

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2012

PREPARED BY

**JAN JENSEN
BUSINESS MANAGER**

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CHARTER SCHOOL NO. 4053
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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, 2012**

SCHOOL BOARD

<u>NAME</u>	<u>BOARD TERM EXPIRES</u>	<u>BOARD POSITION</u>
Sandi Hammersten	November 2012	Chair
Jeffry Beimert	November 2012	Vice Chair
Laura Delvillar	November 2012	Treasurer
Eric Nelson	November 2012	Secretary
Tim Myers	November 2013	Member
Susan Masterjohn	November 2013	Member
Jodie Witte	November 2012	Member
Kerry Huset	November 2013	Member
Scott Maki	November 2013	Member

ADMINISTRATION

Jackie Saunders	Upper School Director
Jonathan Moberg	Middle School Director
Jan Jensen	Business Manager

FINANCIAL SECTION



CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

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

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, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the School's June 30, 2011 financial statements and, in our report dated November 30, 2011, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above, present fairly, in all material respects, the financial position of the governmental activities and each major fund of North Lakes Academy as of June 30, 2012 and the respective changes in financial position, thereof, and the respective budgetary comparison for the General Fund and the Major Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012, on our consideration of the School'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* and should be considered in assessing the results of our audit.

Members of the Board of Education
Charter School No. 4053
North Lakes Academy

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements as a whole. The individual fund information 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. The 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 taken as a whole.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 30, 2012

REQUIRED SUPPLEMENTARY INFORMATION

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

This section of North Lakes Academy – Charter School No. 4053's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the School's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-2012 fiscal year include the following:

- Overall governmental revenues were \$3,282,859 as compared to \$3,338,642 of expenditures.
- Total fund balance of the General Fund decreased \$30,437 from the prior year. General Fund Revenue increased by 3.9% from the prior year while the School experienced a 9.7% 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. Another large factor was the funding costs related to covering cash flow due to the increase in the state hold back shift.
- The School decreased its net long-term debt by \$42,360.

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, 2012**

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 assets includes *all* of the School's assets and liabilities. 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 assets* and how they have changed. Net assets – the difference between the School's assets and liabilities – are one way to measure the School's financial health or *position*.

- Over time, increases or decreases in the School's net assets 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, 2012**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Assets

The School's *combined* net assets were \$(357,476) on June 30, 2012. This is an decrease of \$2,514 from the previous year (see Table A-1).

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

	Governmental Activities		Percentage Change
	2012	2011	
Current and Other Assets	\$ 1,232,667	\$ 1,023,394	20.4 %
Capital and Non-Current Assets	120,047	143,709	(16.5)
Total Assets	<u>1,352,714</u>	<u>1,167,103</u>	15.9
Current Liabilities	1,520,580	1,278,904	18.9
Long-Term Liabilities	189,610	243,161	(22.0)
Total Liabilities	<u>1,710,190</u>	<u>1,522,065</u>	12.4
Net Assets (Deficit):			
Invested in Capital Assets			
Net of Related Debt	74,838	94,706	(21.0)
Restricted	12,061	4,410	173.5
Unrestricted	(444,375)	(454,078)	(2.1)
Total Net Assets (Deficit)	<u>\$ (357,476)</u>	<u>\$ (354,962)</u>	0.7

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

Changes in Net Assets

The School's total revenues were \$3,298,835 for the year ended June 30, 2012. State formula aid, unrestricted accounted for 67% of total revenue for the year (see Figure A-1 on the next page). Another 27% came from Operating Grants (which includes Federal Aid), and the remainder from program revenues and other general revenues.

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

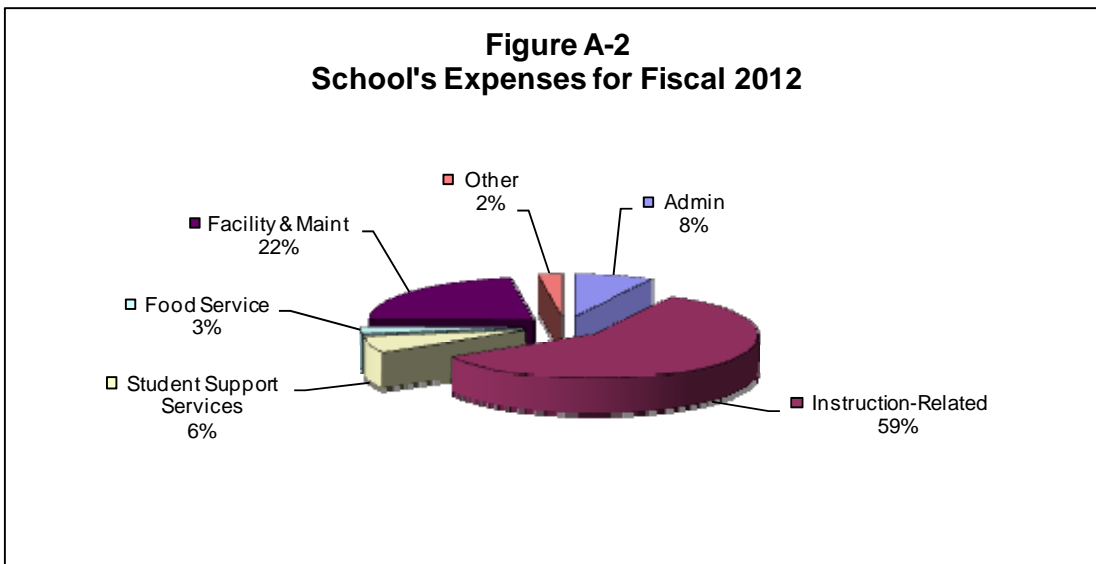
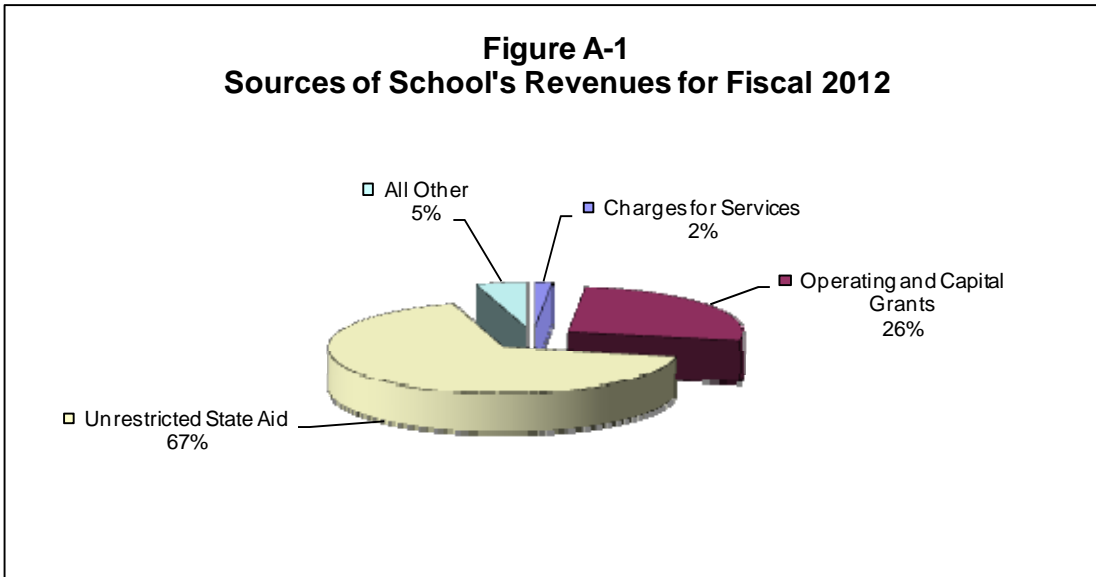
	Governmental Activities for the Fiscal Year Ended June 30,		Total % Change
	2012	2011	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 52,429	\$ 54,492	(3.8)%
Operating Grants and Contributions	876,456	970,669	(9.7)
<u>General Revenues</u>			
Unrestricted State Aid	2,216,321	2,051,724	8.0
Investment Earnings	222	176	26.1
Gain from Debt Extinguishment	-	-	N/A
Other	153,407	87,587	75.1
Total Revenues	<u>3,298,835</u>	<u>3,164,648</u>	4.2
Expenses			
Administration	257,950	260,990	(1.2)
District Support Services	185,667	165,942	11.9
Regular Instruction	1,537,773	1,284,374	19.7
Vocational Education Instruction	156	-	N/A
Special Education Instruction	408,353	340,933	19.8
Instructional Support Services	1,737	713	143.6
Pupil Support Services	6,132	559	997.0
Sites and Buildings	741,022	817,490	(9.4)
Fiscal and Other Fixed Cost Programs	7,487	6,351	17.9
Food Service	86,607	92,005	(5.9)
Interest and Fiscal Charges on Long-Term Liabilities	68,465	83,545	(18.1)
Total Expenses	<u>3,301,349</u>	<u>3,052,902</u>	8.1
Change in Net Assets (Deficit)	(2,514)	111,746	(102.2)
Beginning Net Assets (Deficit)	(354,962)	(466,708)	(23.9)
Ending Net Assets (Deficit)	<u>\$ (357,476)</u>	<u>\$ (354,962)</u>	0.7

