

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

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

For The Year Ended June 30, 2013

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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, 2013

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**BOARD OF DIRECTORS**

<u>Elective</u>	<u>Board Position</u>
Tami Siebert	President
Mike St. John	Vice-President
Crystal Palmer	Treasurer
Lisa Harold*	Secretary
Val Petersen*	Director
Mary Lynch*	Director
Lucy Augustine	Director
Allison Dillon*	Director
Hilary Hodgman	Director
Thomas Furman	Director
Ben Fornear	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, 2013, 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 of 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.

4810 White Bear Parkway White Bear Lake, MN 55110 651.426.7000 651.426.5004 fax www.hlbtr.com  
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HLB Tautges Redpath is a member of HLB International, a world-wide network of independent accounting firms and business advisors.

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, 2013, 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.

## **Other Matters**

### *Required Supplementary Information*

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

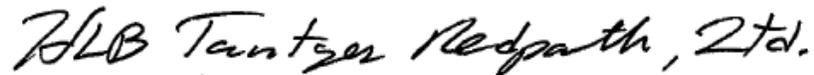
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Duluth Public Schools Academy's basic financial statements. The introductory section, and individual fund statements, are presented for purposes of additional analysis and are not a required 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 a required part of the basic financial statements.

The individual fund financial statements and the 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 basic financial statements. Such 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 individual fund financial statements and the Uniform Financial Accounting Reporting Standards Compliance Table are 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 them.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2013 on our consideration of Duluth Public Schools Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Duluth Public Schools Academy's internal control over financial reporting and compliance.

Handwritten signature in black ink that reads "HLB Tautges Redpath, Ltd." in a cursive script.

HLB TAUTGES REDPATH, LTD.

November 18, 2013

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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, 2013. 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 2012-2013 fiscal year include the following:

- The School’s net position increased by \$142,222. Current assets decreased by \$5,529,215 and current liabilities decreased by \$5,837,484. These changes are primarily due to the change in the State aid payment schedule, thus allowing the School to pay Edison Learning more timely, which decreases the liability.
- Total revenue increased by \$241,833 (1.7%) between fiscal year 2012 and fiscal year 2013 primarily as a result of an overall increase of local monies, State and Federal funds attributed to an increase in enrollment. Expenses increased by \$389,132 due to the final payment in the amount of \$545,000 to Kraus-Anderson for the close-out of the North Star building project.

## **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 \$726,314 as of June 30, 2013.

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

	June 30,	
	2013	2012
Assts:		
Current assets	\$5,040,507	\$10,569,722
Capital assets, net	15,099,337	15,503,222
Total assets	<u>20,139,844</u>	<u>26,072,944</u>
Liabilities:		
Current liabilities	1,854,218	7,691,702
Long-term liabilities	17,559,312	17,797,150
Total liabilities	<u>19,413,530</u>	<u>25,488,852</u>
Net position:		
Net investment in capital assets	(376,268)	(886,294)
Restricted for regulation	3,722	-
Restricted for food service	122,814	2,297
Restricted for community service	11,752	-
Unrestricted	964,294	1,468,089
Total net position	<u>\$726,314</u>	<u>\$584,092</u>

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

### Changes in Net Position

The School's total revenues were \$14,822,623 for the year ended June 30, 2013. Program revenues accounted for 39% of total revenue for the year.

The total cost of all programs and services was \$14,680,401. Total revenues exceeded expenses by \$142,222 resulting in ending net position of \$726,314 at June 30, 2013.

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

	For The Years Ended June 30,	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$267,219	\$218,258
Operating grants and contributions	5,569,037	6,047,031
General revenues:		
Local sources	38,801	44,674
State sources	8,902,969	8,082,576
Federal sources	44,246	187,414
Other	351	837
Total revenues	<u>14,822,623</u>	<u>14,580,790</u>
Expenses:		
District support services	1,980,525	2,233,504
Regular instruction	4,429,126	4,301,144
Special education	3,548,268	3,480,519
Community education and services	124,478	151,168
Instructional support services	506,354	262,281
Pupil support services	1,605,827	1,533,199
Site, building and equipment	1,260,513	1,167,767
Fiscal and other fixed costs	158,441	68,083
Interest and fiscal changes on long-term liabilities	1,066,869	1,093,604
Total expenses	<u>14,680,401</u>	<u>14,291,269</u>
Change in net position	142,222	289,521
Net position - beginning of year	<u>584,092</u>	<u>294,571</u>
Net position - end of year	<u><u>\$726,314</u></u>	<u><u>\$584,092</u></u>

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

### GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund adopted an original revenue budget of \$14,051,957.

The General Fund adopted an original expenditure budget of \$13,989,556.

