

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2014

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CHARTER SCHOOL NO. 4055
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INTRODUCTORY SECTION

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2014**

SCHOOL BOARD

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Mike Ross	6/30/2014	Chair/Parent Member
Gayle Reuvers	6/30/2016	Clerk/Community Member
Ellen Paulson	6/30/2014	Teacher Member
Maggie Kiley	6/30/2016	Teacher Member
Tara Berndt	6/30/2015	Parent Member
Melodi VanRoekel	6/30/2015	Teacher Member
Carmen Bonde	6/30/2016	Teacher Member

ADMINISTRATION

Lori Arndt
Barb Grote
Keith Johnson

Director
Administrative Assistant
Finance Manager/CFO

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
Charter School No. 4055
Nerstrand Elementary Charter School
Nerstrand, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Nerstrand Elementary Charter School as of June 30, 2014, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Community Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Board of Education
Charter School No. 4055
Nerstrand Elementary Charter School

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2014, on our consideration of Nerstrand Elementary Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result 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 Nerstrand Elementary Charter School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 10, 2014

REQUIRED SUPPLEMENTARY INFORMATION

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

This section of Nerstrand Elementary Charter School's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the School's financial statements, which immediately follows this section. Certain comparative information between the current year (2013-2014) and the prior year (2012-2013) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

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

- Net position on June 30, 2014 was \$499,204.
- Total fund balance of the General Fund on June 30, 2014 was \$476,301.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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. Net position – the difference between the School's assets and liabilities – is one way to measure the School's financial health or *position*.

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

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

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

Fund Financial Statements

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

- Some funds may be required by state law and by debt covenants.
- The School may establish other funds to control and manage money for particular purposes.

The School has one fund type:

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

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's *combined* net position was \$499,204 on June 30, 2014. This was an increase of 1.5% from the prior year (see Table A-1).

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

	Governmental Activities		Percentage Change
	2014	2013	
Current and Other Assets	\$ 504,364	\$ 489,739	3.0 %
Capital and Non-Current Assets	21,902	28,953	(24.4)
Total Assets	<u>526,266</u>	<u>518,692</u>	1.5
Current Liabilities	<u>27,062</u>	<u>26,931</u>	0.5
Net Position:			
Investment in Capital Assets	21,902	28,953	(24.4)
Restricted for Community Service	1,001	-	-
Unrestricted	<u>476,301</u>	<u>462,808</u>	2.9
Total Net Position	<u>\$ 499,204</u>	<u>\$ 491,761</u>	1.5

The School's increase in net position was supported by the School's total expenses being less than revenue received.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Changes in Net Position

The School's total revenues were \$1,371,094 for the year ended June 30, 2014. State formula aid accounted for 68% of total revenue for the year (see Figure A-1). Another 1% came from other general revenues combined with investment earnings and the remaining 31% from program revenues.

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

	Governmental Activities for the Fiscal Year Ended June 30,		Total % Change
	2014	2013	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 17,092	\$ 12,382	38.0 %
Operating Grants and Contributions	406,184	383,601	5.9
<u>General Revenues</u>			
Unrestricted State Aid	929,429	883,102	5.2
Investment Earnings	187	265	(29.4)
Other	18,202	34,924	(47.9)
Total Revenues	<u>1,371,094</u>	<u>1,314,274</u>	4.3
Expenses			
Administration	100,800	69,362	45.3
District Support Services	93,842	90,529	3.7
Regular Instruction	593,206	607,076	(2.3)
Special Education Instruction	196,704	166,767	18.0
Instructional Support Services	57,924	54,127	7.0
Pupil Support Services	2,174	2,000	8.7
Sites and Buildings	301,940	292,599	3.2
Fiscal and Other Fixed Cost Programs	9,765	7,037	38.8
Community Service	7,296	12,905	(43.5)
Total Expenses	<u>1,363,651</u>	<u>1,302,402</u>	4.7
Change in Net Position	7,443	11,872	
Beginning Net Position	491,761	479,889	
Ending Net Position	<u>\$ 499,204</u>	<u>\$ 491,761</u>	

The total cost of all programs and services was \$1,363,651. Total revenues surpassed expenses, increasing net position by \$7,443 from last year.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2014**

The cost of all *governmental* activities this year was \$1,363,651.

- Some of the cost was paid by the users of the School's programs (\$17,092).
- The federal and state governments subsidized certain programs with grants and contributions (\$406,184).
- Most of the School's costs, however, were paid for by the taxpayers of our state through state aid payments from the Minnesota Department of Education (\$929,429).
- The remaining portion of unrestricted governmental activities was paid for with investment earnings and other general revenues.