The total cost of all programs and services was \$3,301,349, of which approximately 68% of the School's costs were predominately related to educating and caring for students. Total expenses surpassed revenues for the year which decreased net assets by \$2,514 from the prior year.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

The cost of all *governmental* activities this year was \$3,301,349.

- The federal and state governments subsidized certain programs with contributions. (\$876,456).
- 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, 2012**

Student support services and instruction-related expenses, when combined, show that 64.8% 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
	2012	2011		2012	2011	
Administration	\$ 257,950	\$ 260,990	(1.2)%	\$ 257,950	\$ 260,990	(1.2)%
District Support Services	185,667	165,942	11.9	185,667	165,942	11.9
Regular Instruction	1,537,773	1,284,374	19.7	1,492,683	1,197,992	24.6
Special Education Instruction	408,353	340,933	19.8	108,030	(82,989)	(230.2)
Instructional Support Services	1,737	713	143.6	1,737	713	143.6
Pupil Support Services	6,132	559	997.0	6,132	559	997.0
Sites and Buildings	741,022	817,490	(9.4)	251,808	398,929	(36.9)
Fiscal and Other Fixed Cost Programs	7,487	6,351	17.9	7,487	6,351	17.9
Food Service	86,607	92,005	(5.9)	(7,651)	(4,291)	78.3
Interest and Fiscal Charges on Long-Term Liabilities	68,465	83,545	(18.1)	68,465	83,545	(18.1)
Total	<u>\$ 3,301,349</u>	<u>\$ 3,052,902</u>	8.1	<u>\$ 2,372,464</u>	<u>\$ 2,027,741</u>	17.0

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 deficit of \$221,405, which is \$21,286 less than last year's ending fund balance of (\$200,119).

Revenues and other financing sources for the School's governmental funds were \$3,318,856 while total expenditures and other financing uses were \$3,340,142.

GENERAL FUND

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

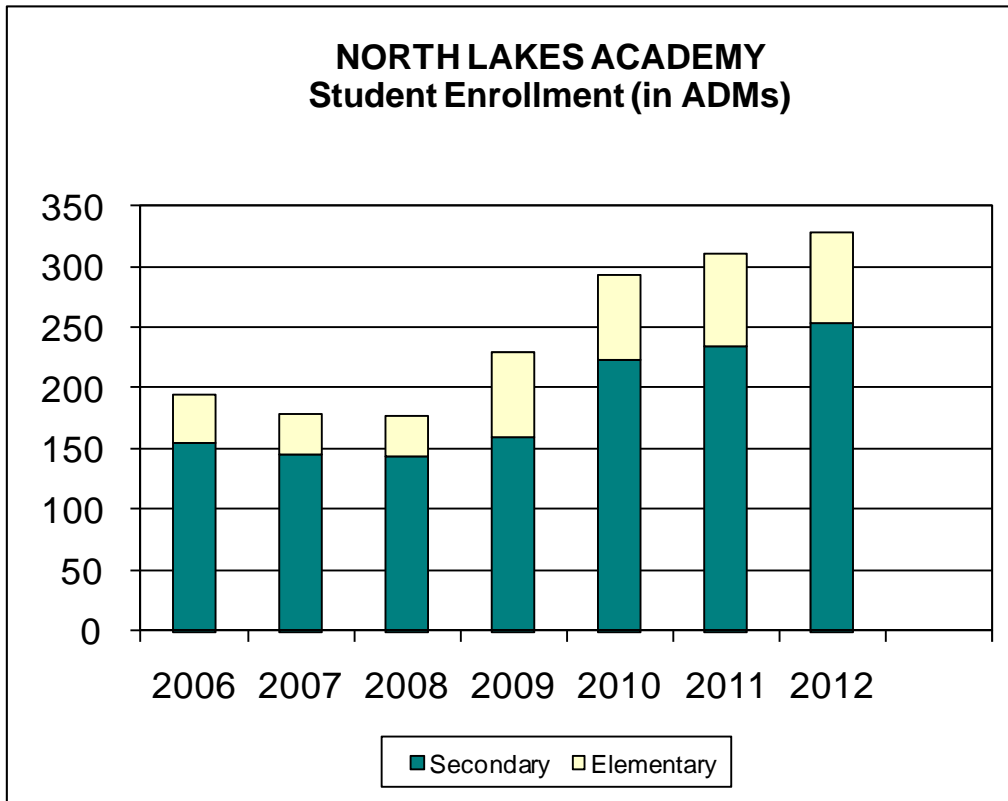
Approximately 65% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model 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, 2012**

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 an additional 18 students in fiscal 2011-12.

