

**DULUTH PUBLIC SCHOOLS ACADEMY  
CHARTER SCHOOL NO. 4020**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

For The Year Ended June 30, 2014

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**DULUTH PUBLIC SCHOOLS ACADEMY  
 CHARTER SCHOOL NO. 4020  
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## **INTRODUCTORY SECTION**

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**DULUTH PUBLIC SCHOOLS ACADEMY**

**CHARTER SCHOOL NO. 4020**

**BOARD MEMBERS**

June 30, 2014

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**BOARD OF DIRECTORS**

| <u>Elective</u>   | <u>Board<br/>Position</u> |
|-------------------|---------------------------|
| Crystal Palmer    | President                 |
| Mike St. John     | Vice-President            |
| Hilary Hodgman    | Treasurer                 |
| Lisa Harold*      | Secretary                 |
| Valerie Petersen* | Director                  |
| Mary Lynch*       | Director                  |
| Lucy Augustine    | Director                  |
| Stephen Sydow     | Director                  |
| Mitch Nault       | Director                  |
| Thomas Furman     | Director                  |
| Neil Byce         | Director                  |

\*Denotes Duluth Public Schools Academy teacher seat

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Duluth Public Schools Academy  
Charter School No. 4020  
Duluth, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Duluth Public Schools Academy, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Duluth Public Schools Academy's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Duluth Public Schools Academy, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter – Implementation of GASB 65**

As described in Note 9 to the financial statements, the School adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Duluth Public Schools Academy's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented as supplemental information as required by the Minnesota Department of Education and is also not part of the basic financial statements.

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2014, on our consideration of Duluth Public Schools Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Duluth Public Schools Academy's internal control over financial reporting and compliance.



REDPATH AND COMPANY, LTD.

St. Paul, Minnesota

November 21, 2014

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## **MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

The following report presents our discussion and analysis of Duluth Public Schools Academy’s (the School) financial performance during the year ended June 30, 2014. The School’s report consists of financial statements, notes to those statements and other information. The financial statements provide information about the activities of the School, presenting both an aggregate and long-term view of those finances.

The financial reports for the School provide detailed information about the School as a whole, not just the operating fund. This information shows how money flows into and out of funds and the balances left at the year end. The fund financial statements are reported using an accounting method called modified accrual accounting, which focuses on current financial resources. These reports provide a detailed short-term view of the operations of the School.

## **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2013-2014 fiscal year include the following:

- The School’s net position increased by \$113,205. Current assets increased by \$1,843,455 and current liabilities increased by \$1,572,757. These changes are primarily due to state aid adjustments and reconciliations for prior years that reduced cash flow during the year as well as a larger federal receivable than in prior years. As a result, the School was not able to pay EdisonLearning as timely, which increased the state and federal receivables as well as the liability to EdisonLearning.
- Total revenue increased by \$955,558 (6.5%) between fiscal year 2013 and fiscal year 2014 primarily due to an increase in student enrollment that resulted in an overall increase in all funding (local, state, and federal), as well as additional state funding for a new intervention program. Expenses increased by \$984,575 which is also attributed to the increase in student enrollment and addition of the new intervention program.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts – Independent Auditor’s Report, required supplementary information which includes the MD&A (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

### **School-wide Statements**

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School’s assets 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 position and how they have changed.

The statement of net position presents information on all of the School’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The statement of activities presents information showing how the School’s net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The School-wide financial statements outline functions of the School that are principally supported by intergovernmental revenues. The governmental activities of the School include instruction, support services, operation and maintenance of the plant, and operation of non-instructional services.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with state statutes and to control and manage money for particular purposes.

Governmental funds – The School’s basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances at year end that are available for spending. Consequently, the government 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net position may serve over time as a useful indicator of a district's financial position. In the case of the School, assets exceeded liabilities by \$421,397 as of June 30, 2014.

#### Duluth Public Schools Academy Charter School No. 4020 Statement of Net Position

|                                  | June 30,          |                   |
|----------------------------------|-------------------|-------------------|
|                                  | 2014              | 2013              |
| Assts:                           |                   |                   |
| Current assets                   | \$6,465,840       | \$4,622,385       |
| Capital assets, net              | 14,699,275        | 15,099,337        |
| Total assets                     | <u>21,165,115</u> | <u>19,721,722</u> |
| Liabilities:                     |                   |                   |
| Current liabilities              | 3,426,975         | 1,854,218         |
| Long-term liabilities            | 17,316,743        | 17,559,312        |
| Total liabilities                | <u>20,743,718</u> | <u>19,413,530</u> |
| Net position:                    |                   |                   |
| Net investment in capital assets | (955,064)         | (376,268)         |
| Restricted for regulation        | 5,666             | 3,722             |
| Restricted for food service      | 137,006           | 122,814           |
| Restricted for community service | 34,917            | 11,752            |
| Unrestricted                     | 1,198,872         | 546,172           |
| Total net position               | <u>\$421,397</u>  | <u>\$308,192</u>  |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### Changes in Net Position

The School's total revenues were \$15,778,181 for the year ended June 30, 2014. Program revenues accounted for 40% of total revenue for the year.

The total cost of all programs and services was \$15,664,976. Total revenues exceeded expenses by \$113,205 resulting in ending net position of \$421,397 at June 30, 2014.

#### Duluth Public Schools Academy Charter School No. 4020 Changes in Net Position

|  | For The Years Ended June 30, |                   |
|--|------------------------------|-------------------|
|  | 2014                         | 2013              |
| Revenues:  |                              |                   |
| Program revenues:                                    |                              |                   |
| Charges for services                                 | \$322,022                    | \$267,219         |
| Operating grants and contributions                   | 5,970,041                    | 5,569,037         |
| General revenues:                                    |                              |                   |
| Local sources  | 143,661                      | 38,801            |
| State sources  | 9,342,185                    | 8,902,969         |
| Federal sources                                      | -                            | 44,246            |
| Other  | 272                          | 351               |
| Total revenues                                       | <u>15,778,181</u>            | <u>14,822,623</u> |
| Expenses:  |                              |                   |
| District support services                            | 2,038,845                    | 1,980,525         |
| Regular instruction                                  | 4,699,057                    | 4,429,126         |
| Special education                                    | 4,251,969                    | 3,548,268         |
| Community education and services                     | 119,074                      | 124,478           |
| Instructional support services                       | 253,369                      | 506,354           |
| Pupil support services                               | 1,876,667                    | 1,605,827         |
| Site, building and equipment                         | 1,198,495                    | 1,260,513         |
| Fiscal and other fixed costs                         | 179,322                      | 158,441           |
| Interest and fiscal changes on long-term liabilities | 1,048,178                    | 1,066,869         |
| Total expenses                                       | <u>15,664,976</u>            | <u>14,680,401</u> |
| Change in net position                               | 113,205                      | 142,222           |
| Net position - beginning of year, as restated        | 308,192                      | 584,092           |
| Prior period adjustment                              | -                            | (418,122)         |
| Net position - end of year                           | <u>\$421,397</u>             | <u>\$308,192</u>  |

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund adopted an original revenue budget of \$14,907,887, which was revised to a final revenue budget of \$15,395,662.

The General Fund adopted an original expenditure budget of \$14,677,551, which was revised to a final expenditure budget of \$15,302,332.

While the School's final budget for the General Fund anticipated that revenues would exceed expenditures by \$93,330, the actual results for the year showed revenues exceeding expenditures by \$141,923.