While the School's final budget for the General Fund anticipated that revenues would exceed expenditures by \$62,401, the actual results for the year showed expenditures exceeding revenues by \$349,835.

- Actual revenues were \$136,653 more than anticipated, due largely to additional funding for increased enrollment.
- Actual expenditures were \$548,889 more than anticipated, due to the final payment in the amount of \$545,000 to Kraus-Anderson for the close-out of the North Star building project.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

#### Capital Assets

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

	2013	2012	Increase (Decrease)
Construction in progress	\$24,391	\$55,775	(\$31,384)
Land	1,109,061	1,109,061	-
Buildings	14,543,878	14,509,355	34,523
Furniture and fixtures	170,806	170,806	-
Total capital assets	15,848,136	15,844,997	3,139
Accumulated depreciation	(748,799)	(341,775)	(407,024)
Net capital assets	<u>\$15,099,337</u>	<u>\$15,503,222</u>	<u>(\$403,885)</u>

#### 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. \$18.15M remains outstanding as of June 30, 2013.

## **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 2013-2014 budget. One of the bigger factors affecting the budget is the pupil count. The FY2013-2014 budget was based on the number of students enrolled for the 2012-2013 school year, estimated average daily attendance using historical data, multiplied by the per pupil amount received in the prior year. The student population continues to grow and we currently show an increase of 55 students over the prior year. 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 2013-2014 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 Operations Manager, 3301 Technology Drive, Duluth, Minnesota 55811.

## **BASIC FINANCIAL STATEMENTS**

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
STATEMENT OF NET POSITION  
June 30, 2013

**Statement 1**

	<u>Governmental Activities</u>
Assets:	
Cash and temporary cash investments	\$1,278,335
Cash and investments held by trustee	1,674,482
Accounts receivable	20,684
Due from other governments	1,593,295
Prepays	55,589
Deferred charges	418,122
Capital assets (net of accumulated depreciation):	
Nondepreciable	1,133,452
Depreciable	<u>13,965,885</u>
Total assets	<u>20,139,844</u>
Liabilities:	
Accounts and contracts payable	102,030
Due to other governments	53,684
Due to EdisonLearning, Inc.	1,522,120
Deferred revenue - unearned	4,105
Accrued interest payable	172,279
Long-term debt:	
Due in less than one year	265,000
Due in more than one year	<u>17,294,312</u>
Total liabilities	<u>19,413,530</u>
Net position:	
Net investment in capital assets	(376,268)
Restricted for regulation	3,722
Restricted for food service	122,814
Restricted for community service	11,752
Unrestricted	<u>964,294</u>
Total net position	<u><u>\$726,314</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, 2013

**Statement 2**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
District support services	\$1,980,525	\$ -	\$ -	(\$1,980,525)
Regular instruction	4,429,126	-	311,187	(4,117,939)
Special education	3,548,268	6,415	3,535,974	(5,879)
Community education and services	124,478	136,218	-	11,740
Instructional support services	506,354	-	-	(506,354)
Pupil support services	1,605,827	124,586	373,156	(1,108,085)
Site, building and equipment	1,260,513	-	1,348,720	88,207
Fiscal and other fixed costs	158,441	-	-	(158,441)
Interest and fiscal charges on long-term liabilities	1,066,869	-	-	(1,066,869)
Total governmental activities	<u>\$14,680,401</u>	<u>\$267,219</u>	<u>\$5,569,037</u>	<u>(8,844,145)</u>
General revenues:				
Local sources				38,801
State sources				8,902,969
Federal sources				44,246
Investment income				351
Total general revenues				<u>8,986,367</u>
Change in net position				142,222
Net position - beginning				<u>584,092</u>
Net position - ending				<u>\$726,314</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, 2013