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



Over the last eight years, the School has experienced an increase in average daily membership of 174 students or 113%. With our School expanded to include grades 5 through 12 it is anticipated that the recent trend of increasing enrollment will continue until we reach our maximum capacity of 480 students. The School is developing 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, 2012**

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2012	June 30, 2011	Increase (Decrease)	Percent
Local Sources:				
Earnings on Investments	\$ 222	\$ 176	\$ 46	26.1 %
Other	137,431	87,587	49,844	56.9
State Sources	2,949,870	2,803,255	146,615	5.2
Federal Sources	101,078	177,334	(76,256)	(43.0)
Total General Fund Revenue	<u>\$ 3,188,601</u>	<u>\$ 3,068,352</u>	<u>\$ 120,249</u>	3.9

Total General Fund Revenue increased by \$120,249 or 3.9% 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, 2012	June 30, 2011		
Salaries	\$ 1,654,893	\$ 1,552,075	\$ 102,818	6.6%
Employee Benefits	432,750	424,738	8,012	1.89
Purchased Services	900,956	748,604	152,352	20.35
Supplies and Materials	95,999	66,507	29,492	44.34
Capital Expenditures	31,307	36,006	(4,699)	(13.05)
Other Expenditures	136,130	136,081	49	-
Total Expenditures	<u>\$ 3,252,035</u>	<u>\$ 2,964,011</u>	<u>\$ 288,024</u>	9.72

Total General Fund Expenditures increased \$288,024 or 9.7% over the previous year. This increase is directly attributable to two main factors:

- 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).
- Costs associated with the selling of receivables to cover the cash flow issues caused by the increase in the state holdback revenue shift.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

In fiscal 2012, salaries increased 6.6% due in part to 2.67 teaching positions and one special education paraprofessional being added for the 2012 school year. The increase in employee benefits expenditures is a result of the additional staff being added to the insurances and an increase in the percentage that is required by law to pay to TRA benefits for our employees. We had an excellent renewal rate for our medical insurance which was actually a reduction in rates. 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, Occupational Therapist and Autism Specialist) along with some additional legal fees and an authorizer fee that was new to us this year. Our utilities increased by \$11,503 and our maintenance charges increased by \$14,997 because of the additional square footage and renovations done at our South campus. We purchased \$556 less in technology related items in 2012 than in 2011 but our costs increased for furniture and equipment by \$7,869, due to the purchase of a phone system and sign for our south campus and also additions to the Music programs.

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 2011-12, General Fund expenditures and other financing uses exceeded General Fund revenues and other financing sources by \$30,437. The total fund balance of the General Fund decreased from \$170,284 at June 30, 2011 to \$139,847 at June 30, 2012.

Fund balance is the single best measure of overall financial health. The fund balance of the General Fund at June 30, 2012, represents a surplus of 4.30% 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 \$82,033 lower than the budget, due mostly to an adjustment to our state special education funding from the previous year. The actual expenditures were \$35,064 higher than our final budget due mostly to the costs we needed to incur to fund the state holdback.

While the School's final budget for the General Fund anticipated that revenues would exceed expenditures by \$69,639, the actual results for the year show that expenditures and other financing uses exceeded revenues and other financing sources by \$30,437.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

OTHER MAJOR FUNDS

The fund balance of the NLA Building Company is negative \$373,313 at year-end. The Building Company was dissolved as a separate legal entity subsequent to year-end.

CAPITAL ASSET AND DEBT ADMINISTRATION

By the end of 2012, the School had invested \$660,674 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 \$52,550. The majority of our capital assets are midway through their life expectancy.

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

	2012	2011	Percentage Change
Leasehold Improvements	\$ 233,628	\$ 233,628	-
Equipment	266,264	255,897	4.1
Equipment Under Capital Lease	160,782	142,261	13.0
Less: Accumulated Depreciation	(540,627)	(488,077)	10.8
Total	<u>\$ 120,047</u>	<u>\$ 143,709</u>	(16.5)

Long-Term Debt

At year-end, the School had a \$210,643 promissory note outstanding – a decrease of 15.5% 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 will continue to add some extra costs associated with expansion in 2012 and beyond.

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

	2012	2011	Percentage Change
Obligations Under Capital Leases	\$ 45,209	\$ 49,003	(0.1)%
Promissory Note Payable	210,643	249,209	(15.5)
Total	<u>\$ 255,852</u>	<u>\$ 298,212</u>	(14.2)
 Long-Term Liabilities:			
Due Within One Year	\$ 66,242	\$ 55,051	
Due in More Than One Year	189,610	243,161	
Total	<u>\$ 255,852</u>	<u>\$ 298,212</u>	

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012**

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. Fiscal year 2012 was especially challenging due to the additional 10% state holdback of State General Education funding sources. Even though the state withholding of aid posed a huge cashflow challenge, we were able to secure short-term financing based on our state receivables from Charter School Capital Inc. which enabled us to pay our employees and vendors in a timely fashion.

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 cashflow 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 328 students enrolled for fiscal year 2012. It is expected that increases in enrollment will assist in supporting the planned level of expenditures and increase net assets in the statement of net assets for fiscal year 2013.

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, 255B NW 7th Avenue, Forest Lake, MN 55025.