Figure A-1 Sources of School's Revenues for Fiscal 2014

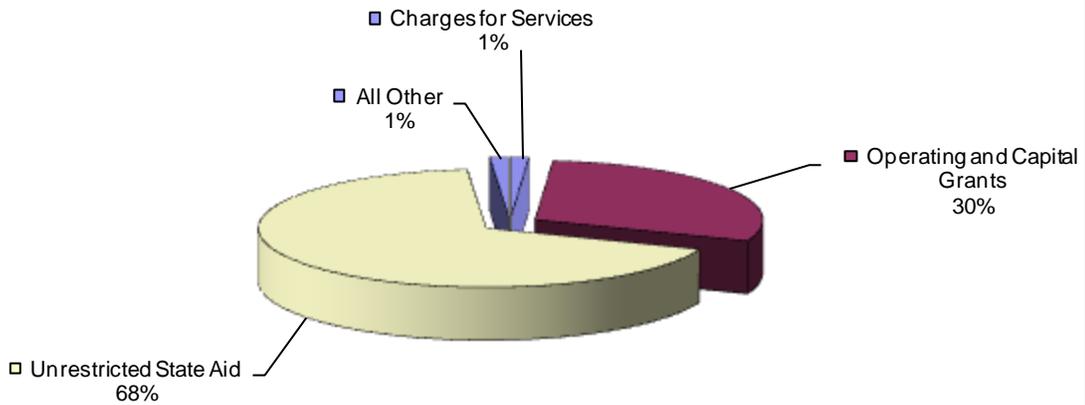
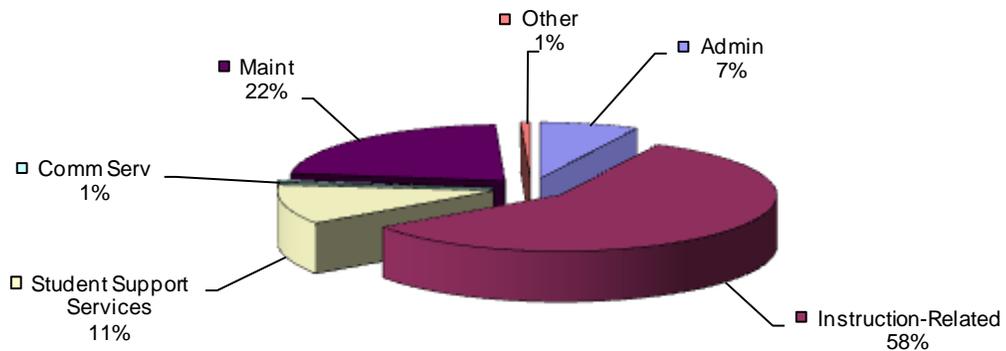


Figure A-2 School Expenses for Fiscal 2014



**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2014	2013		2014	2013	
Administration	\$ 100,800	\$ 69,362	45.3 %	\$ 100,800	\$ 69,362	45.3 %
District Support Services	93,842	90,529	3.7	93,842	90,529	3.7
Regular Instruction	593,206	607,076	(2.3)	558,126	571,607	(2.4)
Special Education Instruction	196,704	166,767	18.0	5,769	6,939	(16.9)
Instructional Support Services	57,924	54,127	7.0	57,924	54,127	7.0
Pupil Support Services	2,174	2,000	8.7	2,174	2,000	8.7
Sites and Buildings	301,940	292,599	3.2	112,976	104,295	8.3
Fiscal and Other Fixed Cost Programs	9,765	7,037	38.8	9,765	7,037	38.8
Community Service	7,296	12,905	(43.5)	(1,001)	523	(291.4)
Total	<u>\$ 1,363,651</u>	<u>\$ 1,302,402</u>	4.7	<u>\$ 940,375</u>	<u>\$ 906,419</u>	3.7

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds. As the School completed the year, its governmental funds reported a *combined* fund balance of \$477,302, which is \$14,494 above last year's ending fund balance of \$462,808.

Revenues for the School's governmental funds were \$1,371,094 while total expenditures were \$1,356,600.

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 5, including capital outlay projects.