- Actual revenues were \$228,533 less than anticipated, due largely to a negative adjustment to prior years state special education funding.
- Actual expenditures were \$277,126 less than anticipated, due to savings on originally budgeted expenditures. These savings were identified throughout the year as part of the on-going budget monitoring.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

Most capital assets are owned by the Building Company and are related to the acquisition, construction and renovation of School facilities. Balances are as follows:

|                          | 2014         | 2013         | Increase<br>(Decrease) |
|--------------------------|--------------|--------------|------------------------|
| Construction in progress | \$24,391     | \$24,391     | \$ -                   |
| Land                     | 1,109,061    | 1,109,061    | -                      |
| Buildings                | 14,543,878   | 14,543,878   | -                      |
| Furniture and fixtures   | 170,806      | 170,806      | -                      |
| Technology equipment     | 8,774        | -            | 8,774                  |
| Total capital assets     | 15,856,910   | 15,848,136   | 8,774                  |
| Accumulated depreciation | (1,157,635)  | (748,799)    | (408,836)              |
| Net capital assets       | \$14,699,275 | \$15,099,337 | (\$400,062)            |

#### Long-Term Debt

During the 2011 fiscal year, the Building Company issued debt totaling \$18.4M to acquire facilities. This debt will be repaid through 2040. \$17.9M remains outstanding as of June 30, 2014.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The School's administration considered many factors when setting the FY 2014-2015 budget. The two largest factors affecting the budget are the pupil count and the biennium Omnibus E-12 Education Bill. The student population continues to grow and we currently show an increase of 24 students over the prior year. The state general education funding formula had significant changes as a result of the latest biennium budget. The biggest changes were overall pupil weighting and all day kindergarten funding, which resulted in an increase of total state general education aid. Additionally, the formula for calculating state special education aid for charter school districts also significantly changed. Effective for FY 2014-2015, charter school districts are required to fund 10% of nonreimbursable special education expenditures versus being reimbursed through resident district tuition billing. This change results in a decrease in overall state special education funding.

Operating budget revenues include both enrollment/student based funding and lease aid. These revenues are received exclusively from State and Federal sources. As a result, the School is heavily dependent on the State's and Federal government's ability to fund local school operations. Based on current enrollment data at the start of the 2014-2015 school year, we anticipate a moderate increase in revenues and expenditures from the current year due to increased enrollment.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the School's finances and to show the School's accountability for the money it receives. Any questions concerning this report or requests for additional information can be directed to the School Finance Manager, 3301 Technology Drive, Duluth, Minnesota 55811.

## **BASIC FINANCIAL STATEMENTS**

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
STATEMENT OF NET POSITION  
June 30, 2014

**Statement 1**

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| Assets:   |                                    |
| Cash and temporary cash investments               | \$2,254,299                        |
| Cash and investments held by trustee              | 1,674,850                          |
| Accounts receivable                               | 30,970                             |
| Due from other governments                        | 2,467,090                          |
| Prepays   | 38,631                             |
| Capital assets (net of accumulated depreciation): |                                    |
| Nondepreciable                                    | 1,133,452                          |
| Depreciable                                       | <u>13,565,823</u>                  |
| Total assets                                      | <u>21,165,115</u>                  |
| Liabilities:                                      |                                    |
| Accounts payable                                  | 3,984                              |
| Due to EdisonLearning, Inc.                       | 3,242,254                          |
| Unearned revenue                                  | 11,439                             |
| Accrued interest payable                          | 169,298                            |
| Long-term debt:                                   |                                    |
| Due in less than one year                         | 270,000                            |
| Due in more than one year                         | <u>17,046,743</u>                  |
| Total liabilities                                 | <u>20,743,718</u>                  |
| Net position:                                     |                                    |
| Net investment in capital assets                  | (955,064)                          |
| Restricted for regulation                         | 5,666                              |
| Restricted for food service                       | 137,006                            |
| Restricted for community service                  | 34,917                             |
| Unrestricted                                      | <u>1,198,872</u>                   |
| Total net position                                | <u><u>\$421,397</u></u>            |

The accompanying notes are an integral part of these financial statements.

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2014

**Statement 2**

| <u>Functions/Programs</u>                               | <u>Expenses</u>     | <u>Program Revenues</u>         |   | <u>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Position</u> |
|---|---------------------|---------------------------------|---|--|
|   |                     | <u>Charges for<br/>Services</u> | <u>Operating<br/>Grants and<br/>Contributions</u> |  |
| Governmental activities:                                |                     |                                 |   |  |
| District support services                               | \$2,038,845         | \$1,389                         | \$ -  | (\$2,037,456)  |
| Regular instruction                                     | 4,699,057           | 64,229                          | 284,233   | (4,350,595)  |
| Special education                                       | 4,251,969           | 3,348                           | 3,973,007   | (275,614)  |
| Community education and services                        | 119,074             | 142,227                         | -   | 23,153   |
| Instructional support services                          | 253,369             | -                               | -   | (253,369)  |
| Pupil support services                                  | 1,876,667           | 110,829                         | 357,955   | (1,407,883)  |
| Site, building and equipment                            | 1,198,495           | -                               | 1,354,846   | 156,351  |
| Fiscal and other fixed costs                            | 179,322             | -                               | -   | (179,322)  |
| Interest and fiscal charges on<br>long-term liabilities | 1,048,178           | -                               | -   | (1,048,178)  |
| Total governmental activities                           | <u>\$15,664,976</u> | <u>\$322,022</u>                | <u>\$5,970,041</u>                                | <u>(9,372,913)</u>   |
| General revenues:                                       |                     |                                 |   |  |
| Local sources   |                     |                                 |   | 143,661  |
| State sources   |                     |                                 |   | 9,342,185  |
| Investment income                                       |                     |                                 |   | 272  |
| Total general revenues                                  |                     |                                 |   | <u>9,486,118</u>   |
| Change in net position                                  |                     |                                 |   | 113,205  |
| Net position - beginning, as restated                   |                     |                                 |   | <u>308,192</u>   |
| Net position - ending                                   |                     |                                 |   | <u>\$421,397</u>   |

The accompanying notes are an integral part of these financial statements.

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2014

**Statement 3**

|  | General Fund       | Food Service     | Community Service | Tischer Creek      | Totals             |
|--|--------------------|------------------|-------------------|--------------------|--------------------|
| <b>Assets:</b>   |                    |                  |                   |                    |                    |
| Cash and temporary cash investments  | \$1,817,033        | \$174,255        | \$32,444          | \$230,567          | \$2,254,299        |
| Cash and investments held by trustee   | -                  | -                | -                 | 1,674,850          | 1,674,850          |
| Accounts receivable  | 8,145              | 14,693           | 8,132             | -                  | 30,970             |
| Due from Minnesota Department of Education   | 2,234,744          | 578              | -                 | -                  | 2,235,322          |
| Due from Federal Government through Minnesota Department of Education  | 224,129            | 7,639            | -                 | -                  | 231,768            |
| Due from other funds   | 8,462              | -                | -                 | -                  | 8,462              |
| Prepaid items  | 37,197             | -                | -                 | 1,434              | 38,631             |
| <b>Total assets</b>  | <b>\$4,329,710</b> | <b>\$197,165</b> | <b>\$40,576</b>   | <b>\$1,906,851</b> | <b>\$6,474,302</b> |
| <b>Liabilities and Fund Balance</b>  |                    |                  |                   |                    |                    |
| <b>Liabilities:</b>  |                    |                  |                   |                    |                    |
| Accounts payable   | \$1,289            | \$37             | \$ -              | \$2,658            | \$3,984            |
| Due to EdisonLearning, Inc.  | 3,187,912          | 51,585           | 2,757             | -                  | 3,242,254          |
| Due to other funds   | -                  | -                | -                 | 8,462              | 8,462              |
| Unearned revenue   | -                  | 8,537            | 2,902             | -                  | 11,439             |
| <b>Total liabilities</b>   | <b>3,189,201</b>   | <b>60,159</b>    | <b>5,659</b>      | <b>11,120</b>      | <b>3,266,139</b>   |
| <b>Fund balance:</b>   |                    |                  |                   |                    |                    |
| Nonspendable - prepaid items   | 37,197             | -                | -                 | 1,434              | 38,631             |
| Restricted for regulation  | 5,666              | -                | -                 | -                  | 5,666              |
| Restricted for food service  | -                  | 137,006          | -                 | -                  | 137,006            |
| Restricted for community service   | -                  | -                | 34,917            | -                  | 34,917             |
| Restricted for capital and debt service  | -                  | -                | -                 | 1,663,730          | 1,663,730          |
| Assigned   | -                  | -                | -                 | 230,567            | 230,567            |
| Unassigned   | 1,097,646          | -                | -                 | -                  | 1,097,646          |
| <b>Total fund balance</b>  | <b>1,140,509</b>   | <b>137,006</b>   | <b>34,917</b>     | <b>1,895,731</b>   | <b>3,208,163</b>   |
| <b>Total liabilities and fund balance</b>  | <b>\$4,329,710</b> | <b>\$197,165</b> | <b>\$40,576</b>   | <b>\$1,906,851</b> | <b>\$6,474,302</b> |
| Amounts reported for governmental activities in the statement of net position are different because:                                       |                    |                  |                   |                    |                    |
| Fund balance reported above  |                    |                  |                   |                    | \$3,208,163        |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.                    |                    |                  |                   |                    | 14,699,275         |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds: |                    |                  |                   |                    |                    |
| Bonds payable  |                    |                  |                   |                    | (17,885,000)       |
| Discount on bonds payable  |                    |                  |                   |                    | 568,257            |
| Accrued interest payable   |                    |                  |                   |                    | (169,298)          |
| <b>Net position of governmental activities (Statement 1)</b>   |                    |                  |                   |                    | <b>\$421,397</b>   |

