



**CliftonLarsonAllen**

CliftonLarsonAllen LLP  
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November 13, 2015

Members of the Board of Education  
Charter School No. 4053  
North Lakes Academy  
Forest Lake, Minnesota

This Executive Audit Summary and Management Report presents information which we believe is important to you as members of the school board. We encourage you to review the sections of this report, the audited financial statements, and the auditors' reports.

We would be pleased to furnish additional information with respect to these suggestions and discuss this memorandum with you at your convenience. We wish to express our appreciation to the School for the courtesies, cooperation, and assistance extended to us during the course of our work.

**CliftonLarsonAllen LLP**

Dennis Hoogeveen, CPA  
Principal

**NORTH LAKES ACADEMY  
CHARTER SCHOOL NO. 4053**

**EXECUTIVE AUDIT SUMMARY (EAS)**

**JUNE 30, 2015**

**NORTH LAKES ACADEMY  
CHARTER SCHOOL NO. 4053  
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**EXECUTIVE AUDIT SUMMARY (EAS)  
FOR  
NORTH LAKES ACADEMY  
YEAR ENDED JUNE 30, 2015**

**AUDIT FINDINGS AND RESULTS**

**Audit Process** – We found North Lakes Academy (the School)’s records to be in good order (organized, available, complete, etc.). We appreciated the time that staff took to work with us to complete the engagement - especially the efforts of Jan Jensen, who is our main contact on the audit.

**Audit Opinion** – The financial statements are fairly stated. We issued what is known as a “clean” audit report.

**Compliance and Other Matters (Yellow Book)** – No compliance issues were noted in our review of laws, regulations, contracts, and grants that could have significant financial implications to the School.

**Internal Controls** – No “material weaknesses” in internal control were noted; however, deficiencies may exist that have not been identified.

**Legal Compliance** – No significant compliance issues were reported with respect to Minnesota Statutes related to charter schools and UFARS accounting.

**Enrollment** – For fiscal 2014-15, North Lakes Academy served a net average daily membership of 389.76 (or 454.77 pupil units). For fiscal years 2013-14 and 2012-13, the School had served an average daily membership of 366.95 (or 457.90 pupil units) and 354.20 (or 441.49 pupil units), respectively.