**Statement 3**

	General Fund	Food Service	Community Service	Tischer Creek	Totals
<b>Assets:</b>					
Cash and temporary cash investments	\$975,898	\$148,965	\$12,169	\$141,303	\$1,278,335
Cash and investments held by trustee	-	-	-	1,674,482	1,674,482
Accounts receivable	4,207	11,312	5,165	-	20,684
Due from Minnesota Department of Education	1,438,186	430	-	-	1,438,616
Due from Federal Government through Minnesota Department of Education	148,887	5,792	-	-	154,679
Due from other funds	8,462	-	-	-	8,462
Prepaid items	55,183	-	-	406	55,589
<b>Total assets</b>	<b>\$2,630,823</b>	<b>\$166,499</b>	<b>\$17,334</b>	<b>\$1,816,191</b>	<b>\$4,630,847</b>
<b>Liabilities and Fund Balance</b>					
<b>Liabilities:</b>					
Accounts and contracts payable	\$101,595	\$ -	\$ -	\$435	\$102,030
Due to Minnesota Department of Education	53,684	-	-	-	53,684
Due to EdisonLearning, Inc.	1,476,958	43,685	1,477	-	1,522,120
Due to other funds	-	-	-	8,462	8,462
Deferred revenue	-	-	4,105	-	4,105
<b>Total liabilities</b>	<b>1,632,237</b>	<b>43,685</b>	<b>5,582</b>	<b>8,897</b>	<b>1,690,401</b>
<b>Fund balance:</b>					
Nonspendable - prepaid items	55,183	-	-	406	55,589
Restricted for regulation	3,722	-	-	-	3,722
Restricted for food service	-	122,814	-	-	122,814
Restricted for community service	-	-	11,752	-	11,752
Restricted for capital and debt service	-	-	-	1,665,585	1,665,585
Assigned	-	-	-	141,303	141,303
Unassigned	939,681	-	-	-	939,681
<b>Total fund balance</b>	<b>998,586</b>	<b>122,814</b>	<b>11,752</b>	<b>1,807,294</b>	<b>2,940,446</b>
<b>Total liabilities and fund balance</b>	<b>\$2,630,823</b>	<b>\$166,499</b>	<b>\$17,334</b>	<b>\$1,816,191</b>	<b>\$4,630,847</b>
Amounts reported for governmental activities in the statement of net position are different because:					
Fund balance reported above					\$2,940,446
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds.					15,099,337
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:					
Deferred charges					418,122
Discount on bonds payable					590,688
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					(18,150,000)
Accrued interest payable					(172,279)
<b>Net position of governmental activities (Statement 1)</b>					<b>\$726,314</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, 2013

	General Fund	Food Service	Community Service	Tischer Creek	Totals
<b>Revenues:</b>					
Local sources	\$45,216	\$124,586	\$136,218	\$1,999,900	\$2,305,920
State sources	13,509,460	25,192	-	-	13,534,652
Federal sources	633,636	347,964	-	-	981,600
Investment income	298	17	13	23	351
<b>Total revenues</b>	<b>14,188,610</b>	<b>497,759</b>	<b>136,231</b>	<b>1,999,923</b>	<b>16,822,523</b>
<b>Expenditures:</b>					
<b>Current:</b>					
District support services	1,980,525	-	-	-	1,980,525
Regular instruction	4,429,126	-	-	-	4,429,126
Special education	3,548,268	-	-	-	3,548,268
Community education and services	-	-	124,478	-	124,478
Instructional support services	506,354	-	-	-	506,354
Pupil support services	1,228,585	377,242	-	-	1,605,827
Site, building and equipment	2,703,024	-	-	109,064	2,812,088
Fiscal and other fixed costs	142,563	-	-	-	142,563
Capital outlay	-	-	-	44,440	44,440
<b>Debt service:</b>					
Principal	-	-	-	260,269	260,269
Interest and fiscal charges	-	-	-	1,047,250	1,047,250
<b>Total expenditures</b>	<b>14,538,445</b>	<b>377,242</b>	<b>124,478</b>	<b>1,461,023</b>	<b>16,501,188</b>
Revenues over (under) expenditures	(349,835)	120,517	11,753	538,900	321,335
<b>Other financing sources (uses):</b>					
Transfers in	-	-	132,409	-	132,409
Transfers out	(132,409)	-	-	-	(132,409)
<b>Total other financing sources (uses)</b>	<b>(132,409)</b>	<b>-</b>	<b>132,409</b>	<b>-</b>	<b>-</b>
Net change in fund balance	(482,244)	120,517	144,162	538,900	321,335
Fund balance (deficit) - beginning	1,480,830	2,297	(132,410)	1,268,394	2,619,111
Fund balance (deficit) - ending	\$998,586	\$122,814	\$11,752	\$1,807,294	\$2,940,446