The accompanying notes are an integral part of these financial statements.

**DULUTH PUBLIC SCHOOLS ACADEMY  
CHARTER SCHOOL NO. 4020**

**Statement 4**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2014

|                                  | General Fund       | Food Service     | Community Service | Tischer Creek      | Totals             |
|----------------------------------|--------------------|------------------|-------------------|--------------------|--------------------|
| <b>Revenues:</b>                 |                    |                  |                   |                    |                    |
| Local sources                    | \$212,627          | \$110,829        | \$142,227         | \$1,454,900        | \$1,920,583        |
| State sources                    | 14,385,390         | 24,796           | -                 | -                  | 14,410,186         |
| Federal sources                  | 568,881            | 333,159          | -                 | -                  | 902,040            |
| Investment income                | 231                | 14               | 12                | 15                 | 272                |
| Total revenues                   | <u>15,167,129</u>  | <u>468,798</u>   | <u>142,239</u>    | <u>1,454,915</u>   | <u>17,233,081</u>  |
| <b>Expenditures:</b>             |                    |                  |                   |                    |                    |
| <b>Current:</b>                  |                    |                  |                   |                    |                    |
| District support services        | 1,954,531          | -                | -                 | -                  | 1,954,531          |
| Regular instruction              | 4,542,162          | -                | -                 | -                  | 4,542,162          |
| Special education                | 4,251,019          | -                | -                 | -                  | 4,251,019          |
| Community education and services | -                  | -                | 119,074           | -                  | 119,074            |
| Instructional support services   | 253,369            | -                | -                 | -                  | 253,369            |
| Pupil support services           | 1,422,061          | 454,606          | -                 | -                  | 1,876,667          |
| Site, building and equipment     | 2,173,564          | -                | -                 | 72,750             | 2,246,314          |
| Fiscal and other fixed costs     | 179,322            | -                | -                 | -                  | 179,322            |
| Capital outlay                   | 249,178            | -                | -                 | -                  | 249,178            |
| <b>Debt service:</b>             |                    |                  |                   |                    |                    |
| Principal                        | -                  | -                | -                 | 265,000            | 265,000            |
| Interest and fiscal charges      | -                  | -                | -                 | 1,028,728          | 1,028,728          |
| Total expenditures               | <u>15,025,206</u>  | <u>454,606</u>   | <u>119,074</u>    | <u>1,366,478</u>   | <u>16,965,364</u>  |
| Revenues over expenditures       | 141,923            | 14,192           | 23,165            | 88,437             | 267,717            |
| Fund balance - beginning         | <u>998,586</u>     | <u>122,814</u>   | <u>11,752</u>     | <u>1,807,294</u>   | <u>2,940,446</u>   |
| Fund balance - ending            | <u>\$1,140,509</u> | <u>\$137,006</u> | <u>\$34,917</u>   | <u>\$1,895,731</u> | <u>\$3,208,163</u> |

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

|  |                  |
|--|------------------|
| Revenues over expenditures reported above  | \$267,717        |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: |                  |
| Capital outlay expenditures - capitalized  | 8,774            |
| Depreciation   | (408,836)        |
| The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but does not have any effect on net position.   | 265,000          |
| Some expenses reported in the statement of activities do not require the use of current resources and therefore are not reported as expenditures in governmental funds:  |                  |
| Amortization of bond discount  | (22,431)         |
| Accrued interest   | 2,981            |
| Change in net position of governmental activities (Statement 2)  | <u>\$113,205</u> |

The accompanying notes are an integral part of these financial statements.

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**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
NOTES TO FINANCIAL STATEMENTS  
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**Note 1**    **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Duluth Public Schools Academy (the School), a Minnesota nonprofit corporation, was formed and operates pursuant to Minnesota Statutes, Chapter 317A.

The basic financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the School are described below:

The School's financial statements include all funds, departments, agencies, boards, commissions and other organizations for which the School is considered to be financially accountable.

**A. FINANCIAL REPORTING ENTITY**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the School (the primary government) and its component units. 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. Tischer Creek Duluth Building Company (the Building Company) is a Minnesota non-profit corporation which is classified as a 501(c)(3) tax exempt organization which owns the real estate and building that is leased by the School for its operations. The Building Company is governed by a separate board. 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 and own educational sites which will be leased to the School. No separate financial statements of the Building Company are issued. The buildings are leased to the School under the terms of a long-term agreement. All long-term debt related to the purchase of the building and property and all fixed assets related to the School site are the responsibility of and will be under the ownership of the Building Company.

The School's Authorizer is Innovative Quality Schools. The Authorizer has limited oversight responsibility but is not financially accountable for the School. Therefore, the School is not considered to be a component unit of the Authorizer.

**B. SCHOOL-WIDE AND FUND FINANCIAL STATEMENTS**

The school-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* generally are financed through intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not included among program revenues are reported instead as *general revenues*.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as a separate column in the fund financial statements.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

As required by State Statute, the School 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 (UFARS) for Minnesota School Districts which mandates the use of a governmental accounting structure.

The school-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenues, grants, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

**DULUTH PUBLIC SCHOOLS ACADEMY**  
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*Fund Financial Statements:* The fund financial statements provide information about the School's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The School reports the following major governmental funds:

The *General Fund* is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

The *Food Service Fund* is used to account for food service revenues and expenditures.

The *Community Service Fund* is used to account for the kid's club program.

The *Tischer Creek Fund* is used to account for the activities of the Building Company, a blended component unit.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

**D. 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.

A tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes the School has no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard.

**E. BUDGETS**

A budget for each fund is prepared on the same basis of accounting as the financial statements. The School's Board adopts an annual budget for the following fiscal year for the General and Food Service and Community Service Special Revenue Funds. Legal budgetary control is at the fund level. Budgeted amounts are as originally adopted or as amended by the Board. Budgeted expenditure appropriations lapse at year end. Encumbrance accounting is not used.

**F. CASH AND INVESTMENTS**

The School maintains multiple bank accounts that are consolidated by fund.