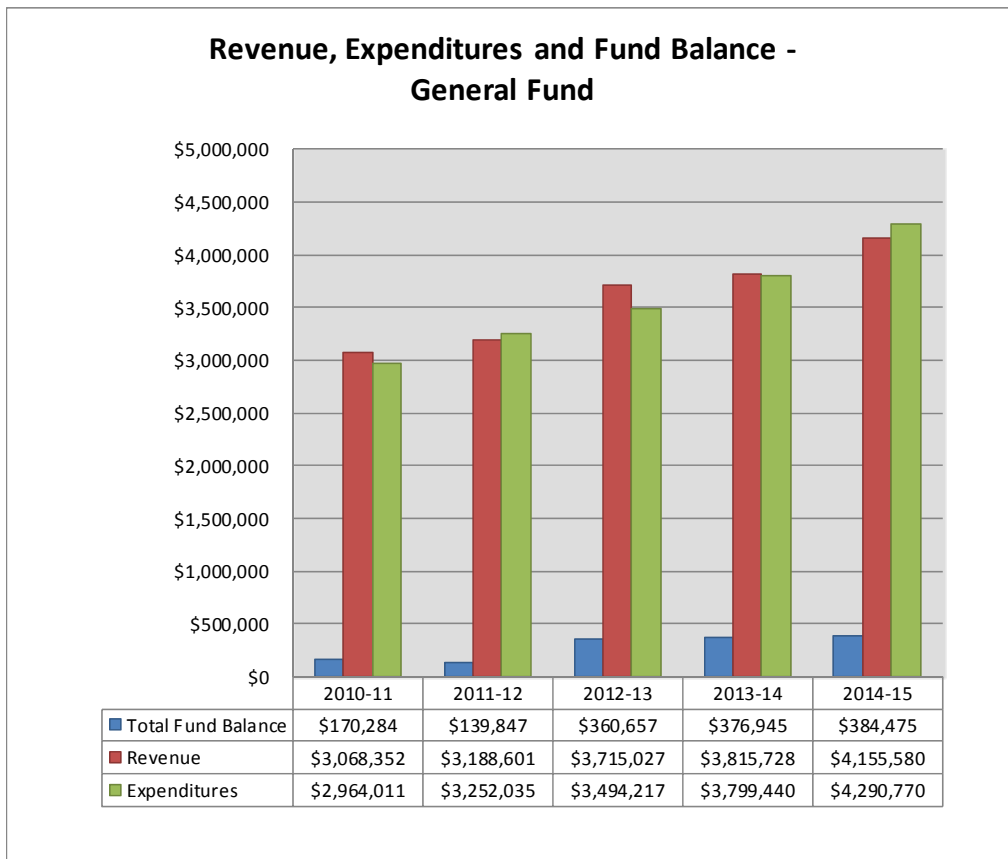
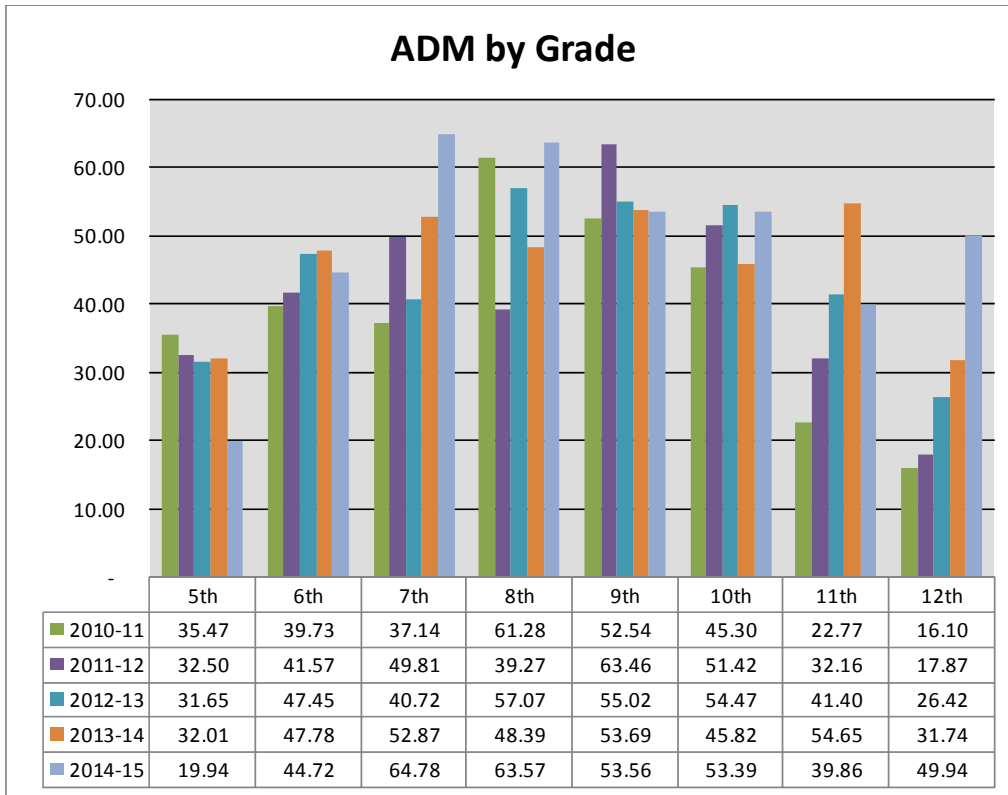
**Fund Balance** – The fund balance of the General Fund increased by \$7,530, ending at a balance of \$384,475 as of June 30, 2015. We recommend that a charter school develop a plan that will eventually result in a target fund balance that is at least 20% to 25% of annual expenditures. The ending fund balance at June 30, 2015 for North Lakes Academy represents 8.96% of expenditures incurred for the year (having been 9.92% of expenditures at June 30, 2014), and is an important aspect in the School’s financial well-being since a healthy fund balance represents things such as cashflow, as a cushion against unanticipated expenditures, enrollment declines, state aid metering changes, funding deficiencies, and aid prorations at the state level and similar problems.

**Budget to Actual** – Total revenues on a net basis for the General Fund were \$42,719 (or 1.0%) higher than the budgeted amount while total expenditures were \$11,540 (or 0.3%) higher than had been reflected in the budget. We recommend that budget variances in a charter school environment (which is more volatile than in a traditional school environment but on a much smaller scale) be limited to 1% to 2% on either side of zero, and the School’s variances fall well within this general guideline. We recommend that you continue past practice of undertaking at least one mid-year budget amendment to update budget assumptions.

**Food Service Fund** – Total revenues on a net basis for the Food Service Fund were \$1,050 (or 1.0%) higher than the budgeted amount, while total expenditures were \$514 (or 0.5%) higher than budgeted. The ending fund balance of the Food Service Fund was \$6,659 at year-end.

