

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2015

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CHARTER SCHOOL NO. 4053
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INTRODUCTORY SECTION

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2015**

SCHOOL BOARD

<u>NAME</u>	<u>BOARD TERM EXPIRES</u>	<u>BOARD POSITION</u>
Sandi Hammersten	Fall 2016	Chair
Angela Houlehan	Fall 2016	Vice Chair
Christopher Stewart	Fall 2016	Secretary/Treasurer
Susan Masterjohn	Fall 2015	Member
Timothy Hassler	Fall 2015	Member
Michael Nosser	Fall 2015	Member
Cody Miller	Fall 2015	Member
Beth Ann Peck	Fall 2016	Member

ADMINISTRATION

Cam Stottler	Executive Director/Upper School Lead
Andrew Brandt	Middle School Co-Lead
Kerry Huset	Middle School Co-Lead
Jan Jensen	Business Manager

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of North Lakes Academy, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise North Lakes Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of North Lakes Academy as of June 30, 2015, and the respective changes in financial position and the respective budgetary comparison for each major fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Prior Year Information

We have previously audited North Lakes Academy's 2014 financial statements of the governmental activities and each major fund, and we expressed an unmodified opinion on those audited financial statements in our report dated October 9, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of a Matter

During fiscal year ended June 30, 2015, North Lakes Academy adopted 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*. As a result of the implementation of these standards, North Lakes Academy reported a restatement for the change in accounting principle (see Note 8). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, TRA Schedule of the School's Proportionate Share of the Net Pension Liability, TRA Schedule of School Contributions, PERA Schedule of the School's Proportionate Share of the Net Pension Liability, and PERA Schedule of School Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters (Continued)

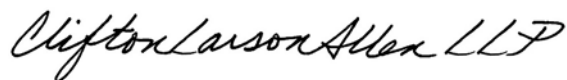
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Lakes Academy's basic financial statements. The individual fund statements and the accompanying Uniform Financial Accounting and Reporting Standards Compliance Table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements and the accompanying Uniform Financial Accounting and Reporting Standards Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2015, on our consideration of North Lakes Academy'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 the 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 the School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 13, 2015

REQUIRED SUPPLEMENTARY INFORMATION

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

This section of North Lakes Academy – Charter School No. 4053's (the School) annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the School's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2014-2015 fiscal year include the following:

- Overall, governmental revenues were \$4,261,405 as compared to \$4,396,519 of expenditures.
- Total fund balance of the General Fund increased \$7,530 from the prior year. General Fund Revenue increased by 9.2% from the prior year while the School experienced a 12.9% increase in expenditures. The largest factors contributing to the increase in expenditures were expansion-related costs such as staff, employee benefits, curriculum and supplies associated with an increase in student enrollment.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *School-wide financial statements* that provide both *short-term* and *long-term* information about the School's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School, reporting the School's operations in *more detail* than the School-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

School-Wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the School's assets, deferred outflows of resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two School-wide statements report the School's *net position* and how they have changed. Net position – the difference between the School's assets, deferred outflows, liabilities and deferred inflows – are one way to measure the School's financial health or *position*.

- Over time, increases or decreases in the School's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional non-financial factors such as changes in the condition of school building and other facilities.

In the School-wide financial statements the School's activities are shown in one category:

- *Governmental Activities* – Most of the School's basic services are included here, such as regular and special education, and administration. State and federal aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's *funds* – focusing on its most significant or “major” funds – not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs:

The School has one fund type:

- *Governmental Funds* – Most of the School's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the School-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's *combined* net position was a deficit of \$1,670,004 on June 30, 2015. This is a decrease of \$2,018,823 from the previous year primarily as a result of the required implementation of GASB Statement Nos. 68 and 71 (see Table A-1).

**Table A-1
The School's Net Position**

	Governmental Activities		Percentage Change
	2015	2014	
Current and Other Assets	\$ 709,370	\$ 681,849	4.0 %
Capital and Non-Current Assets	238,927	96,247	148.2
Total Assets	<u>948,297</u>	<u>778,096</u>	21.9
Pension Related Deferred Outflows	353,396	-	N/A
Current Liabilities	361,241	349,979	3.2
Long-Term Liabilities	2,034,338	79,298	2465.4
Total Liabilities	<u>2,395,579</u>	<u>429,277</u>	458.0
Pension Related Deferred Inflows	576,118	-	N/A
Net Position:			
Net Investment in Capital Assets	238,927	90,804	163.1
Restricted	6,659	6,583	1.2
Unrestricted	<u>(1,915,590)</u>	<u>251,432</u>	(861.9)
Total Net Position	<u>\$ (1,670,004)</u>	<u>\$ 348,819</u>	(578.8)

The large decrease in unrestricted net position relates to the implementation of two new GASB standards in fiscal 2015 which required the School to record its proportionate share of the unfunded liabilities for the two statewide pension plans (TRA and PERA).

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Changes in Net Position

The School's total revenues were \$4,269,125 for the year ended June 30, 2015. State formula aid, unrestricted accounted for 67% of total revenue for the year (see Figure A-1 on the next page). Another 28% came from Operating Grants (which includes Federal Aid), and the remainder from program revenues and other general revenues.