**G. CASH AND INVESTMENTS HELD BY TRUSTEE**

These cash and investments are held by an escrow agent and restricted for purposes contained in the 2010 bond documents.

**H. RECEIVABLES**

All receivables are shown net of any allowance for uncollectible amounts.

**I. PREPAID ITEMS**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both school-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures at the time of consumption.

**J. CAPITAL ASSETS**

Capital assets, which include property, plant, and equipment are reported in the school-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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 depreciated using the straight-line method over their estimated useful lives. Buildings are depreciated over 39 years. Furniture, fixtures and equipment are depreciated over 5 years.

**K. LONG-TERM OBLIGATIONS**

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Discounts on debt are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental fund types recognize debt premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

**L. FUND BALANCE CLASSIFICATIONS**

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

*Nonspendable* - consists of amounts that are not in spendable form, such as prepaid items.

*Restricted* - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - consists of internally imposed constraints. These constraints are established by Resolution of the School Board.

*Assigned* - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the School's intended use. These constraints are established by the School Board and/or management. Pursuant to Board Resolution, the School's Director is authorized to establish assignments of fund balance.

*Unassigned* - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the School's policy to first use restricted resources, then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the School's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

**M. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The School has no items that qualify for reporting in this category.

**DULUTH PUBLIC SCHOOLS ACADEMY**  
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**N. USE OF ESTIMATES**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

**O. STUDENT ACTIVITIES**

All student activities were under Board control.

**P. NET POSITION**

Net position represents the difference between assets and liabilities in the School-wide financial statements. Net position invested in capital assets 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 position is reported as restricted in the School-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**Q. STEWARDSHIP AND ACCOUNTABILITY**

Expenditures exceeded budgeted amounts in the following fund at June 30, 2014:

|                        | <u>Budget</u> | <u>Actual</u> | <u>Actual<br/>Over Budget</u> |
|------------------------|---------------|---------------|-------------------------------|
| Special Revenue Fund:  |               |               |                               |
| Community Service Fund | \$115,270     | \$119,074     | \$3,804                       |

**Note 2 DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

In accordance with Minnesota Statutes, the School maintains deposits at those depository banks authorized by the School's Board, all of which are members of the Federal Reserve System.

**DULUTH PUBLIC SCHOOLS ACADEMY**  
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Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit 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. The School does not have a deposit policy that is more restrictive than Minnesota Statutes.

At June 30, 2014, all deposits were covered by FDIC insurance or collateral.

**B. INVESTMENTS**

The School may also invest idle funds as authorized by Minnesota Statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better, general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States’ banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States’ corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

Credit risk – State law limits investments as discussed above. The School has no investment policy that would further limit its investment choices.

Cash and investments held by trustee are entirely invested in the Wells Fargo Advantage 100% Treasury Money Market Fund which has an S&P rating of AAAm.

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A recap of cash and investments presented in the fund financial statements is as follows:

|                                      | <u>Deposits</u>        | <u>Wells Fargo<br/>Money Market</u> | <u>Total</u>           |
|--------------------------------------|------------------------|-------------------------------------|------------------------|
| Statement 3 - Governmental Funds:    |                        |                                     |                        |
| Cash and temporary cash investments  | \$2,254,299            | \$ -                                | \$2,254,299            |
| Cash and investments held by trustee | -                      | 1,674,850                           | 1,674,850              |
| <br>Total                            | <br><u>\$2,254,299</u> | <br><u>\$1,674,850</u>              | <br><u>\$3,929,149</u> |

**Note 3 PENSION PLANS**

PLAN DESCRIPTION

All teachers employed by the School are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356. The School does not have any employees participating under the Basic Plan.

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota 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 consecutive years of allowable service, age, and a formula multiplier based on 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 web site, [www.tra.state.mn.us](http://www.tra.state.mn.us). Alternatively a copy of the report may be obtained by writing or calling TRA at 60 Empire Drive Suite 400, St. Paul, Minnesota 55103-4000, (651)296-6449, (800)657-3853.

FUNDING POLICY

Minnesota Statutes Chapter 354 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. Coordinated Plan members are required to contribute 7% of their annual covered salary. The School is required to contribute 7% of annual covered payroll. The School's contributions for the years ended June 30, 2014, 2013 and 2012 were \$384,973, \$330,282 and \$282,489, respectively, which were 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 percent on July 1 of each year of the four-year period. Beginning July 1, 2014, TRA Coordinated employee and employer contribution rates will each be 7.5 percent.

**DULUTH PUBLIC SCHOOLS ACADEMY  
 CHARTER SCHOOL NO. 4020  
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**Note 4 INTERFUND BALANCES**

Interfund receivable and payable balances arise from temporary cash deficits in individual funds and other routine matters. At June 30, 2014 the General Fund reported \$8,462 due from Tischer Creek for a bill the General Fund paid on Tischer Creek's behalf.

**Note 5 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>   | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|--------------------|------------------|---------------------------|
| Governmental activities:                     |                              |                    |                  |                           |
| Capital assets, not being depreciated:       |                              |                    |                  |                           |
| Land   | \$1,109,061                  | \$ -               | \$ -             | \$1,109,061               |
| Construction in progress                     | 24,391                       | -                  | -                | 24,391                    |
| Total capital assets, not being depreciated  | <u>1,133,452</u>             | <u>-</u>           | <u>-</u>         | <u>1,133,452</u>          |
| Capital assets, being depreciated:           |                              |                    |                  |                           |
| Buildings                                    | 14,543,878                   | -                  | -                | 14,543,878                |
| Furniture and fixtures                       | 170,806                      | -                  | -                | 170,806                   |
| Equipment                                    | -                            | 8,774              | -                | 8,774                     |
| Total capital assets, being depreciated      | <u>14,714,684</u>            | <u>8,774</u>       | <u>-</u>         | <u>14,723,458</u>         |
| Less accumulated depreciation for:           |                              |                    |                  |                           |
| Buildings                                    | 687,412                      | 372,920            | -                | 1,060,332                 |
| Furniture and fixtures                       | 61,387                       | 34,161             | -                | 95,548                    |
| Equipment                                    | -                            | 1,755              | -                | 1,755                     |
| Total accumulated depreciation               | <u>748,799</u>               | <u>408,836</u>     | <u>-</u>         | <u>1,157,635</u>          |
| Total capital assets being depreciated - net | <u>13,965,885</u>            | <u>(400,062)</u>   | <u>0</u>         | <u>13,565,823</u>         |
| Governmental activities capital assets - net | <u>\$15,099,337</u>          | <u>(\$400,062)</u> | <u>\$0</u>       | <u>\$14,699,275</u>       |

Most of the capital asset activity relates to the Building Company.

Depreciation expense was charged to functions/programs as follows:

|  |                  |
|--|------------------|
| Governmental activities:                             |                  |
| District support services                            | \$1,755          |
| Site, building and equipment                         | <u>407,081</u>   |
| Total depreciation expense - governmental activities | <u>\$408,836</u> |

**DULUTH PUBLIC SCHOOLS ACADEMY**  
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**Note 6 LONG-TERM DEBT**

|   |                      |
|---|----------------------|
|   | Balance<br>6/30/2014 |
| <u>Building Company</u>   |                      |
| \$17.77M Lease Revenue Bonds Series 2010A; \$630,000 Taxable Lease Revenue Bonds Series 2010B. Both issued November 1, 2010 and due November 1, 2040. The bonds were issued through the HRA of Duluth, Minnesota and carry interest rates ranging from 5.00% - 6.75%. | <u>\$17,885,000</u>  |

During fiscal year 2011, the Building Company obtained an \$18.4M construction loan from lease revenue bond proceeds sold by the HRA of Duluth, Minnesota to finance the site acquisition, construction, and equipping buildings owned by the Building Company and leased to Duluth Public Schools Academy. The bond proceeds were placed in an escrow account controlled by Wells Fargo Bank under the terms of a trust agreement between the HRA of Duluth, Minnesota and Wells Fargo Bank for the benefit of the Building Company. The resulting loan is payable in semi-annual installments of principal and interest through November 1, 2040. The note is based on annual interest rates of between 5.00 percent and 6.75 percent (the rates of the related lease revenue bonds) and is secured by a mortgage agreement covering the related land, school building, and building contents as well as the assignment of all lease revenue. The loan is also guaranteed by Duluth Public Schools Academy and has certain restrictive debt covenants, including a minimum debt service coverage of 110% before corrective action is needed, and 100% for default.