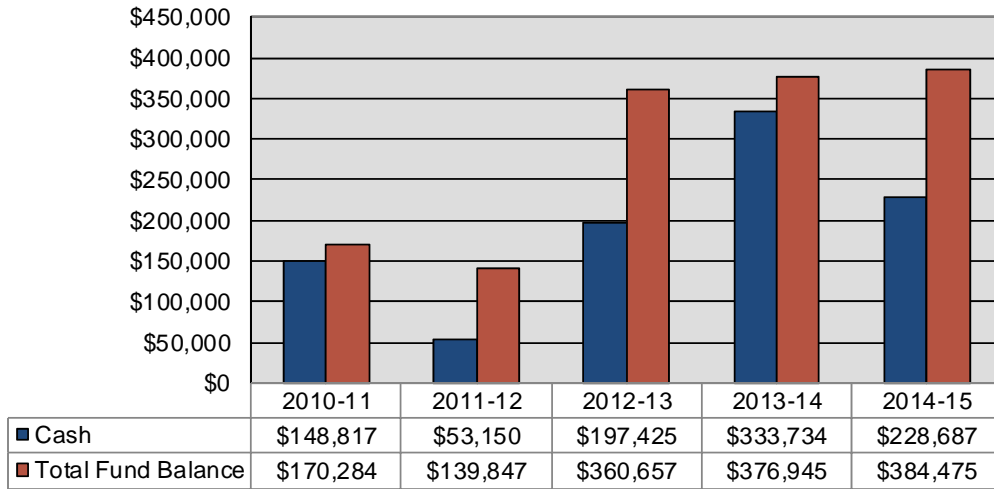
**TRA/PERA Exclusion Reports** – We noted that each pay period, the business manager was manually creating an “Exclusion Report,” showing employees excluded from TRA and PERA contributions. We recommend that the business manager uses its payroll processor, ADP, to electronically prepare these exclusion reports as well as retain these reports and document their review as evidence that this control is in place.

**FINANCIAL TRENDS**

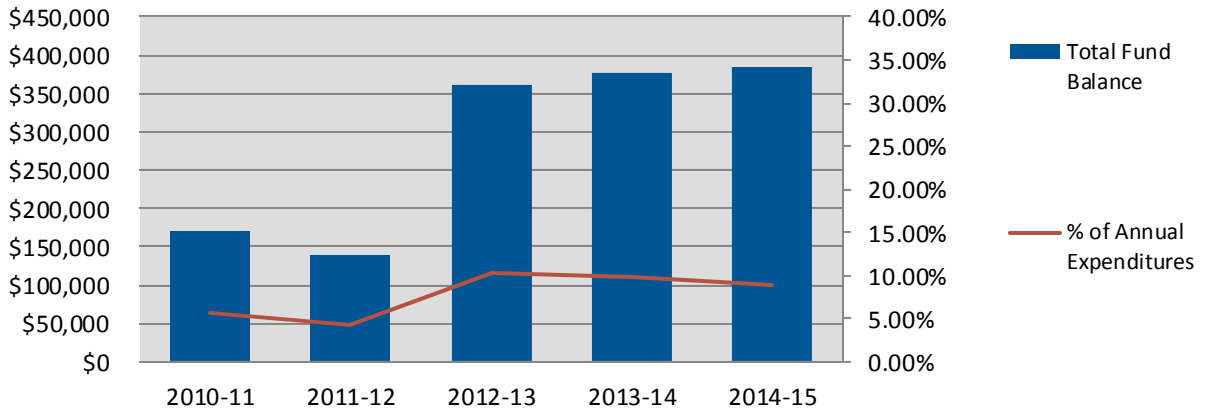


**FINANCIAL TRENDS (CONTINUED)**

**General Fund Cash and Total Fund Balance**



**Total Fund Balance - General Fund**



# APPENDIX A

## LEGISLATIVE ACTIVITY

What follows are some education-related highlights of recent legislative sessions as summarized from information made available by the Minnesota Department of Education, the Minnesota School Boards Association, the Office of the Legislative Auditor, the Minnesota Association of Charter Schools, and the Minnesota House of Representatives.

### **Formula Increase**

The General Education Revenue formula allowance was increased by 2% (by \$117 per pupil unit to \$5,948) for FY16 and by another 2% (by \$119 per pupil unit to \$6,067) for FY17 and later.

### **Extended Time Revenue**

Effective for fiscal year 2016 the extended time revenue for school districts schools was increased by \$100 per pupil unit (from \$5,017 to \$5,117). Extended time revenue was also allowed for charter schools at 25% of the state average per adjusted pupil unit.

### **Alternative Teacher Pay System (QComp)**

Effective for fiscal year 2017, the cap on alternative compensation was increased for those districts that currently have approved plans. The alternative teacher professional pay system is allowed to: (1) include a hiring bonus or other added compensation for effective or highly effective teachers who work in a hard-to-fill position or in a hard-to-staff school and (2) include incentives for teachers to obtain a master's degree in their content field of licensure or pursue additional licensure in a locally-identified teacher shortage area, or help fund a "grow your own" teacher initiative.