**Table A-2
Change in Net Position**

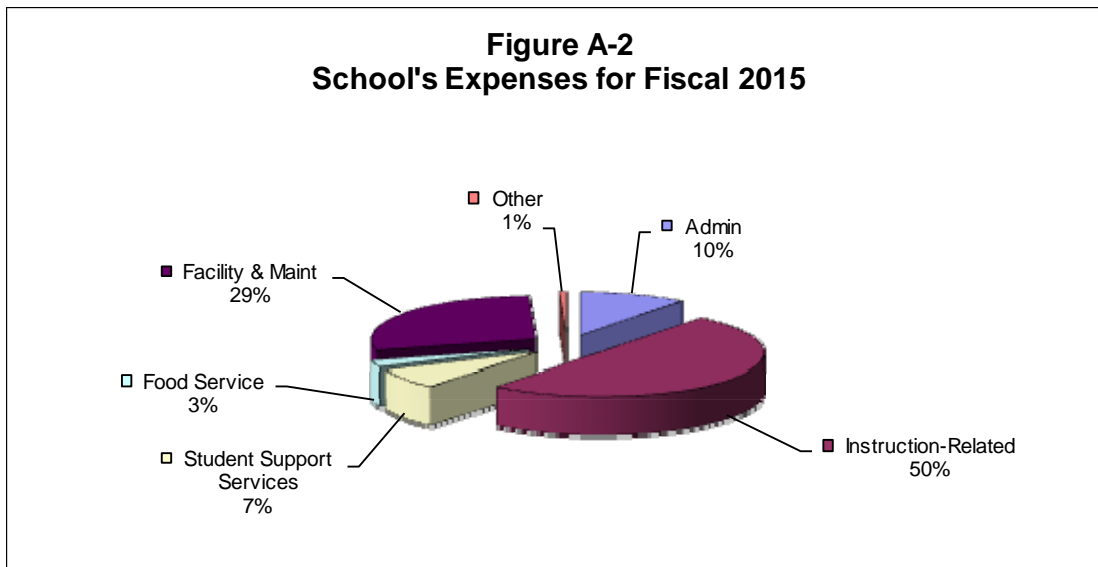
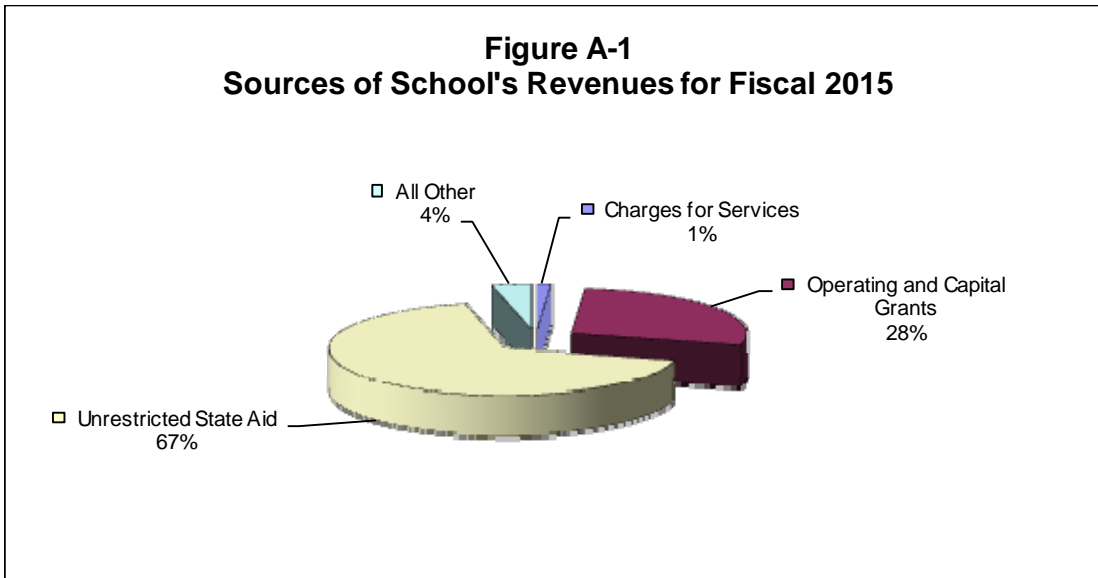
	Governmental Activities for the Fiscal Year Ended June 30,		Total % Change
	2015	2014	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 53,111	\$ 52,941	0.3 %
Operating Grants and Contributions	1,191,850	1,122,586	6.2
<u>General Revenues</u>			
Unrestricted State Aid	2,872,022	2,552,883	12.5
Investment Earnings	274	494	(44.5)
Other	151,868	186,078	(18.4)
Total Revenues	<u>4,269,125</u>	<u>3,914,982</u>	9.0
Expenses			
Administration	434,670	284,673	52.7
District Support Services	250,121	270,087	(7.4)
Regular Instruction	1,628,046	1,759,083	(7.4)
Special Education Instruction	468,812	495,853	(5.5)
Instructional Support Services	60,148	4,203	1,331.1
Pupil Support Services	98	108	(9.3)
Sites and Buildings	1,184,053	916,220	29.2
Fiscal and Other Fixed Cost Programs	13,091	11,219	16.7
Food Service	105,590	97,281	8.5
Interest and Fiscal Charges on Long-Term Liabilities	14,537	10,643	36.6
Total Expenses	<u>4,159,166</u>	<u>3,849,370</u>	8.0
Change in Net Position	109,959	65,612	67.6
Beginning Net Position	348,819	283,207	23.2
Prior Period Adjustment - Implementation of GASB Standard	(2,128,782)	-	
Beginning Net Position, as Restated	<u>(1,779,963)</u>	<u>283,207</u>	
Ending Net Position	<u>\$ (1,670,004)</u>	<u>\$ 348,819</u>	(578.8)

The total cost of all programs and services was \$4,159,166, of which approximately 61% of the School's costs were predominately related to educating and caring for students. Total revenues surpassed expenses for the year which increased net position by \$109,959 from the prior year.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

The cost of all *governmental* activities this year was \$4,159,166.

- The federal and state governments subsidized certain programs with contributions. (\$1,191,850).
- Most of the School's costs were paid for with unrestricted state aid based on the statewide education aid formula, and with investment earnings and other general revenues.
- Some of the cost was paid by other local sources such as building rental, fund raising, fees, donations and grants.



**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

Student support services and instruction-related expenses, when combined, show that 61% of resources are spent on instruction.

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2015	2014		2015	2014	
Administration	\$ 434,670	\$ 284,673	52.7 %	\$ 434,670	\$ 284,673	52.7 %
District Support Services	250,121	270,087	(7.4)	250,121	270,087	(7.4)
Regular Instruction	1,628,046	1,759,083	(7.4)	1,585,869	1,718,451	(7.7)
Special Education Instruction	468,812	495,853	(5.5)	(45,259)	9,548	(574.0)
Instructional Support Services	60,148	4,203	1,331.1	60,148	4,203	1,331.1
Pupil Support Services	98	108	(9.3)	98	108	(9.3)
Sites and Buildings	1,184,053	916,220	29.2	601,165	366,884	63.9
Fiscal and Other Fixed Cost Programs	13,091	11,219	16.7	13,091	11,219	16.7
Food Service	105,590	97,281	8.5	(235)	(1,973)	(88.1)
Interest and Fiscal Charges on Long-Term Liabilities	14,537	10,643	36.6	14,537	10,643	36.6
Total	<u>\$ 4,159,166</u>	<u>\$ 3,849,370</u>	8.0	<u>\$ 2,914,205</u>	<u>\$ 2,673,843</u>	9.0

The financial performance of the School as a whole is reflected in its governmental funds. As the School completed the year, its governmental funds reported a *combined* fund balance of \$391,134, which is \$7,606 higher than last year's ending fund balance of \$383,528.

Revenues and other financing sources for the School's governmental funds were \$4,261,405 while total expenditures were \$4,396,519.

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students from grade 5 through grade 12.

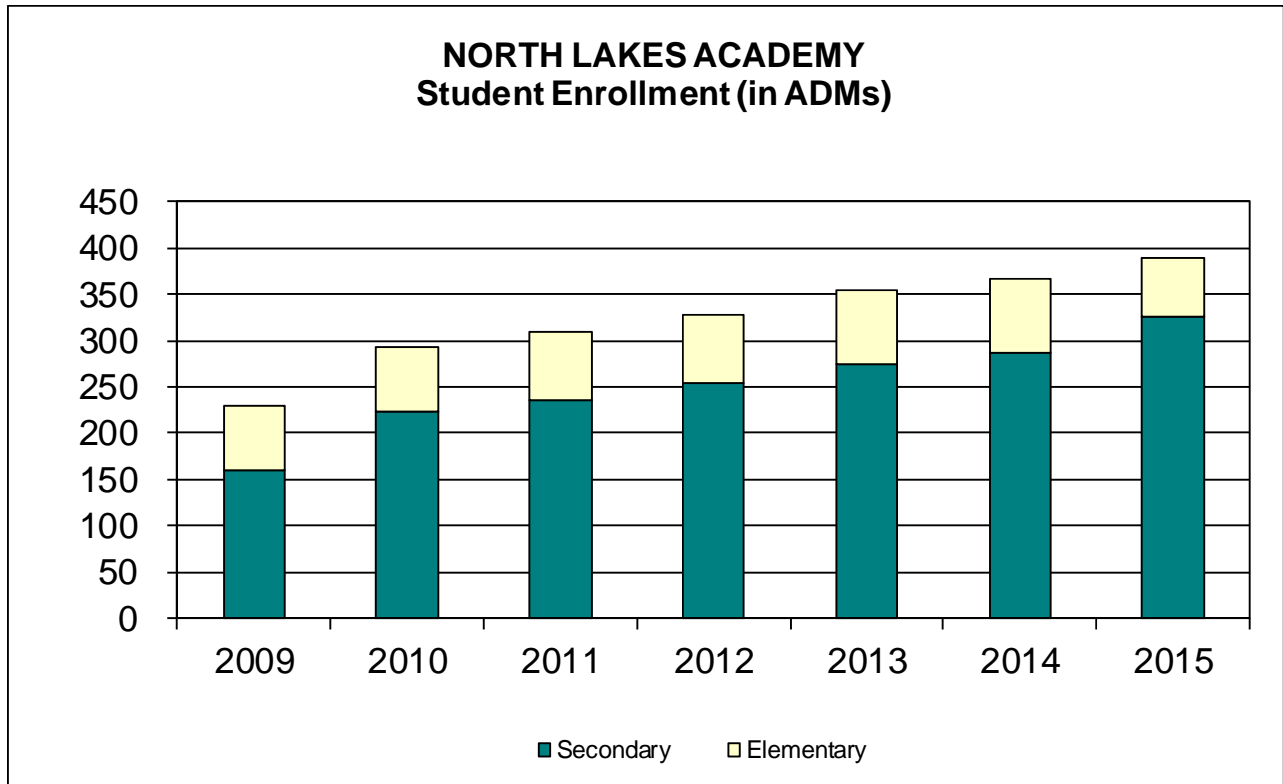
Approximately 85% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 52% of personnel expenditures. Other state formulas then determine what portion of the revenue will come from state aid.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

ENROLLMENT

Enrollment is a critical factor in determining General Fund revenue for a charter school. The following chart shows that the number of students increased over the previous year due in large part to the addition of 23 students in fiscal 2014-15.