Changes in long-term debt are as follows:

|                | June 30,<br>2013    | Additions  | Retirements        | June 30,<br>2014    | Due in<br>One Year |
|----------------|---------------------|------------|--------------------|---------------------|--------------------|
| Bonds payable  | \$18,150,000        | \$ -       | (\$265,000)        | \$17,885,000        | \$270,000          |
| Bond discounts | (590,688)           | -          | 22,431             | (568,257)           | -                  |
| Total          | <u>\$17,559,312</u> | <u>\$0</u> | <u>(\$242,569)</u> | <u>\$17,316,743</u> | <u>\$270,000</u>   |

**DULUTH PUBLIC SCHOOLS ACADEMY**  
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Annual debt service requirements to maturity for long-term debt are as follows:

| Fiscal<br>Year | Bonds Payable       |                     |
|----------------|---------------------|---------------------|
|                | Principal           | Interest            |
| 2015           | \$270,000           | \$1,008,028         |
| 2016           | 300,000             | 992,772             |
| 2017           | 315,000             | 977,397             |
| 2018           | 330,000             | 961,272             |
| 2019           | 350,000             | 944,272             |
| 2020           | 365,000             | 926,397             |
| 2021           | 385,000             | 907,647             |
| 2022           | 405,000             | 887,897             |
| 2023           | 425,000             | 865,872             |
| 2024           | 445,000             | 841,512             |
| 2025           | 475,000             | 815,752             |
| 2026           | 500,000             | 788,452             |
| 2027           | 525,000             | 759,752             |
| 2028           | 555,000             | 729,512             |
| 2029           | 590,000             | 697,452             |
| 2030           | 620,000             | 663,572             |
| 2031           | 655,000             | 627,872             |
| 2032           | 690,000             | 589,263             |
| 2033           | 735,000             | 547,403             |
| 2034           | 775,000             | 503,047             |
| 2035           | 820,000             | 456,194             |
| 2036           | 870,000             | 406,550             |
| 2037           | 920,000             | 353,969             |
| 2038           | 975,000             | 298,303             |
| 2039           | 1,030,000           | 239,406             |
| 2040           | 1,095,000           | 176,984             |
| 2041           | 2,465,000           | 72,409              |
| Totals         | <u>\$17,885,000</u> | <u>\$18,038,958</u> |

**DULUTH PUBLIC SCHOOLS ACADEMY**  
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NOTES TO FINANCIAL STATEMENTS  
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**Note 7 COMMITMENTS AND CONTINGENCIES**

**A. GRANTS**

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 funds. 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. The federal financial assistance received may be subject to an audit pursuant to OMB Circular A-133 or audits by the grantor agency.

**B. CONTRACTUAL COMMITMENT**

The School contracts with EdisonLearning, Inc., a Delaware limited partnership, to manage and provide the educational program. The term of the contract runs through June 30, 2017. The contract can be terminated by either party but only for cause as defined in the contract. Fees for 2014, net of one-time adjustments, were \$511,367. Scheduled maximum fees, before any adjustments are as follows:

| Year Ending<br>June 30 | Amount                    |
|------------------------|---------------------------|
| 2015                   | \$658,747                 |
| 2016                   | 727,090                   |
| 2017                   | <u>767,132</u>            |
| Total                  | <u><u>\$2,152,969</u></u> |

**C. LEASES**

LEASES WITH OTHER PARTIES

The School had lease agreements for modular office space at Raleigh Edison Charter School, with the current agreement extending through August 31, 2016. Rent expense under these leases was \$50,484 for the year ended June 30, 2014. Future minimum payments under the term of the lease are as follows:

| Year Ending<br>June 30 | Amount                  |
|------------------------|-------------------------|
| 2015                   | \$50,484                |
| 2016                   | 50,484                  |
| 2017                   | <u>8,414</u>            |
| Total                  | <u><u>\$109,382</u></u> |

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

LEASES BETWEEN SCHOOL AND BUILDING COMPANY

The School leases the facility at Northstar Academy and Raleigh from the Building Company with the current agreement extending through November 9, 2040. The net annual base rent for the term of the lease agreement is tied closely to the debt service requirements of the Building Company (see Note 6). Rent expense under this lease was \$1,454,900 for the year ended June 30, 2014. Annual amounts for fiscal year 2014 and thereafter shall be subject to confirmation by mutual written agreement of the School and Building Company, but shall not be less than \$1,454,900. Future minimum payments under the terms of this lease are as follows:

| Year Ending<br>June 30 | Amount              |
|------------------------|---------------------|
| 2015                   | \$1,454,900         |
| 2016                   | 1,454,900           |
| 2017                   | 1,454,900           |
| 2018                   | 1,454,900           |
| 2019                   | 1,454,900           |
| 2020-2024              | 7,274,500           |
| 2025-2029              | 7,274,500           |
| 2030-2034              | 7,274,500           |
| 2035-2039              | 7,274,500           |
| 2040-2041              | 2,061,108           |
| Total                  | <u>\$38,433,608</u> |

**Note 8 RISK MANAGEMENT**

The School purchases commercial insurance for property and liability, transferring the risk of loss (other than deductibles) to the insurance carrier.

The School participates in a risk pool for workers' compensation insurance. The pool in turn contracts with an insurance carrier, thereby transferring the risk from the pool members to the insurance carrier. The workers' compensation policy is retrospectively rated in that the initial premium is adjusted based on the actual experience during the coverage period of the group of entities that participate in the pool. There were no significant reductions in coverage from the previous year and settled claims have not exceeded insurance coverage in any of the prior three years.

**Note 9 CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2014, the School implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 resulted in the restatement of beginning net position to reflect the change in accounting for bond issuance costs. Prior to GASB 65, bond issuance costs were capitalized and amortized over the life of the bond. GASB 65 requires the expensing of issuance costs (excluding bond insurance) in the year of the issuance. This change had no effect on the fund financial statements.

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014

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The restatement of net position due to the elimination of deferred charges is summarized as follows:

|                                       | <u>Governmental<br/>Activities<br/>June 30, 2013</u> |
|---------------------------------------|--|
| Net position - as previously reported | \$726,314  |
| Restatement of deferred charges       | <u>(418,122)</u>                                     |
| Net position - as restated            | <u><u>\$308,192</u></u>                              |

