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December 17, 2012

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

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

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

CliftonLarsonAllen LLP

Dennis Hoogeveen, CPA
Partner

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

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2012

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
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**EXECUTIVE AUDIT SUMMARY (EAS)
FOR
NORTH LAKES ACADEMY
YEAR ENDED JUNE 30, 2012**

AUDIT FINDINGS AND RESULTS

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

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

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

Internal Controls – A “material weakness” was noted due to the School not having an internal control policy in place over annual financial reporting under GAAP.

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

Enrollment – For fiscal 2011-12, North Lakes Academy served a net average daily membership of 328.06 (or 408.70 pupil units). For fiscal years 2010-11 and 2009-10, the School had served an average daily membership of 310.33 (or 385.38 pupil units) and 293.59 (or 364.83 pupil units), respectively.

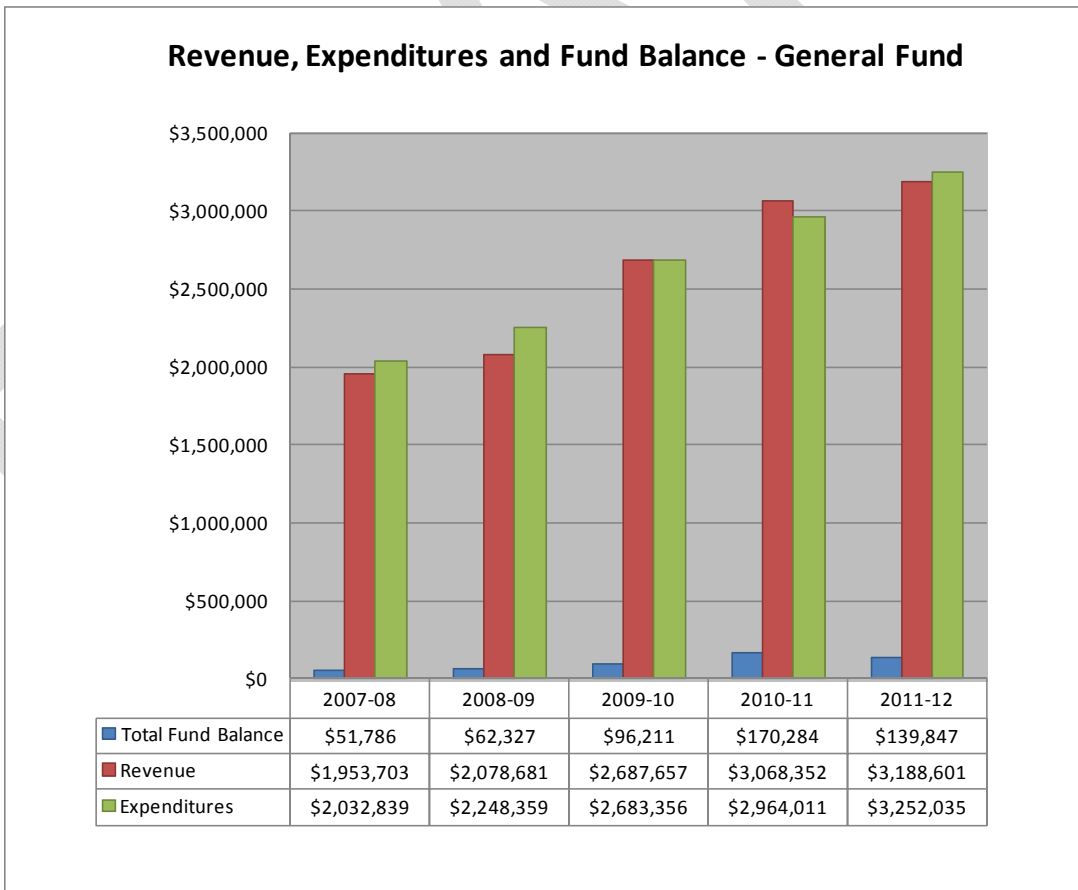
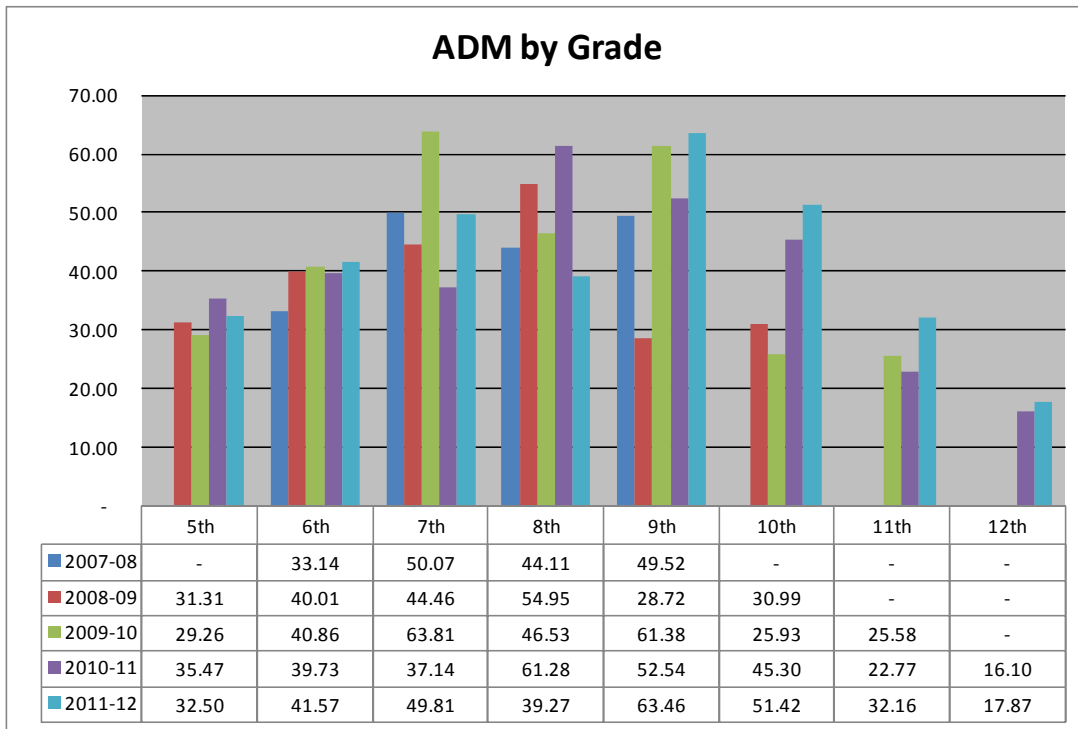
Fund Balance – The fund balance of the General Fund decreased by \$30,437, ending at a balance of \$139,847 as of June 30, 2012. We recommend that a charter school develop a plan that will eventually result in a target fund balance that is at least 20% to 25% of annual expenditures. The ending fund balance at June 30, 2012 for North Lakes Academy represents 4.3% of expenditures incurred for the year (having been 5.7% of expenditures at June 30, 2011) and is an important aspect in the School’s financial well being since a healthy fund balance represents things such as cashflow, as a cushion against unanticipated expenditures, enrollment declines, state aid metering changes, funding deficiencies and aid prorations at the state level and similar problems.