**Table A-4
Average Daily Membership (ADM)**



Over the last six years, the School has experienced an increase in average daily membership of 160 students or 70%. With our School expanded to include grades 5 through 12 and a greater visibility in the area it is anticipated that the recent trend of increasing enrollment will continue until we reach our maximum capacity of 480 students. The School has an aggressive marketing plan to encourage parents now considering other schools to elect North Lakes Academy as the option of choice.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2015	June 30, 2014	Increase (Decrease)	Percent
Local Sources:				
Earnings on Investments	\$ 274	\$ 494	\$ (220)	(44.5)%
Other	144,148	174,204	(30,056)	(17.3)
State Sources	3,921,721	3,528,683	393,038	11.1
Federal Sources	89,437	100,473	(11,036)	(11.0)
Total General Fund Revenue	<u>\$ 4,155,580</u>	<u>\$ 3,803,854</u>	<u>\$ 351,726</u>	9.2

Total General Fund Revenue increased by \$351,726 or 9.2% from the previous year. Basic general education revenue is determined by a multiple state formulas, largely enrollment driven, and consists of state aid revenue.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2015	June 30, 2014		
Salaries	\$ 1,961,401	\$ 1,896,993	\$ 64,408	3.4 %
Employee Benefits	550,494	523,803	26,691	5.1
Purchased Services	1,393,193	1,170,947	222,246	19.0
Supplies and Materials	119,185	113,781	5,404	4.7
Capital Expenditures	185,499	15,475	170,024	1098.7
Other Expenditures	80,998	78,441	2,557	3.3
Total Expenditures	<u>\$ 4,290,770</u>	<u>\$ 3,799,440</u>	<u>\$ 491,330</u>	12.9

Total General Fund Expenditures increased \$491,330 or 12.9% over the previous year. This increase is directly attributable to costs for the grade expansion of the School to include increased enrollment in grades 5-12 (salaries and benefits of new teachers and staff, additional utilities and maintenance for second site and additional curriculum to accommodate the additional students).

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

In fiscal 2015, salaries increased 3.4% due in part to some changes in the administration. These changes will influence the salaries only for this one year. The increase in employee benefits expenditures is a result in part because of the increase in the percentage that is required by law to pay to TRA/PERA benefits for our employees. It is also due to the increase in insurance costs as well. Working with an insurance advisor, the School continues to look at various cost strategies to minimize the effect rising health insurance premiums have on the costs of the School's employee compensation packages.

The purchased services increase includes an increase in our Special Education consultants (Speech Clinician, School Psychologist and Occupational Therapist) along with some additional legal fees. Our utilities increased by \$12,456 due to the cold winter and the added square footage of the gymnasium at the upper school. Our maintenance charges increased because of the additional space we need to maintain.

The supplies and materials increase is primarily due to supplies purchased to equip the additional classrooms we are leasing in the upper school building, additional supplies because of additional students and technology needed for both campuses.

In 2014-15, General Fund revenues and other financing sources exceeded General Fund expenditures by \$7,530. The total fund balance of the General Fund increased from \$376,945 at June 30, 2014 to \$384,475 at June 30, 2015.

Fund balance is the single best measure of overall financial health. The fund balance of the General Fund at June 30, 2015, represents a surplus of 8.96% of annual expenditures. On May 13, 2008, the School adopted a fund balance policy that states that the Board will act to maintain a fund balance within a target range of 10-20% of the yearly General Fund expenditures in any given year.

General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the School revises the annual operating budget in mid-year. These budget amendments typically fall into two categories:

- Implementing budgets for specially funded projects, which include federal, state, and private grants and reinstating unexpended funds being carried over, and budgeting for clearing accounts.
- Legislation passed subsequent to budget adoption, changes necessitated by bargaining agreements, and increases in appropriations for significant unbudgeted costs.

Actual General Fund revenues were \$42,719 (or 1.0%) higher than the budget, due mostly to our state funding being nearly \$54,000 higher than anticipated. The actual expenditures were \$11,540 (or 0.3%) higher than our final amended budget.

While the School's final budget for the General Fund anticipated that expenditures would exceed revenues and other financing sources by \$23,649, the actual results for the year show that revenues and other financing sources exceeded expenditures by \$7,530.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

OTHER MAJOR FUNDS

The School's Food Service Fund operated at a surplus of \$76 for the fiscal year ended June 30, 2015. The ending fund balance at that date was \$6,659. No transfer from the General Fund was necessary for fiscal 2015.

CAPITAL ASSETS AND DEBT ADMINISTRATION

By the end of 2015, the School had invested \$869,857 in a broad range of capital assets, including computers and technology related equipment, printers, lunch tables and student furniture (see Table A-7). (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$35,705. The majority of our capital assets are midway through their life expectancy.

**Table A-7
The School's Capital Assets**

	2015	2014	Percentage Change
Leasehold Improvements	\$ 364,163	\$ 233,628	55.9 %
Equipment	344,912	299,880	15.0
Equipment Under Capital Lease	160,782	160,782	-
Less: Accumulated Depreciation	(630,930)	(598,043)	5.5
Total	<u>\$ 238,927</u>	<u>\$ 96,247</u>	148.2

Long-Term Debt

At year-end, the School had a balance of \$211,172 on a promissory note outstanding – an increase of 68% from last year. We renegotiated our long-term debt in January of 2009, to help with the extra costs associated with our grade expansion that started in 2009 and that continued until we had grades 5-12 in 2011. We will be adding space to our south campus so that has continued to add some extra costs associated with expansion in 2012 and beyond.

**Table A-8
The School's Long-Term Liabilities**

	2015	2014	Percentage Change
Obligations Under Capital Leases	\$ -	\$ 5,443	(1.0)%
Promissory Note Payable	211,172	125,513	68.2
Pension Benefits Payable	1,866,171	2,262,520	(0.2)
Total	<u>\$ 2,077,343</u>	<u>\$ 2,393,476</u>	(13.2)
Long-Term Liabilities:			
Due Within One Year	\$ 43,005	\$ 51,658	
Due in More Than One Year	<u>2,034,338</u>	<u>2,341,818</u>	
Total	<u>\$ 2,077,343</u>	<u>\$ 2,393,476</u>	

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue funding solutions have not been sufficient to meet instructional program needs and increased costs due to inflation. Beginning in fiscal year 2014, our cash flow challenges were lessened because of the legislation to decrease the percentage of the holdback of our funds. We did not need to access any short term borrowing this year to meet our obligations.

Unlike typical school districts, charter schools are prohibited from using an operating referendum to generate sufficient funds to cover operating expenses. However, if state funding remains unchanged, we will continue to face cash flow and funding challenges. The School will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility as we go forward with our new expanded program.

The School had 390 students enrolled for fiscal year 2015. It is expected that increases in enrollment will assist in supporting the planned level of expenditures for fiscal year 2015.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, North Lakes Academy-Charter School No. 4053, 308 15th Street SW, Forest Lake, MN 55025.