**REQUIRED SUPPLEMENTARY INFORMATION**

**DULUTH PUBLIC SCHOOLS ACADEMY  
CHARTER SCHOOL NO. 4020**

**Statement 6**

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
For The Year Ended June 30, 2014  
With Comparative Actual Amounts For The Year Ended June 30, 2013

|                                 | 2014              |                   |                    |   | 2013<br>Actual<br>Amounts |
|---------------------------------|-------------------|-------------------|--------------------|---|---------------------------|
|                                 | Budgeted Amounts  |                   | Actual<br>Amounts  | Variance with<br>Final Budget -<br>Over (Under) |                           |
|                                 | Original          | Final             |                    |   |                           |
| Revenues:                       |                   |                   |                    |   |                           |
| Local sources                   | \$5,000           | \$170,138         | \$212,627          | \$42,489  | \$45,216                  |
| State sources                   | 14,373,358        | 14,723,184        | 14,385,390         | (337,794)                                       | 13,509,460                |
| Federal sources                 | 529,529           | 502,340           | 568,881            | 66,541  | 633,636                   |
| Investment income               | -                 | -                 | 231                | 231   | 298                       |
| Total revenues                  | <u>14,907,887</u> | <u>15,395,662</u> | <u>15,167,129</u>  | <u>(228,533)</u>                                | <u>14,188,610</u>         |
| Expenditures:                   |                   |                   |                    |   |                           |
| District support services       | 2,236,804         | 2,139,018         | 1,954,531          | (184,487)                                       | 1,980,525                 |
| Regular instruction             | 4,848,002         | 5,054,368         | 4,542,162          | (512,206)                                       | 4,429,126                 |
| Special education               | 3,726,465         | 3,885,090         | 4,251,019          | 365,929   | 3,548,268                 |
| Instructional support services  | 242,108           | 252,414           | 253,369            | 955   | 506,354                   |
| Pupil support services          | 1,312,801         | 1,368,683         | 1,422,061          | 53,378  | 1,228,585                 |
| Site, building and equipment    | 2,210,465         | 2,304,558         | 2,173,564          | (130,994)                                       | 2,703,024                 |
| Fiscal and other fixed costs    | 100,906           | 105,201           | 179,322            | 74,121  | 142,563                   |
| Capital outlay                  | -                 | 193,000           | 249,178            | 56,178  | -                         |
| Total expenditures              | <u>14,677,551</u> | <u>15,302,332</u> | <u>15,025,206</u>  | <u>(277,126)</u>                                | <u>14,538,445</u>         |
| Revenues over expenditures      | <u>230,336</u>    | <u>93,330</u>     | <u>141,923</u>     | <u>48,593</u>                                   | <u>(349,835)</u>          |
| Other financing sources (uses): |                   |                   |                    |   |                           |
| Transfers out                   | -                 | -                 | -                  | -   | (132,409)                 |
| Net change in fund balance      | <u>\$230,336</u>  | <u>\$93,330</u>   | 141,923            | <u>\$48,593</u>                                 | (482,244)                 |
| Fund balance - beginning        |                   |                   | <u>998,586</u>     |   | <u>1,480,830</u>          |
| Fund balance - ending           |                   |                   | <u>\$1,140,509</u> |   | <u>\$998,586</u>          |

**Note A - Legal Compliance - Budgets**

The General Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level.

**DULUTH PUBLIC SCHOOLS ACADEMY  
CHARTER SCHOOL NO. 4020**

**Statement 7**

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE FUND  
For The Year Ended June 30, 2014  
With Comparative Actual Amounts For The Year Ended June 30, 2013

|                                    | 2014              |                 |                   | Variance with<br>Final Budget -<br>Over (Under) | 2013<br>Actual<br>Amounts |
|------------------------------------|-------------------|-----------------|-------------------|---|---------------------------|
|                                    | Budgeted Amounts  |                 | Actual<br>Amounts |   |                           |
|                                    | Original          | Final           |                   |   |                           |
| Revenues:                          |                   |                 |                   |   |                           |
| Local sources                      | \$100,000         | \$142,000       | \$110,829         | (\$31,171)                                      | \$124,586                 |
| State sources                      | 24,503            | -               | 24,796            | 24,796  | 25,192                    |
| Federal sources                    | 351,516           | 376,019         | 333,159           | (42,860)  | 347,964                   |
| Investment income                  | -                 | -               | 14                | 14  | 17                        |
| Total revenues                     | <u>476,019</u>    | <u>518,019</u>  | <u>468,798</u>    | <u>(49,221)</u>                                 | <u>497,759</u>            |
| Expenditures:                      |                   |                 |                   |   |                           |
| Pupil support services             | <u>493,219</u>    | <u>458,719</u>  | <u>454,606</u>    | <u>(4,113)</u>                                  | <u>377,242</u>            |
| Revenues over (under) expenditures | <u>(\$17,200)</u> | <u>\$59,300</u> | 14,192            | <u>(\$45,108)</u>                               | 120,517                   |
| Fund balance - beginning           |                   |                 | <u>122,814</u>    |   | <u>2,297</u>              |
| Fund balance - ending              |                   |                 | <u>\$137,006</u>  |   | <u>\$122,814</u>          |

**Note A - Legal Compliance - Budgets**

The Food Service Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level.

**DULUTH PUBLIC SCHOOLS ACADEMY  
CHARTER SCHOOL NO. 4020**

**Statement 8**

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - COMMUNITY SERVICE FUND

For The Year Ended June 30, 2014

With Comparative Actual Amounts For The Year Ended June 30, 2013

|                                    | 2014                     |                        |                        | Variance with<br>Final Budget -<br>Over (Under) | 2013<br>Actual<br>Amounts |
|------------------------------------|--------------------------|------------------------|------------------------|---|---------------------------|
|                                    | Budgeted Amounts         |                        | Actual<br>Amounts      |   |                           |
|                                    | Original                 | Final                  |                        |   |                           |
| Revenues:                          |                          |                        |                        |   |                           |
| Local sources                      | \$100,000                | \$140,000              | \$142,227              | \$2,227   | \$136,218                 |
| Investment income                  | -                        | -                      | 12                     | 12  | 13                        |
| Total revenues                     | <u>100,000</u>           | <u>140,000</u>         | <u>142,239</u>         | <u>2,239</u>                                    | <u>136,231</u>            |
| Expenditures:                      |                          |                        |                        |   |                           |
| Community education and services   | <u>135,776</u>           | <u>115,270</u>         | <u>119,074</u>         | <u>3,804</u>                                    | <u>124,478</u>            |
| Revenues over (under) expenditures | <u>(35,776)</u>          | <u>24,730</u>          | <u>23,165</u>          | <u>(1,565)</u>                                  | <u>11,753</u>             |
| Other financing sources (uses):    |                          |                        |                        |   |                           |
| Transfer in                        | <u>-</u>                 | <u>-</u>               | <u>-</u>               | <u>-</u>  | <u>132,409</u>            |
| Net change in fund balance         | <u><u>(\$35,776)</u></u> | <u><u>\$24,730</u></u> | <u>23,165</u>          | <u><u>(\$1,565)</u></u>                         | <u>144,162</u>            |
| Fund balance (deficit) - beginning |                          |                        | <u>11,752</u>          |   | <u>(132,410)</u>          |
| Fund balance - ending              |                          |                        | <u><u>\$34,917</u></u> |   | <u><u>\$11,752</u></u>    |

**Note A - Legal Compliance - Budgets**

The Community Service Fund budget is legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level.