BASIC FINANCIAL STATEMENTS

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
STATEMENT OF NET ASSETS
JUNE 30, 2012
(WITH COMPARATIVE DATA AS OF JUNE 30, 2011)**

	Governmental Activities	
	2012	2011
ASSETS		
Cash and Investments	\$ 64,203	\$ 156,570
Receivables:		
Other Governments	1,139,448	859,367
Other	2,526	1,049
Prepaid Items	26,490	6,408
Capital Assets, Net of Depreciation	120,047	143,709
Total Assets	1,352,714	1,167,103
LIABILITIES		
Short-Term Borrowing	702,568	555,455
Salaries Payable	269,645	257,243
Accounts and Contracts Payable	457,633	406,925
Accrued Interest	24,492	4,230
Long-Term Liabilities:		
Portion Due Within One Year	66,242	55,051
Portion Due in More Than One Year	189,610	243,161
Total Liabilities	1,710,190	1,522,065
NET ASSETS (DEFICIT)		
Invested in Capital Assets, Net of Related Debt	74,838	94,706
Restricted for:		
Food Service	12,061	4,410
Unrestricted	(444,375)	(454,078)
Total Net Deficit	\$ (357,476)	\$ (354,962)

See accompanying Notes to Basic Financial Statements.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

Functions	2012			2011	
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities	Total Governmental Activities
Governmental Activities					
Administration	\$ 257,950	\$ -	\$ -	\$ (257,950)	\$ (260,990)
District Support Services	185,667	-	-	(185,667)	(165,942)
Regular Instruction	1,537,773	-	45,090	(1,492,683)	(1,197,992)
Special Education Instruction	408,353	-	300,323	(108,030)	82,989
Instructional Support Services	1,737	-	-	(1,737)	(713)
Pupil Support Services	6,132	-	-	(6,132)	(559)
Sites and Buildings	741,022	-	489,214	(251,808)	(398,929)
Fiscal and Other Fixed Cost Programs	7,487	-	-	(7,487)	(6,351)
Food Service	86,607	52,429	41,829	7,651	4,291
Interest and Fiscal Charges on Long-Term Liabilities	68,465	-	-	(68,465)	(83,545)
Total School District	<u>\$ 3,301,349</u>	<u>\$ 52,429</u>	<u>\$ 876,456</u>	<u>(2,372,464)</u>	<u>(2,027,741)</u>
General Revenues					
State Aid Not Restricted to Specific Purposes				2,216,321	2,051,724
Earnings on Investments				222	176
Miscellaneous				153,407	87,587
Total General Revenues				<u>2,369,950</u>	<u>2,139,487</u>
Change in Net Assets				(2,514)	111,746
Net Assets (Deficit) - Beginning				(354,962)	(466,708)
Net Assets (Deficit) - Ending				<u>\$ (357,476)</u>	<u>\$ (354,962)</u>

See accompanying Notes to Basic Financial Statements.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012
(WITH COMPARATIVE DATA AS OF JUNE 30, 2011)**

	Major Funds			Total Governmental	
	General	Food Service	Building Company	2012	2011
ASSETS					
Cash and Investments	\$ 53,150	\$ 11,053	\$ -	\$ 64,203	\$ 156,570
Receivables:					
Due from Minnesota Department of Education	1,101,448	83	-	1,101,531	830,718
Due from Federal through Minnesota Department of Education	37,073	844	-	37,917	28,649
Other Receivables	2,505	21	-	2,526	1,049
Prepaid Items	26,420	70	-	26,490	6,408
Total Assets	\$ 1,220,596	\$ 12,071	\$ -	\$ 1,232,667	\$ 1,023,394
LIABILITIES AND FUND BALANCE (DEFICIT)					
Liabilities:					
Short-Term Borrowing	\$ 702,568	\$ -	\$ -	\$ 702,568	\$ 555,455
Salaries Payable	209,504	-	-	209,504	198,772
Payroll Deductions and Employer Contributions Payable	60,131	10	-	60,141	58,471
Accounts and Contracts Payable	84,320	-	373,313	457,633	406,925
Accrued Interest Payable	24,226	-	-	24,226	3,890
Total Liabilities	1,080,749	10	373,313	1,454,072	1,223,513
Fund Balance (Deficit):					
Nonspendable	26,420	70	-	26,490	6,408
Restricted for Food Service	-	11,991	-	11,991	4,340
Unassigned	113,427	-	(373,313)	(259,886)	(210,867)
Total Fund Balance (Deficit)	139,847	12,061	(373,313)	(221,405)	(200,119)
Total Liabilities and Fund Balance (Deficit)	\$ 1,220,596	\$ 12,071	\$ -	\$ 1,232,667	\$ 1,023,394

See accompanying Notes to Basic Financial Statements.

**NORTH LAKES ACADEMY
 CHARTER SCHOOL NO. 4053
 RECONCILIATION OF THE BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 GOVERNMENTAL FUNDS
 JUNE 30, 2012
 (WITH COMPARATIVE DATA AS OF JUNE 30, 2011)**

	2012	2011
Total Fund Balance (Deficit) for Governmental Funds	\$ (221,405)	\$ (200,119)
<p>Total net assets reported for governmental activities in the statement of net assets 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>		
Leasehold Improvements, Net of Accumulated Depreciation	38,100	63,117
Equipment, Net of Accumulated Depreciation	81,947	80,592
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p>		
	(266)	(340)
<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 assets. Balances at year-end are:</p>		
Promissory Note Payable	(210,643)	(249,209)
Obligations Under Capital Leases	(45,209)	(49,003)
Net Assets (Deficit) of Governmental Activities	\$ (357,476)	\$ (354,962)

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, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