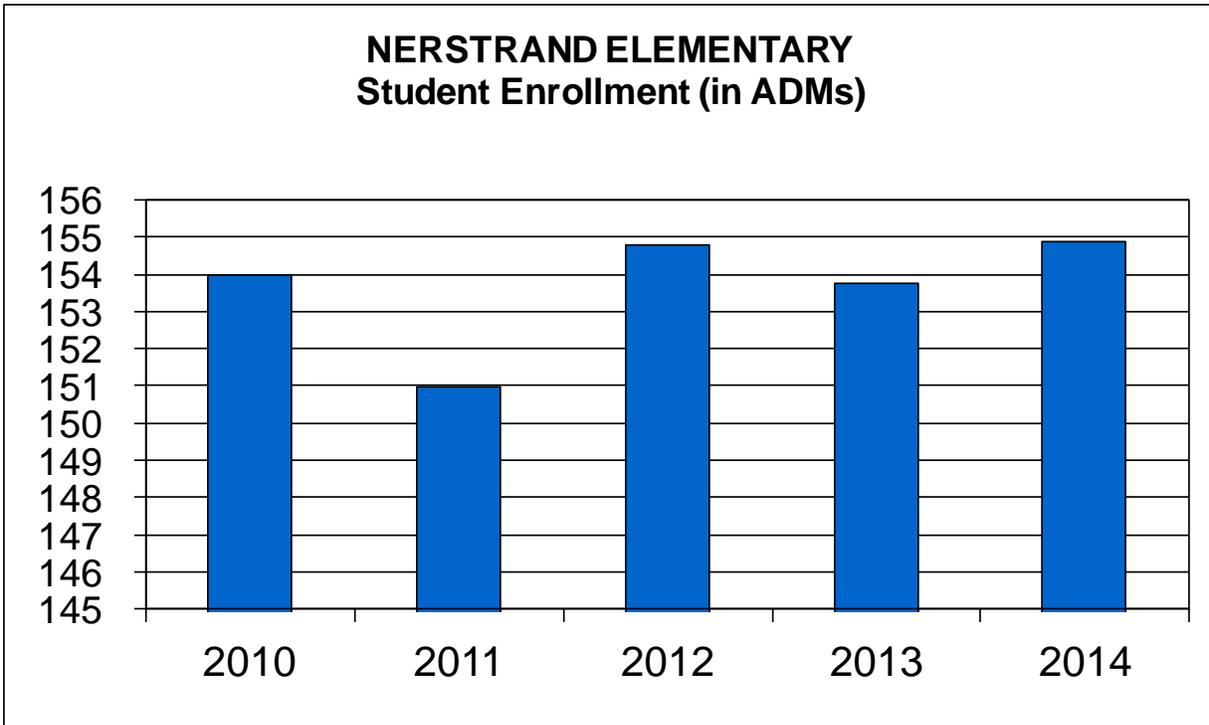
Approximately 90% of General Fund operational revenue was controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 68% of contracted services for personnel wage expenditures.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

ENROLLMENT

Enrollment is a critical factor in determining revenue with the predominant levels of General Fund revenue being determined by enrollment. The following chart shows the number of students over the last five years.

Table A-4



Over the last five years the School has maintained an average daily membership of between 151 -155 students. It is anticipated the enrollment will remain steady at an average daily membership of 153 providing approximately 24 kindergarten students per year as compared to approximately 26 students graduating annually. The School has a waiting list of students wishing to attend the School and, therefore, performs lottery drawings annually for available spaces.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2014	June 30, 2013	Increase (Decrease)	Percent
Local Sources:				
Earnings on Investments	\$ 187	\$ 265	\$ (78)	(29.4)%
Other	26,997	34,924	(7,927)	(22.7)
State Sources	1,282,510	1,214,294	68,216	5.6
Federal Sources	53,103	52,409	694	1.3
Total General Fund Revenue	<u>\$ 1,362,797</u>	<u>\$ 1,301,892</u>	<u>\$ 60,905</u>	4.7

Total General Fund Revenue increased by \$60,905 or 4.7% from the previous year. Basic general education revenue is determined by multiple state formulas which is largely enrollment driven.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2014	June 30, 2013		
Salaries	\$ -	\$ 610,611	\$ (610,611)	(100.0)%
Employee Benefits	-	156,637	(156,637)	(100.0)
Purchased Services	1,292,811	436,728	856,083	196.0
Supplies and Materials	37,275	36,298	977	2.7
Capital Expenditures	2,196	33,476	(31,280)	(0.9)
Other Expenditures	17,022	16,319	703	4.3
Total Expenditures	<u>\$ 1,349,304</u>	<u>\$ 1,290,069</u>	<u>\$ 59,235</u>	4.6

Total General Fund Expenditures increased \$59,235 or 4.6% from the previous year. The vast majority of this increase can be attributed to increased staffing costs. As the School contracts with EdVisions Cooperative for its staffing needs, and maintains no employees of its own, all salaries and employee benefits expense are now being classified as purchased services.