BASIC FINANCIAL STATEMENTS

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
STATEMENT OF NET POSITION
JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

	Governmental Activities	
	2015	2014
ASSETS		
Cash and Investments	\$ 226,779	\$ 335,285
Receivables:		
Other Governments	460,330	279,588
Other	15,514	14,958
Prepaid Items	6,747	52,018
Capital Assets, Net of Depreciation	238,927	96,247
Total Assets	948,297	778,096
 DEFERRED OUTFLOWS OF RESOURCES		
Pension Deferred Outflows	353,396	-
 LIABILITIES		
Salaries Payable	306,880	294,043
Accounts and Contracts Payable	11,356	4,278
Long-Term Liabilities:		
Portion Due Within One Year	43,005	51,658
Portion Due in More Than One Year	2,034,338	79,298
Total Liabilities	2,395,579	429,277
 DEFERRED INFLOWS OF RESOURCES		
Pension Deferred Inflows	576,118	-
 NET POSITION		
Net Investment in Capital Assets	238,927	90,804
Restricted for:		
Food Service	6,659	6,583
Unrestricted	(1,915,590)	251,432
Total Net Position	\$ (1,670,004)	\$ 348,819

See accompanying Notes to Basic Financial Statements.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2014)**

Functions	2015			2014	
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities	
					Total Governmental Activities
				Net (Expense) Revenue and Changes in Net Position	
Governmental Activities					
Administration	\$ 434,670	\$ -	\$ -	\$ (434,670)	\$ (284,673)
District Support Services	250,121	-	-	(250,121)	(270,087)
Regular Instruction	1,628,046	-	42,177	(1,585,869)	(1,718,451)
Special Education Instruction	468,812	-	514,071	45,259	(9,548)
Instructional Support Services	60,148	-	-	(60,148)	(4,203)
Pupil Support Services	98	-	-	(98)	(108)
Sites and Buildings	1,184,053	-	582,888	(601,165)	(366,884)
Fiscal and Other Fixed Cost Programs	13,091	-	-	(13,091)	(11,219)
Food Service	105,590	53,111	52,714	235	1,973
Interest and Fiscal Charges on Long-Term Liabilities	14,537	-	-	(14,537)	(10,643)
Total School District	<u>\$ 4,159,166</u>	<u>\$ 53,111</u>	<u>\$ 1,191,850</u>	<u>(2,914,205)</u>	<u>(2,673,843)</u>
General Revenues					
State Aid Not Restricted to Specific Purposes				2,872,022	2,552,883
Earnings on Investments				274	494
Miscellaneous				151,868	186,078
Total General Revenues				<u>3,024,164</u>	<u>2,739,455</u>
Change in Net Position				109,959	65,612
Net Position - Beginning				348,819	283,207
Prior Period Adjustment - Implementation of GASB Standard				<u>(2,128,782)</u>	<u>-</u>
Net Position - Beginning, as Restated				<u>(1,779,963)</u>	<u>283,207</u>
Net Position - Ending				<u>\$ (1,670,004)</u>	<u>\$ 348,819</u>

See accompanying Notes to Basic Financial Statements.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

	Major Funds		Total Governmental Funds	
	General	Food Service	2015	2014
ASSETS				
Cash and Investments	\$ 228,687	\$ (1,908)	\$ 226,779	\$ 335,285
Receivables:				
Due from Minnesota Department of Education	457,128	1,051	458,179	277,586
Due from Federal through Minnesota Department of Education	811	1,340	2,151	2,002
Other Receivables	7,236	8,278	15,514	14,958
Prepaid Items	6,677	70	6,747	52,018
	<u>700,539</u>	<u>8,831</u>	<u>709,370</u>	<u>681,849</u>
Total Assets	<u>\$ 700,539</u>	<u>\$ 8,831</u>	<u>\$ 709,370</u>	<u>\$ 681,849</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Salaries Payable	\$ 229,224	\$ -	\$ 229,224	\$ 241,029
Payroll Deductions and Employer Contributions Payable	77,648	8	77,656	53,014
Accounts and Contracts Payable	9,192	2,164	11,356	4,278
Total Liabilities	316,064	2,172	318,236	298,321
Fund Balance:				
Nonspendable	6,677	70	6,747	52,018
Restricted for Food Service	-	6,589	6,589	6,583
Unassigned	377,798	-	377,798	324,927
Total Fund Balance	384,475	6,659	391,134	383,528
Total Liabilities and Fund Balance	<u>\$ 700,539</u>	<u>\$ 8,831</u>	<u>\$ 709,370</u>	<u>\$ 681,849</u>

See accompanying Notes to Basic Financial Statements.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

	2015	2014																					
Total Fund Balance for Governmental Funds	\$ 391,134	\$ 383,528																					
<p>Total fund balance reported for governmental activities in the statement of net position is different because:</p> <p>Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:</p> <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 60%;">Leasehold Improvements, Net of Accumulated Depreciation</td> <td style="text-align: right;">126,208</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Equipment, Net of Accumulated Depreciation</td> <td style="text-align: right;">112,719</td> <td style="text-align: right;">96,247</td> </tr> </table> <p>The School's Net Pension Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:</p> <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 60%;">Net Pension Liability</td> <td style="text-align: right;">(1,866,171)</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Deferred Inflows of Resources - Pensions</td> <td style="text-align: right;">(576,118)</td> <td style="text-align: right;">-</td> </tr> <tr> <td>Deferred Outflows of Resources - Pensions</td> <td style="text-align: right;">353,396</td> <td style="text-align: right;">-</td> </tr> </table> <p>Long-term liabilities that pertain to governmental funds are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:</p> <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 60%;">Promissory Note Payable</td> <td style="text-align: right;">(211,172)</td> <td style="text-align: right;">(125,513)</td> </tr> <tr> <td>Obligations Under Capital Leases</td> <td style="text-align: right; border-bottom: 1px solid black;">-</td> <td style="text-align: right; border-bottom: 1px solid black;">(5,443)</td> </tr> </table>			Leasehold Improvements, Net of Accumulated Depreciation	126,208	-	Equipment, Net of Accumulated Depreciation	112,719	96,247	Net Pension Liability	(1,866,171)	-	Deferred Inflows of Resources - Pensions	(576,118)	-	Deferred Outflows of Resources - Pensions	353,396	-	Promissory Note Payable	(211,172)	(125,513)	Obligations Under Capital Leases	-	(5,443)
Leasehold Improvements, Net of Accumulated Depreciation	126,208	-																					
Equipment, Net of Accumulated Depreciation	112,719	96,247																					
Net Pension Liability	(1,866,171)	-																					
Deferred Inflows of Resources - Pensions	(576,118)	-																					
Deferred Outflows of Resources - Pensions	353,396	-																					
Promissory Note Payable	(211,172)	(125,513)																					
Obligations Under Capital Leases	-	(5,443)																					
Net Position of Governmental Activities	\$ (1,670,004)	\$ 348,819																					

See accompanying Notes to Basic Financial Statements.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2014)**

	Major Funds		Total Governmental Funds	
	General	Food Service	2015	2014
REVENUES				
Local Sources:				
Earnings on Investments	\$ 274	\$ -	\$ 274	\$ 494
Other	144,148	53,111	197,259	227,145
State Sources	3,921,721	6,861	3,928,582	3,532,908
Federal Sources	89,437	45,853	135,290	142,561
Total Revenues	<u>4,155,580</u>	<u>105,825</u>	<u>4,261,405</u>	<u>3,903,108</u>
EXPENDITURES				
Current:				
Administration	441,410	-	441,410	282,993
District Support Services	252,152	-	252,152	269,279
Regular Instruction	1,623,350	-	1,623,350	1,742,989
Special Education Instruction	470,960	-	470,960	491,675
Instructional Support Services	60,148	-	60,148	4,203
Pupil Support Services	98	-	98	108
Sites and Buildings	1,174,741	-	1,174,741	911,937
Fiscal and Other Fixed Cost Programs	13,091	-	13,091	11,219
Food Service	-	105,749	105,749	97,281
Capital Outlay	185,499	-	185,499	15,475
Debt Service:				
Principal	54,784	-	54,784	58,919
Interest and Fiscal Charges	14,537	-	14,537	10,643
Total Expenditures	<u>4,290,770</u>	<u>105,749</u>	<u>4,396,519</u>	<u>3,896,721</u>
Excess (Deficiency) \of Revenues Over (Under) Expenditures	(135,190)	76	(135,114)	6,387
OTHER FINANCING SOURCES				
Insurance Recovery Proceeds	7,720	-	7,720	11,874
Promissory Note Proceeds	135,000	-	135,000	-
Total Other Financing Sources	<u>142,720</u>	<u>-</u>	<u>142,720</u>	<u>11,874</u>
Net Change in Fund Balance	7,530	76	7,606	18,261
Fund Balance - Beginning	<u>376,945</u>	<u>6,583</u>	<u>383,528</u>	<u>365,267</u>
Fund Balance - Ending	<u>\$ 384,475</u>	<u>\$ 6,659</u>	<u>\$ 391,134</u>	<u>\$ 383,528</u>