	Major Funds			Total Governmental Funds	
	General	Food Service	Building Company	2012	2011
REVENUES					
Local Sources:					
Earnings on Investments	\$ 222	\$ -	\$ -	\$ 222	\$ 176
Other	137,431	52,429	-	189,860	142,079
State Sources	2,949,870	3,994	-	2,953,864	2,807,094
Federal Sources	101,078	37,835	-	138,913	215,299
Total Revenues	<u>3,188,601</u>	<u>94,258</u>	<u>-</u>	<u>3,282,859</u>	<u>3,164,648</u>
EXPENDITURES					
Current:					
Administration	257,277	-	-	257,277	259,198
District Support Services	185,348	-	-	185,348	165,623
Regular Instruction	1,519,997	-	-	1,519,997	1,455,503
Vocational Education Instruction	156	-	-	156	-
Special Education Instruction	403,850	-	-	403,850	341,266
Instructional Support Services	1,737	-	-	1,737	713
Pupil Support Services	6,132	-	-	6,132	559
Sites and Buildings	709,324	-	-	709,324	568,580
Fiscal and Other Fixed Cost Programs	7,487	-	-	7,487	6,351
Food Service	-	86,607	-	86,607	92,005
Capital Outlay	31,307	-	-	31,307	36,006
Debt Service:					
Principal	58,317	-	-	58,317	46,667
Interest and Fiscal Charges	71,103	-	-	71,103	83,545
Total Expenditures	<u>3,252,035</u>	<u>86,607</u>	<u>-</u>	<u>3,338,642</u>	<u>3,056,016</u>
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(63,434)	7,651	-	(55,783)	108,632
OTHER FINANCING SOURCES (USES)					
Capital Lease Proceeds	18,521	-	-	18,521	34,469
Insurance Recovery Proceeds	15,976	-	-	15,976	-
Transfers In	-	-	1,500	1,500	64,737
Transfers Out	(1,500)	-	-	(1,500)	(64,737)
Total Other Financing Sources	<u>32,997</u>	<u>-</u>	<u>1,500</u>	<u>34,497</u>	<u>34,469</u>
Net Change in Fund Balance	(30,437)	7,651	1,500	(21,286)	143,101
Fund Balance (Deficit) - Beginning	<u>170,284</u>	<u>4,410</u>	<u>(374,813)</u>	<u>(200,119)</u>	<u>(343,220)</u>
Fund Balance (Deficit) - Ending	<u>\$ 139,847</u>	<u>\$ 12,061</u>	<u>\$ (373,313)</u>	<u>\$ (221,405)</u>	<u>\$ (200,119)</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, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

	2012	2011
Net Change in Fund Balance (Deficit) - Total Governmental Funds	\$ (21,286)	\$ 143,101

Amounts reported for governmental activities in the statement of activities are different because:

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.

Capital Outlays	28,888	37,587
Gain (Loss) on Disposal of Capital Assets	-	(2,021)
Depreciation Expense	(52,550)	(79,119)

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 assets, 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 assets.

Other Financing Source - Capital Lease	(18,521)	(34,469)
Change in Accrued Interest Expense - Capital Leases	37	(34)
Principal Payments - Capital Leases	22,315	10,610

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 assets, 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 issuance costs and premiums when debt is first issued, whereas these amounts are deferred and 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:

Repayment of Loan Principal	38,566	36,057
Change in Accrued Interest Expense - Capital Loans	37	34
Change in Net Assets (Deficit) of Governmental Activities	\$ (2,514)	\$ 111,746

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, 2012**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings on Investments	\$ 500	\$ 250	\$ 222	\$ (28)
Other	98,465	135,069	137,431	2,362
State Sources	2,923,814	3,030,971	2,949,870	(81,101)
Federal Sources	88,848	104,344	101,078	(3,266)
Total Revenues	3,111,627	3,270,634	3,188,601	(82,033)
EXPENDITURES				
Current:				
Administration	260,499	256,761	257,277	516
District Support Services	183,055	190,265	185,348	(4,917)
Elementary and Secondary Regular Instruction	1,526,763	1,523,328	1,519,997	(3,331)
Vocational Education Instruction	5,000	412	156	(256)
Special Education Instruction	316,947	399,818	403,850	4,032
Instructional Support Services	600	1,147	1,737	590
Pupil Support Services	6,226	6,187	6,132	(55)
Sites and Buildings	645,417	711,915	709,324	(2,591)
Fiscal and Other Fixed Cost Programs	6,450	6,335	7,487	1,152
Capital Outlay	39,459	34,583	31,307	(3,276)
Debt Service:				
Principal	-	38,346	58,317	19,971
Interest and Fiscal Charges	119,586	47,874	71,103	23,229
Total Expenditures	3,110,002	3,216,971	3,252,035	35,064
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,625	53,663	(63,434)	(117,097)
OTHER FINANCING SOURCES (USES)				
Capital Lease Proceeds	-	-	18,521	18,521
Insurance Recovery Proceeds	-	15,976	15,976	-
Transfers Out	-	-	(1,500)	(1,500)
Total Other Financing Sources	-	15,976	32,997	17,021
Net Change in Fund Balance	\$ 1,625	\$ 69,639	(30,437)	\$ (100,076)
FUND BALANCE				
Beginning of Year			170,284	
End of Year			\$ 139,847	

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, 2012**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Other - Primarily Meal Sales	\$ 53,650	\$ 50,500	\$ 52,429	\$ 1,929
State Sources	3,575	3,935	3,994	59
Federal Sources	36,775	37,145	37,835	690
Total Revenues	94,000	91,580	94,258	2,678
EXPENDITURES				
Current:				
Food Service	94,000	87,124	86,607	(517)
Excess of Revenues Over Expenditures	\$ -	\$ 4,456	7,651	\$ 3,195
FUND BALANCE				
Beginning of Year			4,410	
End of Year			\$ 12,061	

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, 2012**

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, 2015. 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. The board terms are as follows: three teachers with three-year terms, one teacher with a one-year term, two parents with three-year terms, and one parent with a one-year term.

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.

Based on these criteria, there is one organization that is considered to be a component unit of the School. NLA Building Company (the Building Company) is a Minnesota non-profit corporation holding IRS classification as a 501(c)(3) tax exempt organization which is intended to own the real estate and building that is leased by the School for its operations. The Building Company is governed by a separate board appointed by the board of the School.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

Although it is legally separate from the School, the Building Company is reported as if it were part of the School (as a blended component unit) because its sole purpose is to acquire, construct and own an educational site. No building has been acquired and no financing has been arranged as of the report date.

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. Basic Financial Statement Presentation

The School-wide financial statements (i.e. the Statement of Net Assets 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 assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

D. 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.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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.

The School may report deferred revenue on its statement of net assets and balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the School has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets or the balance sheet and revenue is recognized.

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, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. 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.

Building Company Special Revenue Fund

The Building Company Fund accounts for all activities of NLA Building Company. Primary revenue sources in the Building Company were intended to be from rent received, investments earnings, and donations.

E. 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.

F. 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.

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.

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.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. 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.

H. 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. Certain accounts receivable have been factored during the year (see Note 5).

I. 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.

J. 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.

K. 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 to employees.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned and unassigned fund balances. Nonspendable portions of fund balance related to prepaids, inventories, long term receivables, and corpus on any permanent fund. Restricted funds are constrained from 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.

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.

M. 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.

N. Net Assets

Net assets represent the difference between assets and liabilities in the School-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulation depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are 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.

O. Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the School's financial position and operations. Certain comparative information has been reclassified to conform to the current year presentation.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget and Fund Balance Deficits

Expenditures exceeded budgeted amounts in the following funds at June 30, 2012.