Working with EdVisions Cooperative, the School continues to look at various cost strategies to minimize the effect that rising health insurance premiums have on the costs of the School's employee compensation packages.

In fiscal year 2014, General Fund revenues were more than expenditures by \$13,493. Therefore, total unassigned fund balance increased to \$476,301 at June 30, 2014.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

Unassigned fund balance is the single best measure of overall financial health. The unassigned fund balance of \$476,301 at June 30, 2014, represents 35.3% of annual General Fund expenditures or about 19 weeks of operations. The School has a Board-approved fund balance policy in place with a target fund balance objective of at least 25% plus 3% for anticipated extraordinary costs such as playground equipment and technology items.

General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the School revises the annual operating budget in the Spring (and mid-year if necessary).

- The revised budget changes were due mostly to changing enrollment and the corresponding change in general education revenue.
- Actual revenues and expenses came in very close to budget (varying less than 2.5%).

OTHER MAJOR FUNDS

Revenues exceeded expenditures in the Community Education Fund by \$1,001.

From the standpoint of maintaining current operating expenditures within the range of annual revenue and maintaining a sound fund balance, the Community Service continues to operate on a sound financial basis with expected occasional transfers from the General Fund to help support the Community Service employee benefit expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Net Investment in Capital Assets

At the end of 2013-2014 fiscal year, the School had invested \$74,540 in a broad range of capital assets, including computer and audio-visual equipment, choral risers, piano, media center and other furniture (see Table A-7). (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year was \$7,051.

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

	2014	2013	Percentage Change
Equipment	\$ 74,540	\$ 74,540	-
Less: Accumulated Depreciation	(52,638)	(45,587)	15.5
Total	<u>\$ 21,902</u>	<u>\$ 28,953</u>	(24.4)

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2014**

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The School will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and customers with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Nerstrand Elementary Charter School No. 4055, 205 South 2nd Street, P.O. Box 156, Nerstrand, Minnesota 55053.

BASIC FINANCIAL STATEMENTS

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 STATEMENT OF NET POSITION
 JUNE 30, 2014**

	Governmental Activities
ASSETS	
Cash and Investments	\$ 359,895
Receivables:	
Other Governments	143,966
Other	503
Capital Assets, Net of Accumulated Depreciation	21,902
Total Assets	526,266
LIABILITIES	
Accounts and Contracts Payable	5,145
Due to Other Governmental Units	21,917
Total Liabilities	27,062
NET POSITION	
Investment In Capital Assets	21,902
Restricted for Community Service	1,001
Unrestricted	476,301
Total Net Position	\$ 499,204

See accompanying Notes to Basic Financial Statements.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities
Governmental Activities				
Administration	\$ 100,800	\$ -	\$ -	\$ (100,800)
District Support Services	93,842	-	-	(93,842)
Regular Instruction	593,206	8,795	26,285	(558,126)
Special Education Instruction	196,704	-	190,935	(5,769)
Instructional Support Services	57,924	-	-	(57,924)
Pupil Support Services	2,174	-	-	(2,174)
Sites and Buildings	301,940	-	188,964	(112,976)
Fiscal and Other Fixed Cost Programs	9,765	-	-	(9,765)
Community Service	7,296	8,297	-	1,001
Total School District	<u>\$ 1,363,651</u>	<u>\$ 17,092</u>	<u>\$ 406,184</u>	(940,375)
General Revenues				
				929,429
				187
				18,202
				<u>947,818</u>
				7,443
				491,761
				<u>\$ 499,204</u>

See accompanying Notes to Basic Financial Statements.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2014**

	Major Funds		Total Governmental
	General	Community Service	Funds 2014
ASSETS			
Cash and Investments	\$ 359,397	\$ 498	\$ 359,895
Receivables:			
Due from Minnesota Department of Education	143,253	-	143,253
Due from Federal through Minnesota Department of Education	713	-	713
Other Receivables	-	503	503
	<u>503,363</u>	<u>1,001</u>	<u>504,364</u>
Total Assets	<u>\$ 503,363</u>	<u>\$ 1,001</u>	<u>\$ 504,364</u>
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts and Contracts Payable	\$ 5,145	\$ -	\$ 5,145
Due to Other Governmental Units	21,917	-	21,917
	<u>27,062</u>	<u>-</u>	<u>27,062</u>
Total Liabilities	<u>27,062</u>	<u>-</u>	<u>27,062</u>
Fund Balance:			
Unassigned	476,301	-	476,301
Restricted for Community Service	-	1,001	1,001
	<u>476,301</u>	<u>1,001</u>	<u>477,302</u>
Total Fund Balance	<u>476,301</u>	<u>1,001</u>	<u>477,302</u>
Total Liabilities and Fund Balance	<u>\$ 503,363</u>	<u>\$ 1,001</u>	<u>\$ 504,364</u>