Budget to Actual – Total revenues on a net basis for the General Fund were \$82,033 (or 2.5%) lower than the budgeted amount while total expenditures were \$35,064 (or 1.1%) higher than had been reflected in the budget. We recommend that budget variances in a charter school environment (which is more volatile than in a traditional school environment but on a much smaller scale) be limited to 1% to 2% on either side of zero. This may involve tightening up the budget development and monitoring process to ensure that net variances remain within those parameters and would generally include continuing to undertake at least one mid-year budget amendment to update budget assumptions.

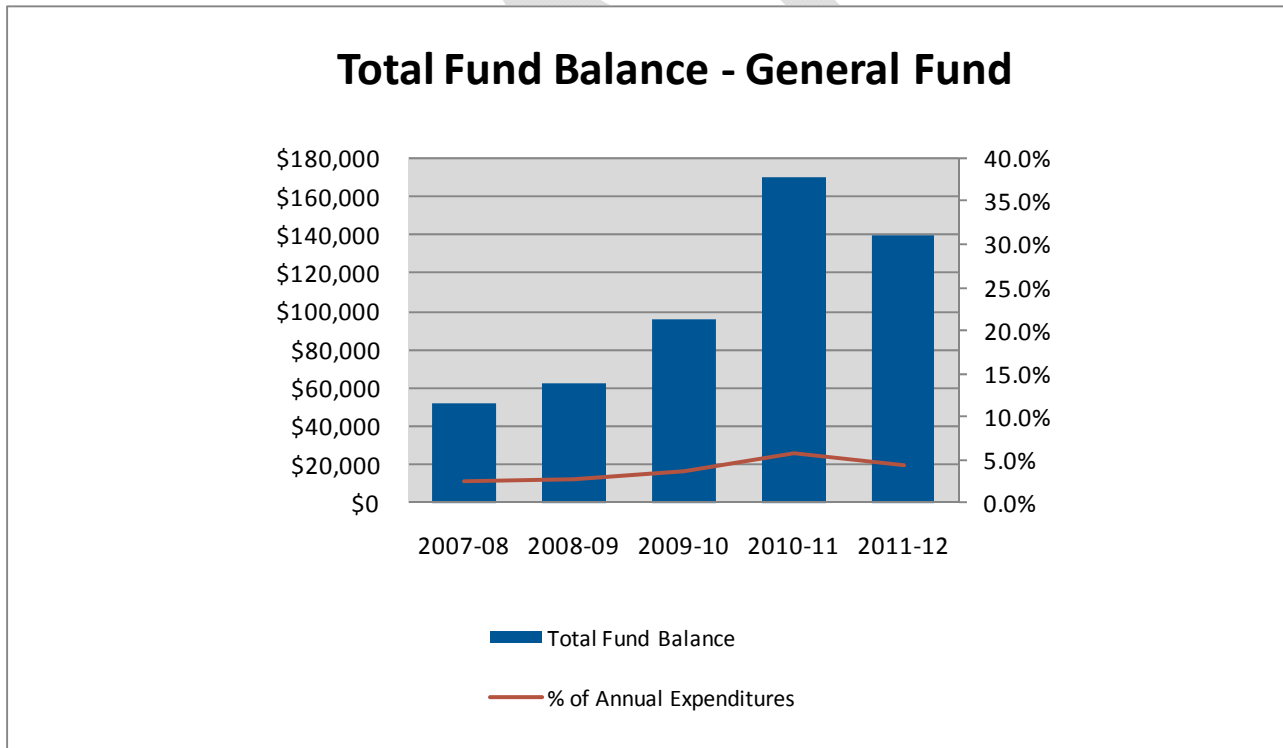
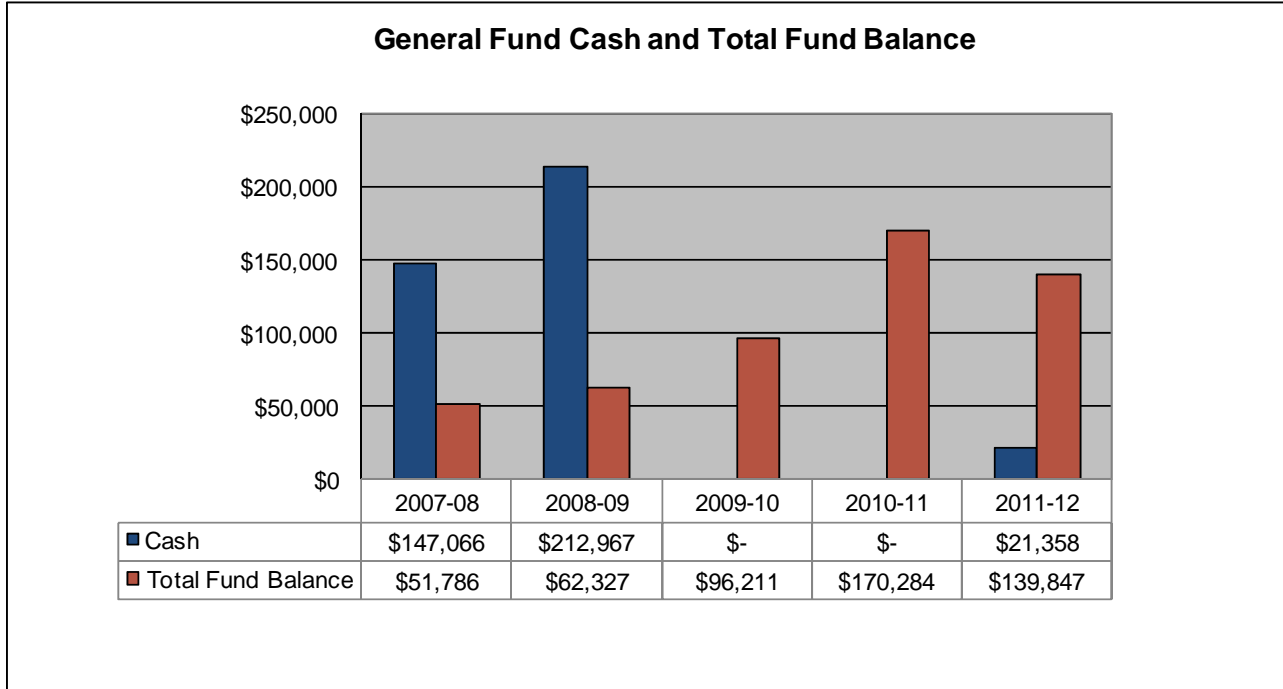
Food Service Fund – Total revenues on a net basis for the Food Service Fund were \$2,678 (or 2.9%) higher than the budgeted amount while total expenditures were \$517 (or 0.6%) lower than budgeted.