## **SUPPLEMENTAL INFORMATION**

**DULUTH PUBLIC SCHOOLS ACADEMY  
CHARTER SCHOOL NO. 4020**

**Schedule 1**

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS - COMPLIANCE TABLE  
June 30, 2014

|                                     | <u>Audit</u> | <u>UFARS</u> | <u>Variance</u> |                                  | <u>Audit</u> | <u>UFARS</u> | <u>Variance</u> |
|-------------------------------------|--------------|--------------|-----------------|----------------------------------|--------------|--------------|-----------------|
| <b>01 GENERAL FUND</b>              |              |              |                 | <b>06 BUILDING CONSTRUCTION</b>  |              |              |                 |
| Total Revenue                       | \$15,167,129 | \$15,167,125 | \$4             | Total Revenue                    | \$ -         | \$ -         | \$ -            |
| Total Expenditures                  | 15,025,206   | 15,025,204   | 2               | Total Expenditures               | -            | -            | -               |
| <i>Non-Spendable:</i>               |              |              |                 | <i>Non-Spendable:</i>            |              |              |                 |
| 4.60 Non Spendable Fund Balance     | 37,197       | 37,197       | -               | 4.60 Non Spendable Fund Balance  | -            | -            | -               |
| <i>Restricted/Reserve:</i>          |              |              |                 | <i>Restricted/Reserve:</i>       |              |              |                 |
| 4.03 Staff Development              | -            | -            | -               | 4.07 Capital Projects Levy       | -            | -            | -               |
| 4.05 Deferred Maintenance           | -            | -            | -               | 4.09 Alternative Fac. Program    | -            | -            | -               |
| 4.06 Health and Safety              | -            | -            | -               | 4.13 Projects Funded By COP      | -            | -            | -               |
| 4.07 Capital Projects Levy          | -            | -            | -               | <i>Restricted:</i>               |              |              |                 |
| 4.08 Cooperative Revenue            | -            | -            | -               | 4.64 Restricted Fund Balance     | -            | -            | -               |
| 4.11 Severance Pay                  | -            | -            | -               | <i>Unassigned:</i>               |              |              |                 |
| 4.13 Project Funded By COP          | -            | -            | -               | 4.63 Unassigned Fund Balance     | -            | -            | -               |
| 4.14 Operating Debt                 | -            | -            | -               |                                  |              |              |                 |
| 4.16 Levy Reduction                 | -            | -            | -               | <b>07 DEBT SERVICE</b>           |              |              |                 |
| 4.17 Taconite Building Maint        | -            | -            | -               | Total Revenue                    | \$ -         | \$ -         | \$ -            |
| 4.23 Certain Teacher Programs       | -            | -            | -               | Total Expenditures               | -            | -            | -               |
| 4.24 Operating Capital              | -            | -            | -               | <i>Non-Spendable:</i>            |              |              |                 |
| 4.26 \$25 Taconite                  | -            | -            | -               | 4.60 Non Spendable Fund Balance  | -            | -            | -               |
| 4.27 Disabled Accessibility         | -            | -            | -               | <i>Restricted/Reserve:</i>       |              |              |                 |
| 4.28 Learning and Development       | -            | -            | -               | 4.25 Bond Refundings             | -            | -            | -               |
| 4.34 Area Learning Center           | -            | -            | -               | 4.51 QZAB Payments               | -            | -            | -               |
| 4.35 Contracted Alt. Programs       | -            | -            | -               | <i>Restricted:</i>               |              |              |                 |
| 4.36 St. Approved Alt. Program      | -            | -            | -               | 4.64 Restricted Fund Balance     | -            | -            | -               |
| 4.38 Gifted & Talented              | -            | -            | -               | <i>Unassigned:</i>               |              |              |                 |
| 4.41 Basic Skills Programs          | -            | -            | -               | 4.63 Unassigned Fund Balance     | -            | -            | -               |
| 4.45 Career & Tech Programs         | -            | -            | -               |                                  |              |              |                 |
| 4.46 First Grade Preparedness       | -            | -            | -               | <b>08 TRUST</b>                  |              |              |                 |
| 4.49 Safe Schools Levy              | -            | -            | -               | Total Revenue                    | \$ -         | \$ -         | \$ -            |
| 4.50 Pre-Kindergarten               | -            | -            | -               | Total Expenditures               | -            | -            | -               |
| 4.51 QZAB Payments                  | -            | -            | -               | <i>Unrestricted:</i>             |              |              |                 |
| 4.52 OPEB Liab Not In Trust         | -            | -            | -               | 4.22 Net Assets                  | -            | -            | -               |
| 4.53 Unfunded Sev & Retirement Levy | -            | -            | -               |                                  |              |              |                 |
| <i>Restricted:</i>                  |              |              |                 | <b>09 AGENCY</b>                 |              |              |                 |
| 4.64 Restricted Fund Balance        | 5,666        | 5,666        | -               | <i>Unrestricted:</i>             |              |              |                 |
| <i>Committed:</i>                   |              |              |                 | 4.22 Net Assets                  | -            | -            | -               |
| 4.18 Committed For Separation       | -            | -            | -               |                                  |              |              |                 |
| 4.61 Committed Fund Balance         | -            | -            | -               | <b>20 INTERNAL SERVICE</b>       |              |              |                 |
| <i>Assigned:</i>                    |              |              |                 | Total Revenue                    | \$ -         | \$ -         | \$ -            |
| 4.62 Assigned Fund Balance          | -            | -            | -               | Total Expenditures               | -            | -            | -               |
| <i>Unassigned:</i>                  |              |              |                 | <i>Unrestricted:</i>             |              |              |                 |
| 4.22 Unassigned Fund Balance        | 1,097,646    | 1,097,647    | (1)             | 4.22 Net Assets                  | -            | -            | -               |
|                                     |              |              |                 |                                  |              |              |                 |
| <b>02 FOOD SERVICE</b>              |              |              |                 | <b>25 OPEB REVOCABLE TRUST</b>   |              |              |                 |
| Total Revenue                       | \$468,798    | \$468,798    | \$ -            | Total Revenue                    | \$ -         | \$ -         | \$ -            |
| Total Expenditures                  | 454,606      | 454,607      | (1)             | Total Expenditures               | -            | -            | -               |
| <i>Non-Spendable:</i>               |              |              |                 | <i>Unrestricted:</i>             |              |              |                 |
| 4.60 Non Spendable Fund Balance     | -            | -            | -               | 4.22 Net Assets                  | -            | -            | -               |
| <i>Restricted/Reserve:</i>          |              |              |                 |                                  |              |              |                 |
| 4.52 OPEB Liab Not In Trust         | -            | -            | -               | <b>45 OPEB IRREVOCABLE TRUST</b> |              |              |                 |
| <i>Restricted:</i>                  |              |              |                 | Total Revenue                    | \$ -         | \$ -         | \$ -            |
| 4.64 Restricted Fund Balance        | 137,006      | 137,006      | -               | Total Expenditures               | -            | -            | -               |
| <i>Unassigned:</i>                  |              |              |                 | <i>Unrestricted:</i>             |              |              |                 |
| 4.63 Unassigned Fund Balance        | -            | -            | -               | 4.22 Net Assets                  | -            | -            | -               |
|                                     |              |              |                 |                                  |              |              |                 |
| <b>04 COMMUNITY SERVICE</b>         |              |              |                 | <b>47 OPEB DEBT SERVICE FUND</b> |              |              |                 |
| Total Revenue                       | \$142,239    | \$142,239    | \$ -            | Total Revenue                    | \$ -         | \$ -         | \$ -            |
| Total Expenditures                  | 119,074      | 119,072      | 2               | Total Expenditures               | -            | -            | -               |
| <i>Restricted/Reserve:</i>          |              |              |                 | <i>Non-Spendable:</i>            |              |              |                 |
| 4.26 \$25 Taconite                  | -            | -            | -               | 4.60 Non Spendable Fund Balance  | -            | -            | -               |
| 4.31 Community Education            | -            | -            | -               | <i>Restricted/Reserve:</i>       |              |              |                 |
| 4.32 E.C.F.E                        | -            | -            | -               | 4.25 Bond Refundings             | -            | -            | -               |
| 4.44 School Readiness               | -            | -            | -               | <i>Restricted:</i>               |              |              |                 |
| 4.47 Adult Basic Education          | -            | -            | -               | 4.64 Restricted Fund Balance     | -            | -            | -               |
| 4.52 OPEB Liab Not In Trust         | -            | -            | -               | <i>Unassigned:</i>               |              |              |                 |
| <i>Restricted:</i>                  |              |              |                 | 4.63 Unassigned Fund Balance     | -            | -            | -               |
| 4.64 Restricted Fund Balance        | 34,917       | 34,918       | (1)             |                                  |              |              |                 |
| <i>Unassigned:</i>                  |              |              |                 |                                  |              |              |                 |
| 4.63 Unassigned Fund Balance        | -            | -            | -               |                                  |              |              |                 |

## **OTHER REQUIRED REPORTS**

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INDEPENDENT AUDITOR'S 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*

To the Board of Directors  
Duluth Public Schools Academy  
Charter School No. 4020  
Duluth, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Duluth Public Schools Academy, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Duluth Public Schools Academy's basic financial statements and have issued our report thereon dated November 21, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Duluth Public Schools Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Duluth Public Schools Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Duluth Public Schools Academy's internal control.