See accompanying Notes to Basic Financial Statements.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>Amount</u>
Total Fund Balance for Governmental Funds	\$ 477,302
<p>Total net position reported for governmental activities in the statement of net position is different because:</p> <p>Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:</p>	
Equipment, Net of Accumulated Depreciation	<u>21,902</u>
Total Net Position of Governmental Activities	<u><u>\$ 499,204</u></u>

See accompanying Notes to Basic Financial Statements.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2014**

	Major Funds		Total Governmental Funds 2014
	General	Community Service	
REVENUES			
Local Sources:			
Earnings on Investments	\$ 187	\$ -	\$ 187
Other	26,997	8,297	35,294
State Sources	1,282,510	-	1,282,510
Federal Sources	53,103	-	53,103
Total Revenues	<u>1,362,797</u>	<u>8,297</u>	<u>1,371,094</u>
EXPENDITURES			
Current:			
Administration	100,800	-	100,800
District Support Services	93,803	-	93,803
Regular Instruction	588,249	-	588,249
Special Education Instruction	192,453	-	192,453
Instructional Support Services	57,924	-	57,924
Pupil Support Services	2,174	-	2,174
Sites and Buildings	301,940	-	301,940
Fiscal and Other Fixed Cost Programs	9,765	-	9,765
Community Service	-	7,296	7,296
Capital Outlay	2,196	-	2,196
Total Expenditures	<u>1,349,304</u>	<u>7,296</u>	<u>1,356,600</u>
Net Change in Fund Balance	13,493	1,001	14,494
Fund Balance - Beginning	<u>462,808</u>	<u>-</u>	<u>462,808</u>
Fund Balance - Ending	<u>\$ 476,301</u>	<u>\$ 1,001</u>	<u>\$ 477,302</u>

See accompanying Notes to Basic Financial Statements.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 RECONCILIATION OF THE STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2014**

	Amount
Net Change in Fund Balance - Total Governmental Funds	\$ 14,494
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>	
Depreciation Expense	(7,051)
Change in Net Position of Governmental Activities	\$ 7,443

See accompanying Notes to Basic Financial Statements.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings on Investments	\$ 250	\$ 200	\$ 187	\$ (13)
Other	18,000	27,600	26,997	(603)
State Sources	1,211,046	1,250,528	1,282,510	31,982
Federal Sources	46,700	52,564	53,103	539
Total Revenues	<u>1,275,996</u>	<u>1,330,892</u>	<u>1,362,797</u>	<u>31,905</u>
EXPENDITURES				
Current:				
Administration	12,989	100,708	100,800	92
District Support Services	92,700	96,074	93,803	(2,271)
Elementary and Secondary Regular Instruction	713,691	589,169	588,249	(920)
Special Education Instruction	167,997	191,009	192,453	1,444
Instructional Support Services	3,600	57,750	57,924	174
Pupil Support Services	500	2,600	2,174	(426)
Sites and Buildings	297,900	303,056	301,940	(1,116)
Fiscal and Other Fixed Cost Programs	7,500	9,765	9,765	-
Capital Outlay	-	2,200	2,196	(4)
Total Expenditures	<u>1,296,877</u>	<u>1,352,331</u>	<u>1,349,304</u>	<u>(3,027)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,881)	(21,439)	13,493	34,932
OTHER FINANCING USES				
Transfers Out	<u>(800)</u>	<u>(885)</u>	<u>-</u>	<u>885</u>
Net Change in Fund Balance	<u>\$ (21,681)</u>	<u>\$ (22,324)</u>	13,493	<u>\$ 35,817</u>
FUND BALANCE				
Beginning of Year			<u>462,808</u>	
End of Year			<u>\$ 476,301</u>	

See accompanying Notes to Basic Financial Statements.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL
 MAJOR COMMUNITY SERVICE FUND
 YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Over
	Original	Final	Amounts	(Under) Final Budget
REVENUES				
Local Sources	\$ 12,200	\$ 8,000	\$ 8,297	\$ 297
EXPENDITURES				
Current:				
Community Service	13,000	8,885	7,296	(1,589)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(800)	(885)	1,001	1,886
OTHER FINANCING SOURCES				
Transfer In	800	885	-	(885)
Net Change in Fund Balance	\$ -	\$ -	1,001	\$ 1,001
FUND BALANCE				
Beginning of Year			-	
End of Year			\$ 1,001	

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Charter School No. 4055 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

Charter School No. 4055 (the School) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the School. Effective July 1, 2012, the School is authorized by Novation Education Opportunities under the terms of a five-year authorizer agreement expiring June 30, 2017.