See accompanying Notes to Basic Financial Statements.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2014)**

	2015	2014
Net Change in Fund Balance - Total Governmental Funds	\$ 7,606	\$ 18,261
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Capital Outlays	178,385	17,271
Depreciation Expense	(35,705)	(28,839)
<p>Pension expenses on the governmental funds are measured by current year employee contributions. Pension expenditures on the Statement of Activities are measured by the change in Net Pension Liability and the related deferred inflows and outflows of resources.</p>		
	39,889	-
<p>Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.</p>		
Principal Payments - Capital Leases	5,443	15,143
<p>The governmental funds report long-term loan proceeds as financing sources, while repayment of loan principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of long-term debt obligations and related items is as follows:</p>		
Promissory Note Proceeds	(135,000)	-
Repayment of Loan Principal	49,341	43,776
Change in Net Position of Governmental Activities	\$ 109,959	\$ 65,612

See accompanying Notes to Basic Financial Statements.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings on Investments	\$ 550	\$ 300	\$ 274	\$ (26)
Other	202,235	148,810	144,148	(4,662)
State Sources	3,671,089	3,867,914	3,921,721	53,807
Federal Sources	112,710	95,837	89,437	(6,400)
Total Revenues	<u>3,986,584</u>	<u>4,112,861</u>	<u>4,155,580</u>	<u>42,719</u>
EXPENDITURES				
Current:				
Administration	430,246	441,752	441,410	(342)
District Support Services	313,225	261,661	252,152	(9,509)
Elementary and Secondary Regular Instruction	1,639,237	1,611,678	1,623,350	11,672
Special Education Instruction	462,803	468,331	470,960	2,629
Instructional Support Services	4,050	59,802	60,148	346
Pupil Support Services	300	100	98	(2)
Sites and Buildings	1,011,056	1,174,553	1,174,741	188
Fiscal and Other Fixed Cost Programs	12,000	13,091	13,091	-
Capital Outlay	143,034	178,516	185,499	6,983
Debt Service:				
Principal	-	46,797	54,784	7,987
Interest and Fiscal Charges	104,235	22,949	14,537	(8,412)
Total Expenditures	<u>4,120,186</u>	<u>4,279,230</u>	<u>4,290,770</u>	<u>11,540</u>
Excess of Revenues Over Expenditures	(133,602)	(166,369)	(135,190)	31,179
OTHER FINANCING SOURCES				
Insurance Recovery Proceeds	-	7,720	7,720	-
Promissory Note Proceeds	150,000	135,000	135,000	-
Total Other Financing Sources	<u>150,000</u>	<u>142,720</u>	<u>142,720</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ 16,398</u>	<u>\$ (23,649)</u>	7,530	<u>\$ 31,179</u>
FUND BALANCE				
Beginning of Year			<u>376,945</u>	
End of Year			<u>\$ 384,475</u>	

See accompanying Notes to Basic Financial Statements.

**NORTH LAKES ACADEMY
 CHARTER SCHOOL NO. 4053
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL
 MAJOR FOOD SERVICE FUND
 YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Other - Primarily Meal Sales	\$ 54,000	\$ 52,775	\$ 53,111	\$ 336
State Sources	5,000	6,300	6,861	561
Federal Sources	42,500	45,700	45,853	153
Total Revenues	<u>101,500</u>	<u>104,775</u>	<u>105,825</u>	<u>1,050</u>
EXPENDITURES				
Current:				
Food Service	<u>100,531</u>	<u>105,235</u>	<u>105,749</u>	<u>514</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 969</u>	<u>\$ (460)</u>	76	<u>\$ 536</u>
FUND BALANCE				
Beginning of Year			<u>6,583</u>	
End of Year			<u>\$ 6,659</u>	

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Charter School No. 4053 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

Charter School No. 4053, also known as North Lakes Academy (the School), is a nonprofit corporation that was formed and began operating in May 1999. North Lakes Academy is authorized by the Audubon Center of the North Woods under a four-year authorizer agreement which extends through June 30, 2020. The primary objective of North Lakes Academy is to create a small, personalized learning environment which teaches core academic and arts curriculum in a developmentally appropriate manner. The governing body consists of a board of directors composed of not less than three, but not exceeding ten, members to be elected no later than March of each year, by parents or guardians of students and employees of the School. All Board positions are two-year terms; four positions are up in one year, and five positions are up in the other year to create continuity.

U.S. Generally Accepted Accounting Principles (GAAP) require that the School's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the School. In addition, the School's financial statements are to include all component units - entities for which the School is financially accountable.

Component units are legally separate entities for which the School is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

Aside from its sponsorship, Audubon Center of the North Woods has no authority, control, power, or administrative responsibilities over North Lakes Academy. Therefore, the School was not considered a component unit of the Audubon Center of the North Woods.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, school boards can elect to either control or not control extracurricular activities. The School Board has elected to control extracurricular activities; therefore, the extracurricular student activity accounts are included in the School's basic financial statements as part of the General Fund.

C. Change in Accounting Principle

During fiscal year ended June 30, 2015, North Lakes Academy adopted 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*. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments for pensions. They also improve information provided by state and local governmental employers about financial support for pensions that is provided by other entities. See Note 8 for more detail of the effect of this change in accounting principle on the financial statements.

D. Basic Financial Statement Presentation

The School-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the School.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The School applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

Description of Funds

As required by state statute, North Lakes Academy operates as a nonprofit corporation under Minnesota Statutes §317A. However, state law also requires that the school comply with Uniform Financial Accounting and Reporting Standards for Minnesota School Districts (UFARS) which mandates the use of a governmental fund accounting structure. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

A description of the funds included in this report are as follows:

Major Governmental Fund

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in its own fund.

Food Service Fund

The Food Service fund is used to account for the food service activities. Primary sources of revenue in the Food Service Fund are from meal sales and state and federal aids. Other sources of funds come from a transfer from the General Fund, when needed.

F. Income Taxes

The School is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and comparable sections of the Minnesota income tax statutes.

G. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund and the Food Service Fund. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Director submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgeting (Continued)

Budgeted amounts include a mid-year budget amendment that changed revenue and expenditure budgets as follows:

<u>Revenues</u>	Original Budget	Amendments	Amended Budget
General Fund	\$ 3,986,584	\$ 126,277	\$ 4,112,861
Special Revenue Fund:			
Food Service Fund	101,500	3,275	104,775
 <u>Expenditures</u>			
General Fund	\$ 4,120,186	\$ 159,044	\$ 4,279,230
Special Revenue Fund:			
Food Service Fund	100,531	4,704	105,235

At the end of each fiscal year, if the General Fund has a net unassigned deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota schools which excludes certain restricted balances specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

H. Cash and Investments

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

I. Accounts Receivable

Accounts receivable represents amounts due from individuals, firms, and corporations for goods and services furnished by the School. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The School maintains a threshold level of \$500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the school-wide financial statement, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 5 to 20 years for equipment and over the remaining lease term for leasehold improvements.

L. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Accrued Employee Benefits

Unpaid Sick Leave and Vacation Pay

Unpaid sick leave and vacation pay has not been accrued in any funds as these benefits do not vest.

N. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned and unassigned fund balances. Nonspendable portions of fund balance consists of amounts that are not in spendable form and include prepaids, inventories, long term receivables, and corpus on any permanent fund. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the School Board. The School Board chose not to pass a resolution authorizing anyone to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Fund Balance (Continued)

Although the School Board has not adopted a spending prioritization policy for restricted fund balance, the School applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted fund balance is available. The default spending priority per GASB Statement No. 54 for unrestricted fund balance is when an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

O. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the School's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

P. Net Position

Net position represents the difference between assets and liabilities in the School-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the School-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Q. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

**NORTH LAKES ACADEMY
 CHARTER SCHOOL NO. 4053
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015**

NOTE 2 DEPOSITS

The School maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and the balance sheet as "Cash and Investments."

In accordance with applicable Minnesota Statutes, the School maintains deposits at depository banks authorized by the School's Board.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. All deposits were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Deposit balances at June 30, 2015 are as follows:

	Bank Balance	Carrying Amount
Insured	\$ 243,972	\$ 226,779

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Being Depreciated:				
Leasehold Improvements	\$ 233,628	\$ 130,535	\$ -	\$ 364,163
Equipment	299,880	47,850	2,818	344,912
Equipment Under Capital Lease	160,782	-	-	160,782
Total Capital Assets, Being Depreciated	<u>694,290</u>	<u>178,385</u>	<u>2,818</u>	<u>869,857</u>
Accumulated Depreciation for:				
Leasehold Improvements	(233,628)	(4,327)	-	(237,955)
Equipment	(228,829)	(17,822)	2,818	(243,833)
Equipment Under Capital Lease	(135,586)	(13,556)	-	(149,142)
Total Accumulated Depreciation	<u>(598,043)</u>	<u>(35,705)</u>	<u>2,818</u>	<u>(630,930)</u>
Governmental Activities Capital Assets, Net	<u>\$ 96,247</u>	<u>\$ 142,680</u>	<u>\$ 5,636</u>	<u>\$ 238,927</u>

Depreciation expense was charged to functions of the School as follows:

Governmental Activities	
Administration	\$ 463
District Support Services	184
Regular Instruction	21,276
Special Education Instruction	3,782
Sites and Buildings	10,000
Total Depreciation Expense, Governmental Activities	<u>\$ 35,705</u>

NOTE 4 SHORT-TERM DEBT

Line of Credit Agreement

The School's \$75,000 line of credit which was scheduled to expire on December 1, 2014 was extended to December 1, 2015. The School's \$100,000 line of credit which was scheduled to expire on December 1, 2014 was extended to December 1, 2015. The line of credit is secured by all assets of the School and is subordinated debt. The interest rate at year-end was 5%. Borrowing activity under the terms of these agreements during fiscal 2015 was as follows:

	2014	Additions	Retirements	2015
Line of Credit - #2888 - \$75,000	\$ -	\$ 3,000	\$ 3,000	\$ -
Line of Credit - #4424 - \$100,000	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ -</u>

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 LONG-TERM DEBT

Promissory Note and Capital Lease Payable

The School entered into lease agreements for computer equipment. One of the leases required annual payments of \$6,841 and was paid off by June 30, 2014. The remaining lease was paid off in fiscal 2015.

During fiscal 2005, the School obtained a loan agreement totaling \$275,000. In January 2009, the School paid off the existing long-term debt related to School operations and refinanced the loan into a five-year loan totaling \$335,000 at 6.75%. The promissory note was refinanced in fiscal 2015 to extend the remaining payments through November 26, 2019 at an interest rate of 4.75%. The promissory note requires monthly payments of \$1,997. The loan is secured by all business assets of the School.

During fiscal 2015, the School obtained a loan agreement totaling \$135,000. The promissory note requires monthly payments of \$2,350 through December 10, 2019, at an interest rate of 4.75%. The loan is secured by all business assets of the School.

Following are maturities of long-term debt for North Lakes Academy for the years ending June 30:

<u>Year Ending June 30,</u>	<u>Promissory Note - 3988</u>		<u>Promissory Note - 4506</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 19,798	\$ 4,160	\$ 23,207	\$ 4,989
2017	20,784	3,174	24,363	3,834
2018	21,807	2,151	25,562	2,634
2019	22,881	1,077	26,821	1,375
2020	11,864	120	14,085	197
Total	<u>\$ 97,134</u>	<u>\$ 10,682</u>	<u>\$ 114,038</u>	<u>\$ 13,029</u>

Changes in long-term debt are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Obligations under Capital Leases	\$ 5,443	\$ -	\$ (5,443)	\$ -	\$ -
Promissory Notes	125,513	135,000	(49,341)	211,172	43,005
Pension Benefits Payable	2,262,520	41,333	(437,682)	1,866,171	-
Total Governmental Activity					
Long-Term Liabilities	<u>\$ 2,393,476</u>	<u>\$ 176,333</u>	<u>\$ (492,466)</u>	<u>\$ 2,077,343</u>	<u>\$ 43,005</u>

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLANS

Substantially all employees of the North Lakes Academy are required by state law to belong to pension plans administered by Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a statewide basis; disclosures relating to these plans follows.

A. Plan Description

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Fund (TRA). PERA's and TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes. PERA's and TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan (GERF)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the School other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Teachers Retirement Fund (TRA)

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided

PERA and TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

PERA: Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

TRA: Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years of Service are Up to July 1, 2006	1.2% per Year
	First Ten Years, If Service Years are July 1, 2006 or After	1.4% per Year
	All Other Years of Service If Service Years are Up to July 1, 2006	1.7% per Year
	All Other Years of Service If Services Years are July 1, 206 or After	1.9% per Year

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0% per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the School was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The School's contributions to the GERF for the plan's fiscal year ended June 30, 2015 were \$21,613. The School's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

	<u>Ended June 30, 2014</u>		<u>Ended June 30, 2015</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	10.5 %	11.0 %	11.0 %	11.5 %
Coordinated	7.0	7.0	7.5	7.5

The School's contributions to TRA for the plan's fiscal year ended June 30, 2015 were \$123,955. The School's contributions were equal to the required contributions for each year as set by state statute.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. GERF Pension Costs

At June 30, 2015, the School reported a liability of \$239,572 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the School's proportion was .0051%.

For the year ended June 30, 2015, the School recognized pension expense of \$17,785 for its proportionate share of GERF's pension expense.

At June 30, 2015, the School reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 3,677	\$ -
Changes in Actuarial Assumptions	24,690	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	64,732
Changes in Proportion and Differences Between School Contributions and Proportionate Share of Contributions	-	-
School Contributions Subsequent to the Measurement Date	21,613	-
Total	<u>\$ 49,980</u>	<u>\$ 64,732</u>

**NORTH LAKES ACADEMY
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERP Pension Costs (Continued)

A total of \$21,613 reported as deferred outflows of resources related to pensions resulting from School contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expenses Amount</u>
2016	\$ (6,727)
2017	(6,727)
2018	(6,727)
2019	(16,184)
2020	-
Thereafter	-

2. TRA Pension Costs

At June 30, 2015, the School reported a liability of \$1,626,599 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The School's proportionate share was .0353% at the end of the measurement period and .0346% for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the School as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the School were as follows:

<u>Description</u>	<u>Amount</u>
School's Proportionate Share of the TRA Net Pension Liability	\$ 1,626,599
State's Proportionate Share of TRA's Net Pension Liability Associated with the School	114,480

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

For the year ended June 30, 2015, the School recognized pension expense of \$86,18.

At June 30, 2015, the School reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 138,793	\$ -
Changes in Actuarial Assumptions	-	-
Net Difference Between Projected and Actual Investment Earnings	-	511,386
Changes in Proportion and Differences Between School Contributions and Proportionate Share of Contributions	40,668	-
School Contributions Subsequent to the Measurement Date	123,955	-
Total	<u>\$ 303,416</u>	<u>\$ 511,386</u>

A total of \$123,955 reported as deferred outflows of resources related to pensions resulting from School contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expenses Amount
2016	\$ (90,381)
2017	(90,381)
2018	(90,381)
2019	(90,381)
2020	29,599
Thereafter	-

**NORTH LAKES ACADEMY
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.75% per Year	3.50%
Active Member Payroll Growth	3.50% per Year	3.75% Based on Years of Service
Investment Rate of Return	7.90%	8.25%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies. The actuarial assumptions used in the June 30, 2014 valuation were based on the results of the actuarial experience study for the period of July 1, 2004, to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

The following changes in actuarial assumptions for GEF occurred in 2014: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

There was a change in actuarial assumptions that affected the measurement of the total liability for TRA since the prior measurement date. Postretirement benefit adjustments are now assumed to increase from 2.0% annually to 2.5% annually once the legally specified criteria are met. This is estimated to occur July 1, 2034.