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

Duluth Public Schools Academy  
Independent Auditor's Report on Internal Control over  
Financial Reporting And on Compliance and Other Matters

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs, as finding 2014-001, that we consider to be a significant deficiency.

**Compliance and Other Matters**

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

**Duluth Public School Academy's Response to the Finding**

Duluth Public School Academy's response to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. Duluth Public School Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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



REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

November 21, 2014



## MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Directors  
Duluth Public Schools Academy  
Charter School No. 4020  
Duluth, Minnesota

We have audited, 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, the financial statements of Duluth Public Schools Academy, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2014.

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

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

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Redpath and Company, Ltd." in a cursive script.

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

November 21, 2014

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors  
Duluth Public Schools Academy  
Charter School No. 4020  
Duluth, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited Duluth Public Schools Academy's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Duluth Public Schools Academy's major federal programs for the year ended June 30, 2014. Duluth Public Schools Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Duluth Public Schools Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Duluth Public Schools Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Duluth Public Schools Academy's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Duluth Public Schools Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

**Report on Internal Control Over Compliance**

Management of Duluth Public Schools Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Duluth Public Schools Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Duluth Public Schools Academy's internal control over compliance.

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

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

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we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities and each major fund of Duluth Public Schools Academy, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Duluth Public Schools Academy's basic financial statements. We issued our report thereon dated November 21, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

**Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

November 21, 2014

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2014**

| Federal Funding Source/<br>Pass Through Agency/<br>Program Title | Federal<br>CFDA<br>Number | Pass Through<br>Entity<br>Identifying<br>Number | Federal<br>Expenditures |
|--|---------------------------|---|-------------------------|
| <b>U.S. Department of Education:</b>                             |                           |   |                         |
| Passed through State of Minnesota:                               |                           |   |                         |
| Title I Grants to Local Educational Agencies                     | 84.010                    | None noted                                      | \$243,918               |
| Total Title I Cluster  |                           |   | <u>243,918</u>          |
| Title II Grants to Local Educational Agencies                    | 84.367                    | None noted                                      | 40,315                  |
| Total Title II Cluster   |                           |   | <u>40,315</u>           |
| Special Education Grants to States                               | 84.027                    | None noted                                      | 328,438                 |
| IDEA Part B Section 619 Preschool Incentive, Ages 3-5            | 84.173                    | None noted                                      | 204                     |
| Total Special Education Cluster                                  |                           |   | <u>328,642</u>          |
| Total U.S. Department of Education                               |                           |   | <u>612,875</u>          |
| <b>U.S. Department of Agriculture:</b>                           |                           |   |                         |
| Passed through State of Minnesota:                               |                           |   |                         |
| School Breakfast Program   | 10.553                    | None noted                                      | 63,775                  |
| National School Lunch Program                                    | 10.555                    | None noted                                      | 269,384                 |
| Total Child Nutrition Cluster                                    |                           |   | <u>333,159</u>          |
| Total U.S. Department of Agriculture                             |                           |   | <u>333,159</u>          |
| <b>Total Federal Expenditures</b>                                |                           |   | <u><u>\$946,034</u></u> |

Notes to the schedule of expenditures of federal awards

*Note 1. Basis of Presentation*

*The above schedule of expenditures of federal awards includes the federal grant activity of Duluth Public Schools Academy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.*

*Note 2. Non-Cash Assistance*

*The above schedule includes \$22,449 of non-cash assistance. This amount represents the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program, CFDA No. 10.555.*

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For The Year Ended June 30, 2014

**SECTION I - SUMMARY OF AUDIT RESULTS**

|   |                  |     |                        |
|---|------------------|-----|------------------------|
| <i>Financial Statements</i>   |                  |     |                        |
| A. Type of auditors' report issued:   | Unmodified       |     |                        |
| B. Internal control over financial reporting:   |                  |     |                        |
| • Material weakness(es) identified?   | ___              | Yes | ___ <u>X</u> ___<br>No |
| • Significant deficiencies identified that are not considered to be material weaknesses?                                    | ___ <u>X</u> ___ | Yes | ___ ___<br>No          |
| C. Noncompliance material to financial statements noted?  | ___              | Yes | ___ <u>X</u> ___<br>No |
| <i>Federal Awards</i>   |                  |     |                        |
| D. Internal control over major programs:  |                  |     |                        |
| • Material weakness(es) identified?   | ___              | Yes | ___ <u>X</u> ___<br>No |
| • Significant deficiencies identified that are not considered to be material weaknesses?                                    | ___              | Yes | ___ <u>X</u> ___<br>No |
| E. Type of auditors' report issued on compliance for major programs:  | Unmodified       |     |                        |
| F. Any other audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | ___              | Yes | ___ <u>X</u> ___<br>No |
| G. Identification of major programs:  |                  |     |                        |
| Name of Federal Program   | CFDA Number      |     |                        |
| Title I Cluster   | 84.010           |     |                        |
| Special Education Cluster (IDEA)  | 84.027/84.173    |     |                        |
| H. Dollar threshold used to distinguish between Type A and Type B programs:   | \$300,000        |     |                        |
| I. Auditee qualified as a low-risk auditee  | ___              | Yes | ___ <u>X</u> ___<br>No |

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For The Year Ended June 30, 2014

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| <b>SECTION II - FINANCIAL STATEMENT FINDINGS</b> |
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**Finding: 2014-001 Inconsistencies in Payroll Process**

*Criteria:* A School's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect errors on a timely basis.

*Condition:* During the course of our audit, it was brought to our attention that some employees were either over or under paid. This created additional receivables that were recorded during the audit. The total over or underpayments did not result in a material misstatement, but did allow employees to be paid for hours not actually worked.

*Cause:* Unknown, however the School's normal payroll process did not timely identify the errors that were made.

*Effect:* Inadequate controls over the payroll process results in an increased risk that employees are either over or under paid and employees are paid for hours not actually worked.

*Recommendation:* We recommend the School continue efforts to improve its payroll process to eliminate these errors.

**Management Response**

*Corrective Action Plan (CAP) including explanation of agreement or disagreement:* Additional controls have been implemented including, but not limited to: calendar of contracted days and form utilized to calculate contract pay, form to calculate retroactive adjustments, detailed review of the trial register, gross pay comparison for prior and current pay periods, and additional level of review for all payroll procedures. There is no disagreement with this finding.

*Official responsible for ensuring CAP:* Finance Manager.

*Planned completion date for CAP:* Ongoing – revised procedures were implemented in August 2014 and are continually assessed and refined to ensure more accurate payroll processing and timely detection of potential discrepancies.

*Plan to monitor completion for CAP:* Finance Manager will continue to provide oversight and additional level of review for all payroll procedures and verify they are consistently being followed each cycle.

**DULUTH PUBLIC SCHOOLS ACADEMY**  
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For The Year Ended June 30, 2014

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|---|
| <b>SECTION III - FEDERAL AWARD FINDINGS</b> |
|---|

None.

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| <b>SECTION IV - PRIOR YEAR FINDINGS – FEDERAL AWARDS</b> |
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None.

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| <b>SECTION V – MINNESOTA LEGAL COMPLIANCE FINDINGS</b> |
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None.

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