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

Component units are legally separate entities for which the School is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the School.

Aside from its authorizing, Novation Education Opportunities has no authority, control, power, or administrative responsibilities over Nerstrand Elementary Charter School. Therefore, the School is not considered a component unit of Novation Education Opportunities.

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

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

The School-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the School.

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

The School applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available.

Separate fund financial statements are provided for the General and Community Service Funds.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The 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 when all eligibility requirements imposed by the provider have been met.

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

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

1. Revenue Recognition

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

2. Recording of Expenditures

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

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

Description of Funds

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 for Minnesota School Districts (UFARS) which mandates the use of a governmental fund accounting structure. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. A description of the School's fund included in this report is as follows:

Major Governmental Funds

General Fund

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

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Community Service Special Revenue Fund

The Community Service Fund is used to account for the School's extended day childcare program.

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.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the School Board adopts an annual budget for the following fiscal year for the General and Community Service Funds. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level. Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

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

Budgeted amounts include mid-year budget amendments that increased (decreased) revenue and expenditure budgets as follows:

<u>Revenues</u>	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
General Fund	\$ 1,275,996	\$ 54,896	\$ 1,330,892
Special Revenue Funds:			
Community Service Fund	12,200	(4,200)	8,000
<u>Expenditures</u>			
General Fund	\$ 1,296,877	\$ 55,454	\$ 1,352,331
Special Revenue Funds:			
Community Service Fund	13,000	(4,115)	8,885

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Investments

Cash and investment balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation. Investments are stated at their fair value as determined by quoted market prices, except for participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

G. Accounts Receivable

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

H. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The School maintains a threshold level of \$1,500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the School-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 20 years for equipment.

The School does not possess any material amounts of infrastructure capital assets.

I. Accrued Employee Benefits

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

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Fund Balance

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

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

K. Risk Management

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

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

L. 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 its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

The School maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the School maintains deposits at financial institutions which are authorized by the School Board.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

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

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The bank balance of the School's deposits in banks at June 30, 2014 is \$17,304 and were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes. The carrying value of the School's deposits in banks at June 30, 2014 were \$7,274.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

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 received 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 13 months or less
- General obligations rated “A” or better; revenue obligations rated “AA” or better
- General obligations of the Minnesota Housing Finance Agency rate “A” or better
- Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- repurchase or reverse purchase agreement and securities lending agreements 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

At June 30, 2014, the School’s investment balances, including carrying value after outstanding checks, were as follows:

Minnesota School District Liquid Asset Fund –

	Amortized Cost	Carrying Value
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	\$ 352,621	\$ 352,621

The MSDLAF+ is an external investment pool and its investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The MSDLAF+ pool is rated AAAM by Standard & Poor's. The School does not have a policy addressing credit risk.

NOTE 3 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Being Depreciated:				
Equipment	\$ 74,540	\$ -	\$ -	\$ 74,540
Accumulated Depreciation for:				
Equipment	<u>(45,587)</u>	<u>(7,051)</u>	-	<u>(52,638)</u>
Governmental Activities Capital Assets, Net	<u>\$ 28,953</u>	<u>\$ (7,051)</u>	<u>\$ -</u>	<u>\$ 21,902</u>

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

Governmental Activities	
District Support Services	\$ 39
Regular Instruction	2,761
Special Education Instruction	<u>4,251</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 7,051</u>

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 4 RETIREMENT PLANS

The School contracts its staffing needs through EdVisions Cooperative and maintains no employees of its own. Substantially all employees of EdVisions Cooperative are required by state law to belong to a pension plan administered by Teachers' Retirement Association (TRA) which is administered on a statewide basis. Disclosures relating to this plan follows:

Teacher's Retirement Association (TRA)

1. Plan Description

All teachers employed by the School are covered by a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Minnesota 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 members are not. All Basic members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five 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 website at www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

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

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members were required to contribute 7.0% and 10.5%, respectively, of their annual covered salary in fiscal year 2014. The School was required to contribute the following percentages of annual covered payroll: 7.0% for Coordinated Plan members and 11% for Basic Plan members in fiscal year 2013. The contribution requirements of plan members and the School are established and may be amended by state statute. The School contributions for the year ended June 30, 2014, 2013 and 2012 were \$34,456, \$27,301 and \$28,358, equal to the contractually required contributions as set by state statute.

