>
<i>Total revenue and support</i>		
<b>EXPENSES</b>		
Program services	5,065,909	4,408,650
Management and general	1,132,573	900,169
	<u>6,198,482</u>	<u>5,308,819</u>
<i>Total expenses</i>		
<b>CHANGE IN NET ASSETS</b>	650,148	1,362,425
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,568,194</u>	<u>1,205,769</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 3,218,342</u>	<u>\$ 2,568,194</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, 2019 and 2018

	2019			2018		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and wages	\$ 2,397,661	\$ 523,579	\$ 2,921,240	\$ 1,984,390	\$ 422,985	\$ 2,407,375
Employee benefits	607,048	100,773	707,821	548,489	93,849	642,338
Staff development and recruitment	71,001	10,237	81,238	109,478	7,407	116,885
Authorizer oversight fees	-	81,444	81,444	-	96,639	96,639
Food service	333,394	-	333,394	283,549	-	283,549
Transportation service	297,704	-	297,704	215,187	-	215,187
Other professional services	273,552	90,294	363,846	173,000	89,719	262,719
Classroom, kitchen, and office supplies	142,739	18,640	161,379	206,991	19,505	226,496
Occupancy	240,374	-	240,374	233,906	-	233,906
Depreciation	478,814	-	478,814	473,832	-	473,832
Interest	193,210	-	193,210	179,333	-	179,333
Insurance	-	54,675	54,675	-	47,377	47,377
Asset management fees	-	81,871	81,871	-	81,971	81,971
Contribution	-	130,000	130,000	-	-	-
Loss on disposal of assets	25,033	-	25,033	-	-	-
Other	5,379	41,060	46,439	495	40,717	41,212
<i>Total functional expenses</i>	<u>\$ 5,065,909</u>	<u>\$ 1,132,573</u>	<u>\$ 6,198,482</u>	<u>\$ 4,408,650</u>	<u>\$ 900,169</u>	<u>\$ 5,308,819</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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 650,148	\$ 1,362,425
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	478,814	473,832
Amortization of debt issuance costs	22,146	22,146
Loss on disposal of assets	25,033	-
Changes in certain assets and liabilities:		
Grants receivable	(84,478)	12,167
Prepaid expenses	-	9,609
Accounts payable and accrued expenses	<u>103,261</u>	<u>(149,474)</u>
<i>Net cash provided by operating activities</i>	1,194,924	1,730,705
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(341,979)	(254,430)
<b>FINANCING ACTIVITIES</b>		
Principal repayment of notes payable	<u>(616,000)</u>	<u>(671,837)</u>
<b>NET CHANGE IN CASH</b>	236,945	804,438
<b>CASH, BEGINNING OF YEAR</b>	<u>1,536,608</u>	<u>732,170</u>
<b>CASH, END OF YEAR</b>	<u>\$ 1,773,553</u>	<u>\$ 1,536,608</u>
<b>CASH, END OF YEAR</b>		
Cash - unrestricted	\$ 1,689,939	\$ 1,350,661
Cash - lender restricted	<u>83,614</u>	<u>185,947</u>
<i>Total cash, end of year</i>	<u>\$ 1,773,553</u>	<u>\$ 1,536,608</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 171,064	\$ 171,555

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, 2019 and 2018**

**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 and served approximately 600 students in kindergarten through eighth grade 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.

Financial Statement Presentation – Effective with the June 30, 2019 year end, the School adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 requires changes to the financial reporting model for not-for-profit entities, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. ASU 2016-14 also requires additional disclosures regarding the liquidity of financial assets. ASU 2016-14 must be applied on a retrospective basis. Net assets as of June 30, 2019 and 2018 are without donor restrictions.

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.

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.

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, 2019 and 2018.

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.

**CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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, 2019 and 2018 was \$123,233 and \$101,087, respectively. Amortization expense for both years ended June 30, 2019 and 2018 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 are presented as a direct deduction from the carrying amount of the related debt liability.

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, 2019 and 2018 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 2015 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 12, 2019, 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.

**CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

**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. The amount anticipated to be used during the next 12 months is presented as a current asset on the statements of financial position. Restricted cash was comprised of the following account balances as of June 30:

	<u>2019</u>	<u>2018</u>
Restricted for payment of:		
Asset management fees	\$ 83,512	\$ 185,846
Stabilization asset management fee	102	101
	<u>\$ 83,614</u>	<u>\$ 185,947</u>

**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 XVII, 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>2019</u>	<u>2018</u>
Note payable to BMO Harris Bank	\$ 5,335,913	\$ 5,906,913
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 the Indiana Common School Fund	337,500	382,500
	<u>18,478,413</u>	<u>19,094,413</u>
Less: current portion	<u>(614,000)</u>	<u>(616,000)</u>
Long-term portion	<u>\$ 17,864,413</u>	<u>\$ 18,478,413</u>

**CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

**NOTE 4 - NOTES PAYABLE, Continued**

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, 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 the enrollment requirement for the 2019 fiscal year. Management has requested and anticipates receiving a waiver on the covenant violation.