	Budget	Expenditures	Excess
General Fund	\$ 3,216,971	\$ 3,252,035	\$ 35,064

The overages were considered by School management to be the result of necessary expenditures critical to operations and were approved by the Board.

NOTE 3 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 assets 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.

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, 2012 are as follows:

	Bank Balance	Carrying Amount
Insured	\$ 139,636	\$ 64,203

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Being Depreciated:				
Leasehold Improvements	\$ 233,628	\$ -	\$ -	\$ 233,628
Equipment	255,897	10,367	-	266,264
Equipment Under Capital Lease	142,261	18,521	-	160,782
Total Capital Assets, Being Depreciated	631,786	28,888	-	660,674
Accumulated Depreciation for:				
Leasehold Improvements	(170,511)	(25,017)	-	(195,528)
Equipment	(227,915)	(13,456)	-	(241,371)
Equipment Under Capital Lease	(89,651)	(14,077)	-	(103,728)
Total Accumulated Depreciation	(488,077)	(52,550)	-	(540,627)
Total Capital Assets, Being Depreciated, Net	143,709	(23,662)	-	120,047
Governmental Activities Capital Assets, Net	<u>\$ 143,709</u>	<u>\$ (23,662)</u>	<u>\$ -</u>	<u>\$ 120,047</u>

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

Governmental Activities	
Administration	\$ 673
District Support Services	319
Regular Instruction	20,274
Special Education Instruction	2,005
Sites and Buildings	29,279
Total Depreciation Expense, Governmental Activities	<u>\$ 52,550</u>

NOTE 5 SHORT-TERM DEBT

Line of Credit Agreement

The School's line of credit of \$75,000 expired on June 1, 2011. The School renewed the line of credit until December 1, 2011, at an interest rate of 6.25%. This line of credit was renewed with the same credit limit and interest rate and matures on December 1, 2012. The line of credit is secured by all assets of the School and is subordinated debt.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 SHORT-TERM DEBT (CONTINUED)

Collateralized Receivables

The School collateralized receivables to Charter School Capital Inc. (CSC). The receivables were sold based on agreements that were initiated as noted below. The actual cash transaction draws took place as needed for cashflow purposes by the School. For purposes of allocating the costs of borrowing between fiscal years, the net difference between cash received and the receivables remitted to CSC, in addition to any fees required, are spread across fiscal years based on the proportionate number of days of borrowing in each respective period. For fiscal 2012, a total cost of borrowing from CSC was \$46,020. The collateralized receivables are secured by all assets of the School.

Changes in short-term debt are as follows:

	2011	Additions	Retirements	2012
Line of Credit	\$ 63,000	\$ 28,500	\$ 16,500	\$ 75,000
CSC Factored Receivables, initiated January 2011	108,234	-	108,234	-
CSC Factored Receivables, initiated April 2011	246,676	-	246,676	-
CSC Factored Receivables, initiated June 2011	137,545	-	137,545	-
CSC Factored Receivables, initiated April 2012	-	627,568	-	627,568
	<u>\$ 555,455</u>	<u>\$ 656,068</u>	<u>\$ 508,955</u>	<u>\$ 702,568</u>

NOTE 6 LONG-TERM DEBT

Promissory Note and Capital Lease Payable

During fiscal 2011, the School entered into a lease for computer equipment for \$34,469. This was in addition to two leases from 2010 for additional computer equipment and a floor scrubber. The new lease includes monthly payments of \$790 through fiscal 2015 while the prior leases monthly payments of \$599 and \$202, respectively, are due monthly through fiscal 2013.

During fiscal 2012, the School entered into a capital lease of computer equipment. The new lease requires annual payments of \$6,841.

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 requires monthly payments of \$4,541 from February 2009 through January 2014. The loan is secured by all business assets of the School.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 LONG-TERM DEBT (CONTINUED)

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</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 41,619	\$ 12,875
2014	169,024	6,185
Total	<u>\$ 210,643</u>	<u>\$ 19,060</u>

Following are maturities of capital leases payable for North Lakes Academy for the years ending June 30:

<u>Year Ending June 30,</u>	<u>Capital Leases Payable Amount</u>
2013	\$ 26,848
2014	16,327
2015	5,534
Total Minimum Lease Payments	<u>48,709</u>
Less: Amounts Representing Interest	<u>(3,500)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 45,209</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	\$ 49,003	\$ 18,521	\$ (22,315)	\$ 45,209	\$ 24,623
Promissory Note	249,209	-	(38,566)	210,643	41,619
Total Governmental Activity					
Long-Term Liabilities	<u>\$ 298,212</u>	<u>\$ 18,521</u>	<u>\$ (60,881)</u>	<u>\$ 255,852</u>	<u>\$ 66,242</u>

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 RETIREMENT PLANS

Substantially all employees of the School are required by State Law to belong to a pension plan 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. Teacher's Retirement Association (TRA)

1. Plan Description

All teachers employed by the School are covered by a cost sharing, multiple employer defined benefit pension plan administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive Suite 400
St. Paul, MN 55103-1855
(651) 296-6449
800-657-3853

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 6.0% and 9.5%, respectively, of their annual covered salary during fiscal year 2012 as employee contributions.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 RETIREMENT PLANS (CONTINUED)

A. Teacher's Retirement Association (TRA) (Continued)

2. Funding Policy (Continued)

The School is required to contribute the following percentages of annual covered payroll: 6.0% for Coordinated Plan members and 10.0% for Basic Plan members during fiscal year 2012. The contribution requirements of plan members and the School are established and may be amended by state statute. The School contributions for the years ended June 30, 2012, 2011 and 2010 were \$85,326, \$73,896 and \$65,953, respectively, equal to the required contributions for each year as set by state statute.

The 2010 legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5% each year of the four-year period. Beginning July 1, 2014, TRA Coordinated employee and employer contribution rates will each be 7.5%.

B. Public Employees' Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the School (other than teachers) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. 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. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement 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.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 7 RETIREMENT PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA) (Continued)

1. Plan Description (Continued)

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERS. That report may be obtained on the Internet at www.mnpera.org. Alternatively, a copy of the report may be obtained by writing or calling PERA:

Public Employees' Retirement Association
60 Empire Drive Suite 200
St. Paul MN 55103-2088
651-296-7460
800-652-9026

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for the employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2012.

The School is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan GERS members and 7.25% for Coordinated Plan members.