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014**

NOTE 5 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Lease Commitments and Terms

The School (lessee) leases its school building and original furnishings in Nerstrand, Minnesota, from Independent School District #656 – Faribault (lessor). The original three-year lease agreement commenced July 1, 1999 and various renewal options have been exercised. The lease was renewed again beginning July 1, 2014. The term of the lease is for a period of one year. The monthly base rent is \$17,500 for the remainder of the lease. Under the terms of the lease, the lessee provides for the cost of utilities. The total cost of all educational-related space for fiscal 2013-2014 which qualified for state lease aid was \$210,000. The School qualified for state charter school lease aid based on a statutory cap of \$1,200 per pupil unit or \$188,964. This entitlement is subject to proration by the Minnesota Department of Education to the extent the overall funding that has been provided is insufficient to meet all amounts owed to Minnesota charter schools.

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

The future minimum lease payments under the current lease agreement are as follows:

Fiscal Year Ending June 30,	Base Rent
2015	<u>\$ 210,000</u>

SUPPLEMENTAL INFORMATION

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 GENERAL FUND
 BALANCE SHEET
 JUNE 30, 2014**

	Amount
ASSETS	
Cash and Investments	\$ 359,397
Receivables:	
Due from Minnesota Department of Education	143,253
Due from Federal through the Minnesota Department of Education	713
Total Assets	\$ 503,363
 LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts and Contracts Payable	\$ 5,145
Due to Other Minnesota School Districts	21,917
Total Liabilities	27,062
 Fund Balance:	
Unassigned	476,301
Total Liabilities and Fund Balance	\$ 503,363

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2014**

	Final Budget	Actual Amounts	Over (Under) Final Budget
REVENUES			
Local Sources:			
Earnings on Investments	\$ 200	\$ 187	\$ (13)
Other	27,600	26,997	(603)
State Sources	1,250,528	1,282,510	31,982
Federal Sources	52,564	53,103	539
Total Revenues	1,330,892	1,362,797	31,905
EXPENDITURES			
Current:			
Administration:			
Purchased Services	88,000	88,092	92
Other Expenditures	12,708	12,708	-
Total Administration	100,708	100,800	92
District Support Services:			
Purchased Services	91,424	89,256	(2,168)
Supplies and Materials	250	233	(17)
Other Expenditures	4,400	4,314	(86)
Total District Support Services	96,074	93,803	(2,271)
Elementary and Secondary Regular Instruction:			
Purchased Services	557,446	557,197	(249)
Supplies and Materials	31,723	31,052	(671)
Capital Expenditures	2,200	2,196	(4)
Total Elementary and Secondary Regular Instruction	591,369	590,445	(924)
Special Education Instruction:			
Purchased Services	188,169	188,900	731
Supplies and Materials	2,840	3,553	713
Total Special Education Instruction	191,009	192,453	1,444

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL (CONTINUED)
 YEAR ENDED JUNE 30, 2014**

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
EXPENDITURES (Continued)			
Current (Continued):			
Instructional Support Services:			
Purchased Services	57,750	57,924	174
Pupil Support Services:			
Purchased Services	2,600	2,174	(426)
Sites and Buildings:			
Purchased Services	300,556	299,503	(1,053)
Supplies and Materials	2,500	2,437	(63)
Total Sites and Buildings	<u>303,056</u>	<u>301,940</u>	<u>(1,116)</u>
Fiscal and Other Fixed Cost Programs:			
Purchased Services	<u>9,765</u>	<u>9,765</u>	<u>-</u>
Total Expenditures	<u>1,352,331</u>	<u>1,349,304</u>	<u>(3,027)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(21,439)	13,493	34,932
OTHER FINANCING USES			
Transfers Out	<u>(885)</u>	<u>-</u>	<u>885</u>
Net Change in Fund Balance	<u>\$ (22,324)</u>	13,493	<u>\$ 35,817</u>
FUND BALANCE			
Beginning of Year		<u>462,808</u>	
End of Year		<u>\$ 476,301</u>	

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
COMMUNITY SERVICE SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2014**

	<u>Amount</u>
ASSETS	
Cash and Investments	\$ 498
Other Receivables	<u>503</u>
Total Assets	<u><u>\$ 1,001</u></u>
 LIABILITIES AND FUND BALANCE	
Fund Balance:	
Restricted for Community Service	<u><u>\$ 1,001</u></u>

**NERSTRAND ELEMENTARY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4055
 COMMUNITY SERVICE SPECIAL REVENUE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2014**