### **English Language Learners**

The maximum number of years a student may receive state-funded English learner services was increased from six to seven years.

### **Pre-Kindergarten Programs**

Charter schools are allowed to provide a fee based pre-K program. A charter school that provides a free pre-K program is allowed to give enrollment preference to students in its free pre-K program for enrollment in Kindergarten the following year. A charter school with at least 90% deaf and hard of hearing students is allowed to enroll pre-K students with a disability, if there is no cost impact of doing so.

### **Mergers Between Charter Schools**

A process for charter school mergers was provided in statute. The fund balances and debts of the schools involved in the merger are transferred to the new combined school at the beginning of the first fiscal year the merger takes effect. For the first year of operation, aid for programs requiring applications equals the sum of the aid of the merging schools. For aids based on prior year data, combined prior year data of the merged schools is used to calculate aid.

## APPENDIX A - LEGISLATIVE ACTIVITY (CONTINUED)

### Special Education for Charter Schools

The cash flow for charter schools with at least 90% of students receiving special education was speeded up by:

- Increasing general education aid to cover the unreimbursed costs of serving students without disabilities.
- Increasing special education aid to cover the unreimbursed costs of serving students with disabilities.
- Paying the full 90% of estimated special education aid in the current year (rather than 90% of 97.4% of the estimated aid entitlement).
- Aid reduction to the resident district for special education tuition is calculated as if the school did not receive the added general and special education aid, and is retained by the state, since the school has its full cost covered by direct aid.
- Clarified that special education aid for a first year charter school is calculated using current year data.





## APPENDIX B

### FORMAL REQUIRED COMMUNICATIONS

Board of Education  
Charter School No. 4053  
North Lakes Academy  
Forest Lake, Minnesota

We have audited the financial statements of the governmental activities and each major fund of North Lakes Academy (the School) as of and for the year ended June 30, 2015, and have issued our report thereon dated November 13, 2015. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant audit findings

##### ***Qualitative aspects of accounting practices***

###### *Accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 1 to the financial statements.

As described in Note 1, during the fiscal year ended June 30, 2015, the School changed accounting policies related to its accounting for pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions*, and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Accordingly, this change in principle resulted in the restatement of beginning net position related to the recognition of the School's proportionate share of the Public Employees' Retirement Association of Minnesota General Employees' Retirement Fund's net pension liability as well as their portion of the Teacher's Retirement Association's Coordinated and Basic Plan net pension liability.

We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

###### *Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

***Qualitative aspects of accounting practices (continued)***

*Accounting estimates (continued)*

The most sensitive estimates affecting the financial statements were:

- Due from Minnesota Department of Education
- Due from federal through the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets
- Estimated proportionate share of PERA's and TRA's net pension liability

Management's estimate of the due from Minnesota Department of Education is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2014-15. The most significant of these is the aid portion of general education revenue. General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the School. Student attendance is accumulated in a statewide database – MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2015 is not finalized until well into the next fiscal year. MDE calculates amounts owed to the School for special education excess cost tuition billing and adds the amount to the School's special education aid. Because the tuition amounts are based on estimated information, final entitlements are not expected to be known until well into the following fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from Federal through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2014-15. Many federal entitlements require that supporting financial reporting information be provided both in the UFARS accounting system and also the SERVS reporting system. To the extent that these two separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of the useful lives for depreciable assets is based on guidance recommended by the Minnesota Department of Education and other sources. The useful life of a depreciable asset determines the amount of depreciation that will be recorded in any given reporting period as well as the amount of accumulated depreciation that is reported at the end of a reporting period.

Management's estimate of the School's proportionate share of PERA's and TRA's Net Pension Liability is based on guidance from GASB Statement No. 68 and GASB Statement No. 71 and each plan's respective allocation tables. Each plan's allocation tables allocate a portion of the plan's net pension liability based on the School's prior fiscal year contributions as a percentage of the total contributions received for the related year by the plan.

***Qualitative aspects of accounting practices (continued)***

***Accounting estimates (continued)***

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

***Financial statement disclosures***

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

***Difficulties encountered in performing the audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

***Corrected misstatements***

None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the management representation letter dated November 13, 2015.

***Management consultations with other independent accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Significant issues discussed with management prior to engagement**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

**Other audit findings or issues**

We have provided a separate letter to you dated November 13, 2015, communicating internal control related matters identified during the audit.

**Other information in documents containing audited financial statements**

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the individual fund financial statements and the Uniform Financial Accounting and Reporting Standards (UFARS) table (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 13, 2015.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

\* \* \* \* \*

This communication is intended solely for the information and use of the school board and management of the School, and is not intended to be, and should not be, used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 13, 2015