The School's contributions to the Public Employees Retirement Fund for the years ended June 30, 2012, 2011 and 2010 were \$16,750, \$15,276 and \$15,027, respectively. The School's contributions were equal to the contractually required contributions for each year as set by state statute.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 8 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.

Starting in September 2009 the School signed a lease for a second site at 308 SW 15th Street, Forest Lake, Minnesota. On May 16, 2011, the School signed a lease for this site, which commenced on July 1, 2011, and terminated on June 30, 2012. Total yearly rent under this agreement was \$199,451. On February 15, 2012, the School signed a lease extension for this site, which commences on July 1, 2012 and terminates on June 30, 2013. Since the amount of lease area increased significantly, the total yearly rent increased to \$302,000.

For fiscal 2012, the School qualified for lease aid which equaled 90% of the \$550,712 MDE-approved lease cost or \$495,640. 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.

The School also leases a postage meter with monthly payments of \$208. The lease ends in June 2012. In February 2009, the School signed a five-year copier lease. The School is required to make 10 payments per year of \$477, which includes maintenance costs and a guaranteed 45,000 images a month.

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 9 INTERFUND TRANSFER

The School had a receivable from the Building Company of \$1,500 for legal retainer fee costs that the School paid for the Building Company relating to legal services for the dissolution of the Building Company. As the Building Company had a negative fund balance and no recent activity, the School has forgiven the receivable through an interfund transfer during the fiscal year ended June 30, 2012.

NOTE 10 SUBSEQUENT EVENT

On November 14, 2012, a filing was made with the Minnesota Secretary of State for the dissolution of Non-profit Corporation for the NLA Building Company (the Building Company). As part of the dissolution process public notice was filed for a period of ninety days for creditors to file claims with the Building Company, however, no such claims were filed. Since the Building Company has no property or assets to distribute and no claims were made by creditors, the Building Company is considered dissolved as of the filing date with the Minnesota Secretary of State. All liabilities of the Building Company will be removed from the balance sheet of the Building Company during fiscal year 2013 and proceeds from debt forgiveness will be recorded to eliminate the negative fund balance of \$373,313.

SUPPLEMENTARY INFORMATION

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
GENERAL FUND
BALANCE SHEET
JUNE 30, 2012
(WITH COMPARATIVE DATA AS OF JUNE 30, 2011)**

	2012	2011
ASSETS		
Cash and Investments	\$ 53,150	\$ 148,817
Receivables:		
Accounts and Interest Receivable	2,505	1,049
Due from Minnesota Department of Education	1,101,448	830,718
Due from Federal through the Minnesota Department of Education	37,073	28,649
Prepaid Items	26,420	6,338
Total Assets	\$ 1,220,596	\$ 1,015,571
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Short-Term Borrowing	\$ 702,568	\$ 555,455
Salaries Payable	209,504	198,772
Payroll Deductions and Employer Contributions Payable	60,131	58,414
Accounts and Contracts Payable	84,320	28,756
Interest Payable	24,226	3,890
Total Liabilities	1,080,749	845,287
Fund Balance:		
Nonspendable	26,420	6,338
Unassigned	113,427	163,946
Total Fund Balance	139,847	170,284
Total Liabilities and Fund Balance	\$ 1,220,596	\$ 1,015,571

**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, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

	2012		Over (Under) Final Budget	2011
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Earnings on Investments	\$ 250	\$ 222	\$ (28)	\$ 176
Other	135,069	137,431	2,362	87,587
State Sources	3,030,971	2,949,870	(81,101)	2,803,255
Federal Sources	104,344	101,078	(3,266)	177,334
Total Revenues	3,270,634	3,188,601	(82,033)	3,068,352
EXPENDITURES				
Current:				
Administration:				
Salaries	211,954	212,451	497	210,778
Employee Benefits	44,307	44,393	86	48,142
Purchased Services	100	160	60	198
Supplies and Materials	400	273	(127)	80
Capital Expenditures	-	-	-	1,082
Total Administration	256,761	257,277	516	260,280
District Support Services:				
Salaries	88,198	88,198	-	79,868
Employee Benefits	30,212	30,193	(19)	28,591
Purchased Services	65,650	60,955	(4,695)	51,610
Supplies and Materials	750	547	(203)	725
Other Expenditures	5,455	5,455	-	4,829
Total District Support Services	190,265	185,348	(4,917)	165,623
Elementary and Secondary Regular Instruction:				
Salaries	1,092,195	1,095,217	3,022	1,047,760
Employee Benefits	283,490	283,637	147	277,318
Purchased Services	84,905	83,029	(1,876)	75,217
Supplies and Materials	61,483	56,859	(4,624)	54,168
Capital Expenditures	26,491	23,315	(3,176)	31,487
Other Expenditures	1,255	1,255	-	1,040
Total Elementary and Secondary Regular Instruction	1,549,819	1,543,312	(6,507)	1,486,990

**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, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

	2012		Over (Under) Final Budget	2011	
	Final Budget	Actual Amounts		Actual Amounts	Actual Amounts
EXPENDITURES (Continued)					
Current (Continued):					
Vocational Education Instruction:					
Salaries	\$ 412	\$ 156	\$ (256)	\$ -	
Special Education Instruction:					
Salaries	240,043	241,180	1,137	202,951	
Employee Benefits	70,921	71,785	864	68,917	
Purchased Services	74,967	80,208	5,241	64,844	
Supplies and Materials	13,887	10,677	(3,210)	4,554	
Capital Expenditures	2,498	2,498	-	1,018	
Total Special Education Instruction	402,316	406,348	4,032	342,284	
Instructional Support Services:					
Purchased Services	1,097	1,676	579	405	
Supplies and Materials	50	61	11	308	
Total Instructional Support Services	1,147	1,737	590	713	
Pupil Support Services:					
Salaries	5,180	5,180	-	-	
Employee Benefits	707	787	80	-	
Purchased Services	250	116	(134)	535	
Supplies and Materials	50	49	(1)	24	
Total Pupil Support Services	6,187	6,132	(55)	559	