The long-term expected rate of return on pension plan investments is 7.9% for GEF and 8.25% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

**NORTH LAKES ACADEMY
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45 %	5.50%
International Equity	15	6.00%
Bonds	18	1.45%
Alternative Assets	20	6.40%
Cash	2	0.50%
Totals	100 %	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF and 8.25% for TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following presents the School's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.90%	7.90%	8.90%
School's Proportionate Share of the GERF Net Pension Liability	\$ 386,200	\$ 239,572	\$ 118,932
<u>TRA Discount Rate</u>	7.25%	8.25%	9.25%
School's Proportionate Share of the TRA Net Pension Liability	\$ 2,688,210	\$ 1,626,599	\$ 741,581

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary's net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

NOTE 7 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

B. Lease Commitments and Terms

The School (lessee) leases its school building and original furnishings in Forest Lake, Minnesota from BURD Company (lessor). The School entered into the lease on October 27, 2006, commencing June 30, 2007 and continuing through June 30, 2011. The first year of this lease required an annual rent of \$266,400. This base amount may be adjusted annually by a cost of living adjustment utilizing a consumer price index. The adjusted cost for rent for fiscal 2011 was \$273,060. The agreement allowed for two five-year renewal options, both of which were exercised in June 2011, extending the lease agreement through June 30, 2021. The first year of the extension requires an annual rent of \$291,060 and may also be adjusted annually.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Lease Commitments and Terms (Continued)

Starting in September 2009, the School signed a lease for a second site at 308 SW 15th Street, Forest Lake, Minnesota. On February 15, 2012, the School signed a lease extension for this site, which commenced on July 1, 2012 and terminated on June 30, 2013 for 27,260 square feet of educational space. The total yearly rent at this location for fiscal 2013 was \$302,000. In May 2013, the School signed a new lease agreement at this location for the same 27,260 square feet of space but effective September 1, 2013 which increased the existing leased space by an additional 5,892 square feet. The landlord also agreed to build an additional 7,500 square feet of new construction to be leased at the same amount per square foot. The lease term of the revised lease agreement is July 1, 2013 through June 30, 2023 and includes five options for renewal of five years each. In May 2014, the School signed an addendum to the original lease which increased the existing leased space by an additional 2,653 square feet to be leased at the same amount per square foot. The rent for the initial leased area for the first year will be \$294,408 and the increase for additional space once occupied will be proportionate on a per square foot basis and will be increased annually on the anniversary date by 2%. The School is responsible for the payment of all utilities.

For fiscal 2015, the School incurred MDE-approved lease costs of \$768,281. The School qualified for charter school lease aid of \$597,568 based on a statutory cap of \$1,314 per student served. The School may be paid a prorated aid entitlement should the statewide funding be insufficient to pay the full entitlement. The School continues to be responsible for the payment of its own utility bills.

The School's ability to make payments under these Lease agreements is dependent on its revenues which are in turn, largely dependent on sufficient enrollments being served at the School and on sufficient state aids per student being authorized and received from the State of Minnesota. The School believes that its enrollments and aid entitlements will be sufficient to meet the lease obligations as they become due.

**NORTH LAKES ACADEMY
 CHARTER SCHOOL NO. 4053
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2015**

NOTE 8 CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year ended June 30, 2015, North Lakes Academy adopted 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*. As a result, North Lakes Academy's net position as of June 30, 2014 has been restated to reflect 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.

Net Position, as Previously Reported at June 30, 2014	\$	348,819
Cumulative Affect of Application of GASB 68, Net Pension Liability		(2,262,520)
Cumulative Affect of Application of GASB 71, Deferred Outflow of Resources for District Contributions Made to the Plan During Fiscal Year Ended June 30, 2014		<u>133,738</u>
Net Position, June 30, 2014, as Restated	\$	<u><u>(1,779,963)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

**NORTH LAKES ACADEMY
 CHARTER SCHOOL NO. 4053
 TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 YEAR ENDED JUNE 30, 2015**

	Measurement Date 6/30/15
School's Proportion of the Net Pension Liability	0.035%
School's Proportionate Share of the Net Pension Liability	\$ 1,626,599
State's Proportionate Share of the Net Pension Liability Associated with School	114,480
Total	\$ 1,741,079
School's Covered-Employee Payroll	\$ 1,652,733
School's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	98.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.50%

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
TRA SCHEDULE OF SCHOOL CONTRIBUTIONS
YEAR ENDED JUNE 30, 2015**

Statutorily Required Contribution	\$ 123,955
Contributions in Relation to the Statutorily Required Contribution	<u>(123,955)</u>
Contribution Deficiency (Excess)	<u><u>\$ -</u></u>
School's Covered-Employee Payroll	\$ 1,652,733
Contributions as a Percentage of Covered Employee Payroll	7.5%

NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
PERA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2015

	Measurement Date 6/30/15
School's Proportion of the Net Pension Liability	0.0051%
School's Proportionate Share of the Net Pension Liability	\$ 239,572
School's Covered-Employee Payroll	293,058
School's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	81.75%
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	78.70%

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
PERA SCHEDULE OF SCHOOL CONTRIBUTIONS
YEAR ENDED JUNE 30, 2015**

Statutorily Required Contribution	\$ 21,613
Contributions in Relation to the Statutorily Required Contribution	<u>(21,613)</u>
Contribution Deficiency (Excess)	<u><u>\$ -</u></u>
School's Covered-Employee Payroll	\$ 293,058
Contributions as a Percentage of Covered Employee Payroll	7.38%

SUPPLEMENTARY INFORMATION

**NORTH LAKES ACADEMY
 CHARTER SCHOOL NO. 4053
 GENERAL FUND
 BALANCE SHEET
 JUNE 30, 2015
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

	2015	2014
ASSETS		
Cash and Investments	\$ 228,687	\$ 333,734
Receivables:		
Accounts and Interest Receivable	7,236	8,942
Due from Minnesota Department of Education	457,128	277,494
Due from Federal through the Minnesota Department of Education	811	1,065
Prepaid Items	6,677	52,018
Total Assets	\$ 700,539	\$ 673,253
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Salaries Payable	\$ 229,224	\$ 241,029
Payroll Deductions and Employer Contributions Payable	77,648	53,014
Accounts and Contracts Payable	9,192	2,265
Total Liabilities	316,064	296,308
Fund Balance:		
Nonspendable	6,677	52,018
Unassigned	377,798	324,927
Total Fund Balance	384,475	376,945
Total Liabilities and Fund Balance	\$ 700,539	\$ 673,253

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2014)**

	2015		Over (Under) Final Budget	2014
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Earnings on Investments	\$ 300	\$ 274	\$ (26)	\$ 494
Other	148,810	144,148	(4,662)	174,204
State Sources	3,867,914	3,921,721	53,807	3,528,683
Federal Sources	95,837	89,437	(6,400)	100,473
Total Revenues	4,112,861	4,155,580	42,719	3,803,854
EXPENDITURES				
Current:				
Administration:				
Salaries	348,681	347,458	(1,223)	222,747
Employee Benefits	92,570	93,442	872	59,540
Purchased Services	199	199	-	170
Supplies and Materials	302	311	9	536
Capital Expenditures	-	-	-	1,232
Total Administration	441,752	441,410	(342)	284,225
District Support Services:				
Salaries	106,823	106,845	22	99,290
Employee Benefits	33,695	33,732	37	31,550
Purchased Services	102,491	92,790	(9,701)	122,422
Supplies and Materials	10,553	10,686	133	9,293
Capital Expenditures	-	-	-	694
Other Expenditures	8,099	8,099	-	6,724
Total District Support Services	261,661	252,152	(9,509)	269,973
Elementary and Secondary Regular Instruction:				
Salaries	1,141,241	1,143,064	1,823	1,255,537
Employee Benefits	323,222	328,687	5,465	346,682
Purchased Services	73,305	75,384	2,079	71,081
Supplies and Materials	70,459	72,637	2,178	67,534
Capital Expenditures	13,424	13,424	-	12,281
Other Expenditures	3,451	3,578	127	2,155
Total Elementary and Secondary Regular Instruction	1,625,102	1,636,774	11,672	1,755,270