Building Company Fund – The financial statements include a subsequent event disclosure that the liabilities of the Building Company were eliminated subsequent to year-end as part of the dissolution of the Building Company.

FINANCIAL TRENDS



FINANCIAL TRENDS (CONTINUED)



APPENDIX A

LEGISLATIVE ACTIVITY

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

General Education Revenue - Formula Allowance

The 2011 Legislature modified the basic formula allowance beginning in fiscal year 2012. The basic formula allowance remained at \$5,124 per pupil unit for fiscal year 2011 and then was increased \$50 (1%) for fiscal years 2012 and 2013 (\$5,174 and \$5,224, respectively). The 2012 Legislature did not change the basic formula allowance.

No changes were made in the calculation of adjusted marginal cost pupil units--grade level pupil unit weightings and the 77% current year / 23% prior year marginal cost pupil unit calculations for declining enrollment schools remain unchanged.

Staff Development Reserve

The staff development reserve that had already been temporarily suspended for fiscal years 2010 and 2011 was also suspended for fiscal years 2012 and 2013. The staff development reserve is equal to 2% of the district's basic general education revenue.

Aid Payment Shifts and Property Tax Shifts

In 2011, the State of Minnesota increased the withholding of state aid payments to school districts and charter schools as a mechanism for balancing their budget. The holdback was increased from 30% to 40% for fiscal year 2012.

In addition to increasing the holdback, the State also changed the metering of payments to charter schools for fiscal year 2012. Charter schools now receive their 60% payments over 16 payments from July through February. There are no payments made for the period March through June. The charter schools then receive 75% of the remaining 40% holdback on July 15th and the final 25% of the holdback on October 30.

Endowment / Permanent School Fund

Effective with the March 2012 payment, charter schools became eligible for payments from the Endowment/Permanent School Fund. Charter schools received about \$12/ADM in fiscal year 2012 and are estimated to receive about \$25/ADM in fiscal year 2013.

Accelerated Cash Flow Payment to Charter Schools Eligibility

A charter school serving fewer than 200 students, instead of 150 students, is allowed to request accelerated special education aid payments from the Commissioner if the percentage of students eligible for special education services equals at least 90% of the school's total enrollment.

Shared Time Aid

State statute was clarified that charter schools are eligible for shared time aid, including shared time aid for home-schooled students. The resident district is required to grant another district or charter school permission to claim shared time students for aid if requested by the nonresident district or charter school (previously, this was optional for the resident district).