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

Revenues over (under) expenditures reported on previous page	\$321,335
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	3,139
Depreciation	(407,024)
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.	260,269
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)
Amortization of bond issue costs	(15,878)
Accrued interest	2,812
<b>Change in net position of governmental activities (Statement 2)</b>	<b>\$142,222</b>

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

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
STATEMENT OF FIDUCIARY NET POSITION  
June 30, 2013

**Statement 5**

---

	<u>Agency Funds</u>
Assets:	
Cash and temporary cash investments	<u><u>\$16,001</u></u>
Liabilities:	
Due to student groups	<u><u>\$16,001</u></u>

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

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

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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. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-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 and fiduciary funds. Major individual governmental funds are reported as a separate column in the fund financial statements.

The fiduciary funds are presented in the fiduciary fund financial statements by type (agency). Since by definition these assets are being held for the benefit of a third party (student groups) and cannot be used to address activities or obligations of the School, these funds are not incorporated into the government-wide 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 government-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.

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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.

*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.

The School reports the following Fiduciary Fund:

*Agency* – This fund is used to account for assets that the School holds on behalf of others as their agent, which includes the Student Activity Fund. The Student Activity Fund is not under Board control.

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. CAPITAL ASSETS**

Capital assets, which include property, plant, and equipment are reported in the government-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 and fixtures are depreciated over 5 years.

**J. LONG-TERM OBLIGATIONS**

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

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In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**K. 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.

**L. NET POSITION**

Net position represent the difference between assets and liabilities in the government-wide financial statements.

**M. 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.

**N. STUDENT ACTIVITIES**

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, the School's Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities.

**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.

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, 2013, 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.

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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.

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

	<u>Deposits</u>	<u>Wells Fargo Money Market</u>	<u>Total</u>
Statement 3 - Governmental Funds:			
Cash and investments	\$1,278,335	\$ -	\$1,278,335
Cash and investments held by trustee	-	1,674,482	1,674,482
Statement 5 - Agency Funds	<u>16,001</u>	<u>-</u>	<u>16,001</u>
 Total	 <u>\$1,294,336</u>	 <u>\$1,674,482</u>	 <u>\$2,968,818</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.

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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 6.5%, of their annual covered salary. The School is required to contribute 6.5% of annual covered payroll. The School's contributions for the years ended June 30, 2013, 2012 and 2011 were \$330,282, \$282,489 and \$220,215, respectively, which were equal to the required contributions for each year as set by State Statute.

**Note 4 INTERFUND BALANCES**

Interfund receivable and payable balances arise from temporary cash deficits in individual funds and other routine matters. At June 30, 2013 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, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$1,109,061	\$ -	\$ -	\$1,109,061
Construction in progress	55,775	9,918	(41,302)	24,391
Total capital assets, not being depreciated	<u>1,164,836</u>	<u>9,918</u>	<u>(41,302)</u>	<u>1,133,452</u>
Capital assets, being depreciated:				
Buildings	14,509,355	34,523	-	14,543,878
Furniture and fixtures	170,806	-	-	170,806
Total capital assets, being depreciated	<u>14,680,161</u>	<u>34,523</u>	<u>-</u>	<u>14,714,684</u>
Less accumulated depreciation for:				
Buildings	314,549	372,863	-	687,412
Furniture and fixtures	27,226	34,161	-	61,387
Total accumulated depreciation	<u>341,775</u>	<u>407,024</u>	<u>0</u>	<u>748,799</u>
Total capital assets being depreciated - net	<u>14,338,386</u>	<u>(372,501)</u>	<u>0</u>	<u>13,965,885</u>
Governmental activities capital assets - net	<u>\$15,503,222</u>	<u>(\$362,583)</u>	<u>(\$41,302)</u>	<u>\$15,099,337</u>

All capital asset activity relates to the Building Company.

Depreciation expense for the year ended June 30, 2013 was \$407,024 which was charged entirely to the site, building and equipment function/program.