	Final Budget	Actual Amounts	Over (Under) Final Budget
REVENUES			
Local Sources	\$ 8,000	\$ 8,297	\$ 297
EXPENDITURES			
Current:			
Purchased Services	8,135	6,619	(1,516)
Supplies and Materials	750	677	(73)
Total Expenditures	8,885	7,296	(1,589)
OTHER FINANCING SOURCES			
Transfer In	885	-	(885)
Net Change in Fund Balance	\$ -	1,001	\$ 1,001
FUND BALANCE			
Beginning of Year		-	
End of Year		\$ 1,001	

**NERSTRAND ELEMENTARY CHARTER SCHOOL
CHARTER SCHOOL NO. 4055
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2014**

	AUDIT	UFARS	Difference
01 GENERAL FUND			
Total Revenue	\$ 1,362,797	\$ 1,362,797	\$ -
Total Expenditures	\$ 1,349,304	\$ 1,349,304	\$ -
<i>Non Spendable:</i>			
460 Non Spendable Fund Balance	\$ -	\$ -	\$ -
<i>Restricted/Reserved:</i>			
403 Staff Development	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ -	\$ -	\$ -
406 Health & Safety	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -
408 Cooperative Programs	\$ -	\$ -	\$ -
411 Severance Pay	\$ -	\$ -	\$ -
413 Project Funded by COP	\$ -	\$ -	\$ -
414 Operating Debt	\$ -	\$ -	\$ -
416 Levy Reduction	\$ -	\$ -	\$ -
417 Taconite Building Maint	\$ -	\$ -	\$ -
423 Certain Teacher Programs	\$ -	\$ -	\$ -
424 Operating Capital	\$ -	\$ -	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -
428 Learning & Development	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -
436 State Approved Alt. Program	\$ -	\$ -	\$ -
438 Gifted & Talented	\$ -	\$ -	\$ -
441 Basic Skills Programs	\$ -	\$ -	\$ -
445 Career and Technical Programs	\$ -	\$ -	\$ -
446 First Grade Preparedness	\$ -	\$ -	\$ -
449 Safe Schools Crime	\$ -	\$ -	\$ -
450 Prekindergarten	\$ -	\$ -	\$ -
451 QZAB Payments	\$ -	\$ -	\$ -
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -
453 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -
<i>Restricted:</i>			
464 Restricted Fund Balance	\$ -	\$ -	\$ -
<i>Committed:</i>			
418 Committed for Separation	\$ -	\$ -	\$ -
461 Committed Fund Balance	\$ -	\$ -	\$ -
<i>Assigned:</i>			
462 Assigned Fund Balance	\$ -	\$ -	\$ -
<i>Unassigned:</i>			
422 Unassigned Fund Balance	\$ 476,301	\$ 476,301	\$ -
02 FOOD SERVICE			
Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ -	\$ -	\$ -
<i>Non Spendable:</i>			
460 Non Spendable Fund Balance	\$ -	\$ -	\$ -
<i>Restricted:</i>			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -
464 Restricted Fund Balance	\$ -	\$ -	\$ -
<i>Unassigned:</i>			
463 Unassigned Fund Balance	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE			
Total Revenue	\$ 8,297	\$ 8,297	\$ -
Total Expenditures	\$ 7,296	\$ 7,296	\$ -
<i>Restricted/Reserved:</i>			
426 \$25 Taconite	\$ -	\$ -	\$ -
431 Community Education	\$ -	\$ -	\$ -
432 E.C.F.E.	\$ -	\$ -	\$ -
444 School Readiness	\$ -	\$ -	\$ -
447 Adult Basic Education	\$ -	\$ -	\$ -
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -
<i>Restricted:</i>			
464 Restricted Fund Balance	\$ 1,001	\$ 1,001	\$ -
<i>Unreserved:</i>			
463 Unassigned Fund Balance	\$ -	\$ -	\$ -

OTHER REQUIRED REPORTS



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

Board of Education
Charter School No. 4055
Nerstrand Elementary Charter School
Nerstrand, 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 Nerstrand Elementary Charter School, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Nerstrand Elementary Charter School's basic financial statements, and have issued our report thereon dated September 10, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Nerstrand Elementary Charter School'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 Nerstrand Elementary Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Nerstrand Elementary Charter School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Education
Charter School No. 4055
Nerstrand Elementary Charter School

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of 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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 10, 2014

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Charter School No. 4055
Nerstrand Elementary Charter School
Nerstrand, 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 Nerstrand Elementary Charter School as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 10, 2014.

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

In connection with our audit, nothing came to our attention that caused us to believe that Nerstrand Elementary Charter School 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 School's noncompliance with the above-referenced provisions.

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 10, 2014