LEGISLATIVE ACTIVITY (CONTINUED)

Charter School and Authorizer Provisions

- Allows any approved authorizer, instead of one that has chartered multiple schools, to vote to withdraw as an approved authorizer.
- Directs a charter school to publish and maintain the following on the school's Web site:
 1. minutes from board of director's meetings and meetings of members and committees having board-delegated authority, for at least one calendar year;
 2. directory information for members of the board of directors and of committees having board-delegated authority; and
 3. identifying and contact information for the school's authorizer.
- Strikes the requirement that the ongoing training charter school board members receive be Department-approved. Directs the school to include in its annual report the training attended by each board member during the previous year.
- Allows an initial charter school contract of five years, instead of three years.
- Confirms the length of the school year for charter schools to the length of the school year for traditional public schools by basing it on hours, not days.
- Prohibits an authorizer from assessing a fee for any required services except as already provided in this subdivision.

Affiliated Nonprofit Building Corporations

- Clarifies that an affiliated nonprofit building corporation must comply with applicable Internal Revenue Service regulations, including those for "supporting organizations."
- Directs a charter school to have a plan for the renovation or purchase of an existing facility that describes the parameters and budget for the project if it is organizing an affiliated nonprofit building corporation to renovate or purchase an existing facility.
- Allows for the organization of an affiliated nonprofit building corporation for expanding an existing school facility in addition to constructing a new school facility. Amends the requirement that a school have a net positive unreserved general fund balance for the preceding five, instead of eight, fiscal years. Requires a charter school planning to expand a facility or construct a new facility to have a plan for the expansion or new facility that describes the project parameters and budget.
- Prohibits a charter school or an affiliated nonprofit building corporation from initiating an installment contract for purchase or a lease agreement, or soliciting bids for new construction, expansion, or remodeling of an educational facility that requires an expenditure that exceeds \$1,400,000 unless it receives a positive review and comment from the commissioner.
- Aligns charter school laws for review and comment on school construction/acquisition with traditional school district review and comment laws.

Charter School and District Collaboration

- Allows a charter school board to enter into a two-year renewable agreement to collaborate with a school district to enhance student achievement.
- Requires the charter school to be located within the geographic boundary of the school district.
- Does not require the school district to be an approved authorizer or the charter school's authorizer.
- Allows the agreement to include collaboration regarding facilities, transportation, training, student achievement, assessments, mutual performance standards and other areas of mutual agreement. Allows the school district to include the academic performance of the students of a collaborating charter school site for the purposes of student assessment and reporting to the state.
- States that the parties to the collaborative agreement are equally and collectively subject to the same state and federal accountability measures.



APPENDIX B

FORMAL REQUIRED COMMUNICATIONS

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of North Lakes Academy Charter School for the year ended June 30, 2012, and have issued our report thereon dated December 17, 2012. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated April 25, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

1. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
2. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.
3. We are also responsible for communicating Minnesota legal compliance issues.

Planned scope and timing of the audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 2, 2012.

Significant audit findings

Qualitative aspects of accounting practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2012.

We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Due from Minnesota Department of Education
- Due from Federal through the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets

Management's estimate of Due from Minnesota Department of Education (MDE) is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2011-12. The most significant of these is the aid portion of General education revenue. General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the School. Student attendance is accumulated in a statewide database - MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2012 is not finalized until well into fiscal year 2013. MDE calculates amounts owed to the School for special education excess cost tuition billing and adds the amount to the School's special education aid. Because the tuition amounts are based on estimated information, final entitlements are not expected to be known until well into the following fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from Federal through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2011-12. Many federal entitlements require that supporting financial reporting information be provided both in the UFARS accounting system and also the SERVS reporting system. To the extent that these two separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

Qualitative aspects of accounting practices (continued)

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

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

Difficulties encountered in performing the audit

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

Corrected and uncorrected misstatements

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

Disagreements with management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated December 17, 2012.

Management consultations with other independent accountants

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

Other audit findings or issues

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

Other information in documents containing audited financial statements

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated December 17, 2012.

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

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

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This information is intended solely for the use of the Members of the School Board and management of the North Lakes Academy Charter School and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 17, 2012