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 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 and note receivable are as follows for the years ending June 30:

	<u>Note Payable</u>	<u>Note Receivable</u>	<u>Net Payable</u>
2020	\$ 614,000	\$ -	\$ 614,000
2021	848,807	359,206	489,601
2022	853,411	362,796	490,615
2023	858,063	366,426	491,637
2024	862,760	370,091	492,669
Thereafter	<u>14,441,372</u>	<u>7,778,937</u>	<u>6,662,435</u>
	<u>\$ 18,478,413</u>	<u>\$ 9,237,456</u>	<u>\$ 9,240,957</u>

**NOTE 5 - OPERATING LEASE**

The School leased a copier under an operating lease which expired in September 2018. The School currently leases this copier on a month-to-month basis. Total lease expense under this lease for the years ended June 30, 2019 and 2018 was \$19,034 and \$19,711, respectively.

**CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

**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 \$81,444 and \$96,639 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018 relating to these fees was \$81,871 and \$81,971, respectively.

**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, 2018 (the latest year reported), both TRF and PERF were approximately 80% funded.

Retirement plan expense was \$250,906 and \$198,920 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, cash balances exceeded FDIC insurance limits.

**CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2019 and 2018**

**NOTE 9 - LIQUIDITY**

Under ASU 2016-14, the School is required to disclose the assets it has available at June 30, 2019 to meet its cash needs for general expenditures within one year of the date of the consolidated statements of financial position. The School's financial assets include cash, grants receivable, interest income receivable, and note receivable. Financial assets at June 30, 2019 total \$11,200,320, of which \$1,879,250 (excludes restricted cash and note receivable) is available to meet cash needs for general expenditures within a year.

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.

**NOTE 10 - FUNCTIONAL EXPENSE REPORTING**

The costs of providing the 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.

**CHARTER SCHOOL OF THE DUNES, INC. AND AFFILIATE**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2019**

<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		\$ 110,191
National School Lunch Program	10.555		<u>322,395</u>
			432,586
Fresh Fruits and Vegetables Program	10.582		<u>16,684</u>
<i>Total U.S. Department of Agriculture</i>			<u>449,270</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Pass-through Indiana Department of Education			
Title I Grants to Local Educational Agencies	84.010	18-9310/19-9310	937,958
Special Education Cluster			
Special Education - Grants to States	84.027	19611-564-PN01	126,282
Supporting Effective Instruction State Grants	84.367	S367A180013	147,042
Student Support and Academic Enrichment Grants	84.424A	S424A180015	<u>63,190</u>
<i>Total U.S. Department of Education</i>			<u>1,274,472</u>
<i>Total federal awards expended</i>			<u>\$ 1,723,742</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, 2019**

**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, 2019. 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, 2019

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidating Entries	Consolidated
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
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>
<b>PROPERTY AND EQUIPMENT</b>				
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	(396,249)	(1,849,237)	-	(2,245,486)
<i>Property and equipment, net</i>	<u>632,527</u>	<u>9,732,035</u>	<u>-</u>	<u>10,364,562</u>
<b>OTHER ASSETS</b>				
Note receivable	9,237,456	-	-	9,237,456
	<u>\$ 11,749,233</u>	<u>\$ 9,912,568</u>	<u>\$ (96,919)</u>	<u>\$ 21,564,882</u>
<b>LIABILITIES AND NET ASSETS (DEFICIENCY)</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of notes payable	\$ 614,000	\$ -	\$ -	\$ 614,000
Accounts payable and accrued expenses	387,218	82,980	-	470,198
Due to affiliate	96,919	-	(96,919)	-
<i>Total current liabilities</i>	<u>1,098,137</u>	<u>82,980</u>	<u>(96,919)</u>	<u>1,084,198</u>
<b>LONG-TERM LIABILITIES</b>				
Notes payable, net of current portion	5,059,413	12,805,000	-	17,864,413
Less: unamortized debt issuance costs	(97,110)	(504,961)	-	(602,071)
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>4,962,303</u>	<u>12,300,039</u>	<u>-</u>	<u>17,262,342</u>
<i>Total liabilities</i>	<u>6,060,440</u>	<u>12,383,019</u>	<u>(96,919)</u>	<u>18,346,540</u>
<b>NET ASSETS (DEFICIENCY)</b>	<u>5,688,793</u>	<u>(2,470,451)</u>	<u>-</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 FINANCIAL POSITION**