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2014)**

	2015		Over (Under) Final Budget	2014
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES (Continued)				
Current (Continued):				
Special Education Instruction:				
Salaries	\$ 285,844	\$ 286,033	\$ 189	\$ 297,178
Employee Benefits	75,184	75,225	41	76,433
Purchased Services	94,063	94,229	166	109,249
Supplies and Materials	13,240	15,473	2,233	8,815
Capital Expenditures	7,488	14,471	6,983	1,268
Total Special Education Instruction	475,819	485,431	9,612	492,943
Instructional Support Services:				
Salaries	44,834	44,834	-	-
Employee Benefits	7,221	7,460	239	-
Purchased Services	7,711	7,818	107	4,149
Supplies and Materials	36	36	-	54
Total Instructional Support Services	59,802	60,148	346	4,203
Pupil Support Services:				
Employee Benefits	-	9	9	-
Supplies and Materials	100	89	(11)	108
Total Pupil Support Services	100	98	(2)	108
Sites and Buildings:				
Salaries	33,000	33,167	167	22,241
Employee Benefits	12,240	11,939	(301)	9,598
Purchased Services	1,109,813	1,109,682	(131)	852,657
Supplies and Materials	19,500	19,953	453	27,441
Capital Expenditures	157,604	157,604	-	-
Total Sites and Buildings	1,332,157	1,332,345	188	911,937
Fiscal and Other Fixed Cost Programs:				
Purchased Services	13,091	13,091	-	11,219

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2014)**

	2015		Over (Under) Final Budget	2014
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES (Continued)				
Debt Service:				
Principal Payments on Debt	\$ 41,354	\$ 49,341	\$ 7,987	\$ 43,776
Interest Payments on Debt	22,858	14,446	(8,412)	9,459
Principal Payments on Capital Lease	5,443	5,443	-	15,143
Interest Payments on Capital Lease	91	91	-	1,184
Total Debt Service	<u>69,746</u>	<u>69,321</u>	<u>(425)</u>	<u>69,562</u>
Total Expenditures	<u>4,279,230</u>	<u>4,290,770</u>	<u>11,540</u>	<u>3,799,440</u>
Deficiency (Excess) of Revenues Over (Under) Expenditures	(166,369)	(135,190)	31,179	4,414
OTHER FINANCING SOURCES				
Insurance Recovery Proceeds	7,720	7,720	-	11,874
Promissory Note Proceeds	135,000	135,000	-	-
Total Other Financing Sources	<u>142,720</u>	<u>142,720</u>	<u>-</u>	<u>11,874</u>
Net Change in Fund Balance	<u>\$ (158,649)</u>	7,530	<u>\$ 31,179</u>	16,288
FUND BALANCE				
Beginning of Year		<u>376,945</u>		<u>360,657</u>
End of Year		<u>\$ 384,475</u>		<u>\$ 376,945</u>

**NORTH LAKES ACADEMY
 CHARTER SCHOOL NO. 4053
 FOOD SERVICE SPECIAL REVENUE FUND
 BALANCE SHEET
 YEAR ENDED JUNE 30, 2015
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2014)**

	2015	2014
ASSETS		
Cash and Investments	\$ (1,908)	\$ 1,551
Receivables:		
Accounts and Interest Receivable	8,278	6,016
Due from Minnesota Department of Education	1,051	92
Due from Federal through the Minnesota Department of Education	1,340	937
Prepaid Items	70	-
Total Assets	\$ 8,831	\$ 8,596
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Payroll Deductions and Employer Contributions Payable	\$ 8	\$ -
Accounts and Contracts Payable	2,164	2,013
Total Liabilities	2,172	2,013
Fund Balance:		
Nonspendable	70	-
Restricted	6,589	6,583
Total Fund Balance	6,659	6,583
Total Liabilities and Fund Balance	\$ 8,831	\$ 8,596

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
FOOD SERVICE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2015
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2014)**

	2015		Over (Under) Final Budget	2014
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Other - Primarily Meal Sales	\$ 52,775	\$ 53,111	\$ 336	\$ 52,941
State Sources	6,300	6,861	561	4,225
Federal Sources	45,700	45,853	153	42,088
Total Revenues	104,775	105,825	1,050	99,254
EXPENDITURES				
Current:				
Salaries	7,600	7,682	82	3,824
Employee Benefits	913	1,135	222	320
Purchased Services	95,000	95,319	319	91,637
Supplies and Materials	750	641	(109)	793
Other Expenditures	972	972	-	707
Total Expenditures	105,235	105,749	514	97,281
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (460)	76	\$ 536	1,973
FUND BALANCE				
Beginning of Year		6,583		4,610
End of Year		\$ 6,659		\$ 6,583

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2015**

	AUDIT	UFARS	Difference
01 GENERAL FUND			
Total Revenue	\$ 4,158,307	\$ 4,158,304	\$ 3
Total Expenditures	4,285,777	4,285,775	2
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	6,677	6,677	-
<i>Restricted/Reserved:</i>			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health & Safety	-	-	-
407 Capital Project Levy	-	-	-
408 Cooperative Programs	-	-	-
411 Severance Pay	-	-	-
413 Project Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maint	-	-	-
423 Certain Teacher Programs	-	-	-
424 Operating Capital	-	-	-
426 \$25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning & Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alt. Programs	-	-	-
436 State Approved Alt. Program	-	-	-
438 Gifted & Talented	-	-	-
441 Basic Skills Programs	-	-	-
445 Career and Technical Programs	-	-	-
446 First Grade Preparedness	-	-	-
449 Safe Schools Crime	-	-	-
450 Prekindergarten	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liab Not In Trust	-	-	-
453 Unfunded Sev & Retirement Levy	-	-	-
<i>Restricted:</i>			
464 Restricted Fund Balance	-	-	-
<i>Committed:</i>			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	-	-	-
<i>Assigned:</i>			
462 Restricted Fund Balance	-	-	-
<i>Unassigned:</i>			
422 Unassigned Fund Balance	377,798	377,798	-
02 FOOD SERVICE			
Total Revenue	105,825	105,825	-
Total Expenditures	105,749	105,748	1
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	70	70	-
<i>Restricted:</i>			
452 OPEB Liab Not In Trust	-	-	-
464 Restricted Fund Balance	6,589	6,590	(1)
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	-	-	-
Total Expenditures	-	-	-
<i>Restricted/Reserved:</i>			
426 \$25 Taconite	-	-	-
431 Community Education	-	-	-
432 E.C.F.E.	-	-	-
444 School Readiness	-	-	-
447 Adult Basic Education	-	-	-
452 OPEB Liab Not In Trust	-	-	-
<i>Restricted:</i>			
464 Restricted Fund Balance	-	-	-
<i>Net Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-

OTHER REQUIRED REPORTS



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

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

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 financial statements of the governmental activities and each major fund of North Lakes Academy as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise North Lakes Academy's basic financial statements, and have issued our report thereon dated November 13, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered North Lakes Academy'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Lakes Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of North Lakes Academy's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

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

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 result of that testing, and not to provide an opinion on the effectiveness of North Lakes Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Lakes Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 13, 2015

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

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 financial statements of the governmental activities and each major fund of North Lakes Academy as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 13, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, identifies two main categories of compliance to be tested in audits of charter schools: uniform financial accounting and reporting standards and charter schools. Our study included the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that North Lakes Academy failed to comply with the provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding North Lakes Academy's noncompliance with the above-referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of North Lakes Academy's compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 13, 2015