**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, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

	2012		Over (Under) Final Budget	2011	
	Final Budget	Actual Amounts		Final Budget	Actual Amounts
EXPENDITURES (Continued)					
Current (Continued):					
Sites and Buildings:					
Salaries	\$ 13,500	\$ 12,511	\$ (989)	\$ 10,718	
Employee Benefits	2,503	1,955	(548)	1,770	
Purchased Services	665,912	667,325	1,413	549,444	
Supplies and Materials	30,000	27,533	(2,467)	6,648	
Capital Expenditures	5,594	5,494	(100)	2,419	
Total Sites and Buildings	<u>717,509</u>	<u>714,818</u>	<u>(2,691)</u>	<u>570,999</u>	
Fiscal and Other Fixed Cost Programs:					
Purchased Services	6,335	7,487	1,152	6,351	
Debt Service:					
Principal Payments on Debt	38,346	38,566	220	36,057	
Interest Payments on Debt	47,874	67,385	19,511	80,642	
Principal Payments on Capital Lease	-	19,751	19,751	10,610	
Interest Payments on Capital Lease	-	3,718	3,718	2,903	
Total Debt Service	<u>86,220</u>	<u>129,420</u>	<u>43,200</u>	<u>130,212</u>	
Total Expenditures	<u>3,216,971</u>	<u>3,252,035</u>	<u>35,064</u>	<u>2,964,011</u>	
Excess (Deficiency) of Revenues Over (Under) Expenditures	53,663	(63,434)	(117,097)	104,341	
OTHER FINANCING SOURCES (USES)					
Capital Lease Proceeds	-	18,521	18,521	34,469	
Insurance Recovery Proceeds	15,976	15,976	-	-	
Transfers Out	-	(1,500)	(1,500)	(64,737)	
Total Other Financing Sources (Uses)	<u>15,976</u>	<u>32,997</u>	<u>17,021</u>	<u>(30,268)</u>	
Net Change in Fund Balance	<u>\$ 69,639</u>	<u>(30,437)</u>	<u>\$ (100,076)</u>	74,073	
FUND BALANCE					
Beginning of Year		<u>170,284</u>		<u>96,211</u>	
End of Year		<u>\$ 139,847</u>		<u>\$ 170,284</u>	

**NORTH LAKES ACADEMY
 CHARTER SCHOOL NO. 4053
 FOOD SERVICE SPECIAL REVENUE FUND
 BALANCE SHEET
 YEAR ENDED JUNE 30, 2012
 (WITH COMPARATIVE DATA AS OF JUNE 30, 2011)**

	2012	2011
ASSETS		
Cash and Investments	\$ 11,053	\$ 7,753
Receivables:		
Accounts and Interest Receivable	21	-
Due from Minnesota Department of Education	83	-
Due from Federal through the Minnesota Department of Education	844	-
Prepaid Items	70	70
 Total Assets	 \$ 12,071	 \$ 7,823
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Payroll Deductions and Employer Contributions Payable	\$ 10	\$ 57
Accounts and Contracts Payable	-	3,356
Total Liabilities	10	3,413
 Fund Balance:		
Nonspendable	70	70
Restricted	11,991	4,340
Total Fund Balance	12,061	4,410
 Total Liabilities and Fund Balance	 \$ 12,071	 \$ 7,823

**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, 2012
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2011)**

	2012		Over (Under) Final Budget	2011
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Other - Primarily Meal Sales	\$ 50,500	\$ 52,429	\$ 1,929	\$ 54,492
State Sources	3,935	3,994	59	3,839
Federal Sources	37,145	37,835	690	37,965
Total Revenues	91,580	94,258	2,678	96,296
EXPENDITURES				
Current:				
Purchased Services	85,500	85,087	(413)	90,362
Supplies and Materials	1,000	896	(104)	1,019
Other Expenditures	624	624	-	624
Total Expenditures	87,124	86,607	(517)	92,005
Excess of Revenues Over Expenditures	\$ 4,456	7,651	\$ 3,195	4,291
FUND BALANCE				
Beginning of Year		4,410		119
End of Year		\$ 12,061		\$ 4,410

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2012**

	AUDIT	UFARS	Difference
01 GENERAL FUND			
Total Revenue	\$ 3,204,577	\$ 3,204,575	\$ 2
Total Expenditures	3,252,035	3,252,033	2
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	26,420	26,420	-
<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	113,427	113,428	(1)
02 FOOD SERVICE			
Total Revenue	94,258	94,258	-
Total Expenditures	86,607	86,606	1
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	70	70	-
<i>Restricted:</i>			
452 OPEB Liab Not In Trust	-	-	-
464 Restricted Fund Balance	11,991	11,992	(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>Unreserved:</i>			
463 Unassigned Fund Balance	-	-	-

OTHER REQUIRED REPORTS



**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 the financial statements of the governmental activities and each major fund of North Lakes Academy as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 30, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Lakes Academy Charter School's internal control over financial reporting as a basis for designing our auditing procedures 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 Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Lakes Academy Charter School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings as item 2012-1 to be a material weakness.

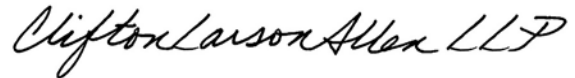
Board of Education
Charter School No. 4053
North Lakes Academy

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Lakes Academy Charter School's financial statements are free of 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*.

The School's written responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not subject the School's responses to the audit procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management of the School, the Minnesota Department of Education, and state and federal awarding entities and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 30, 2012



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CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

REPORT ON MINNESOTA LEGAL COMPLIANCE

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

We have audited the financial statements of the governmental activities and each major fund of North Lakes Academy as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 30, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States, and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers two main categories of compliance to be tested: uniform financial accounting and reporting standards, and charter schools. Our study included both of the listed categories.

The results of our tests indicate that, with respect to the items tested, the School complied, in all material respects, with the provisions referred to in the preceding paragraph.

This report is intended solely for the information and use of the Board of Education, management of the School, the Minnesota Department of Education, and the office of the Minnesota State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 30, 2012

**NORTH LAKES ACADEMY
CHARTER SCHOOL NO. 4053
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012**

FINDING: 2012-1 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition: The School does not have an internal control policy in place over annual financial reporting under GAAP, therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the School's internal controls.

Criteria: The School must be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Effect: The School is not able to prevent or detect a material misstatement in the financial statements.

Cause: The School relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

Recommendation: The School should continue to evaluate their internal staff, expertise, and assigned duties to determine if an internal control policy over the annual financial reporting is beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The School will continue to have the auditor prepare the financial statements; however, the School has established an internal control policy to document the annual review of the financial statements, disclosures and schedules.

Official Responsible for Ensuring CAP:

Jan Jensen, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The CAP will be carried out as part of each annual audit, therefore, the CAP is ongoing.

Plan to Monitor Completion of CAP:

The Board of Education will be monitoring this corrective action plan.