June 30, 2018

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidating Entries	Consolidated
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	\$ 1,350,661	\$ -	\$ -	\$ 1,350,661
Cash - lender restricted	-	99,572	-	99,572
Grants receivable	50,948	-	-	50,948
Due from affiliate	-	81,157	(81,157)	-
Interest income receivable	53,885	-	-	53,885
<i>Total current assets</i>	<u>1,455,494</u>	<u>180,729</u>	<u>(81,157)</u>	<u>1,555,066</u>
<b>PROPERTY AND EQUIPMENT</b>				
Land	-	485,842	-	485,842
Building and improvements	144,537	11,095,430	-	11,239,967
Furniture and equipment	737,162	-	-	737,162
Textbooks	354,715	-	-	354,715
Less: accumulated depreciation	(759,031)	(1,532,225)	-	(2,291,256)
<i>Property and equipment, net</i>	<u>477,383</u>	<u>10,049,047</u>	<u>-</u>	<u>10,526,430</u>
<b>OTHER ASSETS</b>				
Cash - lender restricted	-	86,375	-	86,375
Note receivable	9,237,456	-	-	9,237,456
<i>Total other assets</i>	<u>9,237,456</u>	<u>86,375</u>	<u>-</u>	<u>9,323,831</u>
	<u>\$ 11,170,333</u>	<u>\$ 10,316,151</u>	<u>\$ (81,157)</u>	<u>\$ 21,405,327</u>
<b>LIABILITIES AND NET ASSETS (DEFICIENCY)</b>				
<b>CURRENT LIABILITIES</b>				
Current portion of notes payable	\$ 616,000	\$ -	\$ -	\$ 616,000
Accounts payable and accrued expenses	278,787	88,150	-	366,937
Due to affiliate	81,157	-	(81,157)	-
<i>Total current liabilities</i>	<u>975,944</u>	<u>88,150</u>	<u>(81,157)</u>	<u>982,937</u>
<b>LONG-TERM LIABILITIES</b>				
Notes payable, net of current portion	5,673,413	12,805,000	-	18,478,413
Less: unamortized debt issuance costs	(102,090)	(522,127)	-	(624,217)
<i>Total long-term liabilities, net of unamortized debt issuance costs</i>	<u>5,571,323</u>	<u>12,282,873</u>	<u>-</u>	<u>17,854,196</u>
<i>Total liabilities</i>	<u>6,547,267</u>	<u>12,371,023</u>	<u>(81,157)</u>	<u>18,837,133</u>
<b>NET ASSETS (DEFICIENCY)</b>	<u>4,623,066</u>	<u>(2,054,872)</u>	<u>-</u>	<u>2,568,194</u>
	<u>\$ 11,170,333</u>	<u>\$ 10,316,151</u>	<u>\$ (81,157)</u>	<u>\$ 21,405,327</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>
<b>REVENUE AND SUPPORT</b>				
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>
<b>EXPENSES</b>				
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>
<b>CHANGE IN NET ASSETS</b>	1,065,727	(415,579)	-	650,148
<b>NET ASSETS (DEFICIENCY), BEGINNING OF YEAR</b>	<u>4,623,066</u>	<u>(2,054,872)</u>	<u>-</u>	<u>2,568,194</u>
<b>NET ASSETS (DEFICIENCY), END OF YEAR</b>	<u>\$ 5,688,793</u>	<u>\$ (2,470,451)</u>	<u>\$ -</u>	<u>\$ 3,218,342</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, 2018

	Charter School of the Dunes, Inc.	CSOTD Holdings, Inc.	Consolidating Entries	Consolidated
<b>REVENUE AND SUPPORT</b>				
State education support	\$ 4,362,226	\$ -	\$ -	\$ 4,362,226
Grant revenue	2,112,695	-	-	2,112,695
Student fees	20,259	-	-	20,259
Interest income	93,137	459	-	93,596
Contributions	770	-	-	770
Fundraising income	4,082	-	-	4,082
Rental income	-	125,000	(125,000)	-
Other	77,616	-	-	77,616
<i>Total revenue and support</i>	<u>6,670,785</u>	<u>125,459</u>	<u>(125,000)</u>	<u>6,671,244</u>
<b>EXPENSES</b>				
Program services	4,084,227	449,423	(125,000)	4,408,650
Management and general	816,706	83,463	-	900,169
<i>Total expenses</i>	<u>4,900,933</u>	<u>532,886</u>	<u>(125,000)</u>	<u>5,308,819</u>
<b>CHANGE IN NET ASSETS</b>	1,769,852	(407,427)	-	1,362,425
<b>NET ASSETS (DEFICIENCY), BEGINNING OF YEAR</b>	<u>2,853,214</u>	<u>(1,647,445)</u>	<u>-</u>	<u>1,205,769</u>
<b>NET ASSETS (DEFICIENCY), END OF YEAR</b>	<u>\$ 4,623,066</u>	<u>\$ (2,054,872)</u>	<u>\$ -</u>	<u>\$ 2,568,194</u>

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## Donovan CPAs

**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, 2019, 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 12, 2019.

### **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.

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.

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. We consider the deficiency in internal control described in the accompanying schedule of findings and questioned costs as item 2019-1 to be a significant deficiency.

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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*.

**Charter School of the Dunes, Inc. and Affiliate's Response to Findings**

The School and Affiliate's response to the finding in our audit are described in the accompanying views of responsible officials and planned corrective action. The School and Affiliate's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and accordingly, we express no opinion on it.

**Purpose of this Report**

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

DONOVAN



Indianapolis, Indiana  
December 12, 2019