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**Note 6 LONG-TERM DEBT**

	Balance <u>6/30/2013</u>
<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>\$18,150,000</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 beginning May 1, 2011 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, 2012	Additions	Retirements	June 30, 2013	Due in One Year
Bonds payable	\$18,400,000	\$ -	(\$250,000)	\$18,150,000	\$265,000
Bond discounts	(613,119)	-	22,431	(590,688)	-
Special assessment payable	10,269	-	(10,269)	-	-
Total	<u>\$17,797,150</u>	<u>\$0</u>	<u>(\$237,838)</u>	<u>\$17,559,312</u>	<u>\$265,000</u>

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Annual debt service requirements to maturity for long-term debt are as follows:

Year	Bonds Payable	
	Principal	Interest
2014	\$265,000	\$1,024,728
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>\$18,150,000</u>	<u>\$19,063,686</u>

**DULUTH PUBLIC SCHOOLS ACADEMY**  
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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 2013, net of one-time adjustments, were \$374,903. Scheduled maximum fees, before any adjustments are as follows:

Year Ending June 30	Amount
2014	\$640,851
2015	658,747
2016	727,090
2017	<u>767,132</u>
Total	<u><u>\$2,793,820</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, 2013. Future minimum payments under the term of the lease are as follows:

Year Ending June 30	Amount
2014	\$50,484
2015	50,484
2016	50,484
2017	<u>8,414</u>
Total	<u><u>\$159,866</u></u>

**DULUTH PUBLIC SCHOOLS ACADEMY**  
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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, 2013. 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 June 30	Amount
2014	\$1,454,900
2015	1,454,900
2016	1,454,900
2017	1,454,900
2018	1,454,900
2019-2023	7,274,500
2024-2028	7,274,500
2029-2033	7,274,500
2034-2038	7,274,500
2039-2041	3,516,008
Total	<u>\$39,888,508</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 RECENTLY ISSUED ACCOUNTING STANDARDS**

The Governmental Accounting Standards Board (GASB) approved Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which will affect the School's financial statements for the year ending June 30, 2014. This standard will result in the retroactive adjustment to eliminate deferred charges from the Statement of Net Position (totaling \$418,122 as of June 30, 2013). This change does not impact the fund-based financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**DULUTH PUBLIC SCHOOLS ACADEMY**  
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 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 For The Year Ended June 30, 2013  
 With Comparative Actual Amounts For The Year Ended June 30, 2012

**Statement 6**

	2013				2012 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Revenues:					
Local sources	\$ -	\$ -	\$45,216	\$45,216	\$40,497
State sources	13,485,140	13,485,140	13,509,460	24,320	13,211,905
Federal sources	566,817	566,817	633,636	66,819	749,606
Investment income	-	-	298	298	192
Total revenues	<u>14,051,957</u>	<u>14,051,957</u>	<u>14,188,610</u>	<u>136,653</u>	<u>14,002,200</u>
Expenditures:					
District support services	1,549,072	1,549,072	1,980,525	431,453	2,233,504
Regular instruction	4,166,180	4,166,180	4,429,126	262,946	4,301,232
Special education	3,663,761	3,663,761	3,548,268	(115,493)	3,480,431
Instructional support services	133,212	133,212	506,354	373,142	262,281
Pupil support services	647,756	647,756	1,228,585	580,829	1,105,481
Site, building and equipment	3,829,575	3,829,575	2,703,024	(1,126,551)	2,036,324
Fiscal and other fixed costs	-	-	142,563	142,563	68,084
Total expenditures	<u>13,989,556</u>	<u>13,989,556</u>	<u>14,538,445</u>	<u>548,889</u>	<u>13,487,337</u>
Revenues over expenditures	<u>62,401</u>	<u>62,401</u>	<u>(349,835)</u>	<u>(412,236)</u>	<u>514,863</u>
Other financing sources (uses):					
Transfers out	-	-	(132,409)	(132,409)	-
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>(132,409)</u>	<u>(132,409)</u>	<u>0</u>
Net change in fund balance	<u>\$62,401</u>	<u>\$62,401</u>	<u>(482,244)</u>	<u>(\$544,645)</u>	<u>514,863</u>
Fund balance - beginning			<u>1,480,830</u>		<u>965,967</u>
Fund balance - ending			<u>\$998,586</u>		<u>\$1,480,830</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  
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**Statement 7**

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE FUND  
For The Year Ended June 30, 2013  
With Comparative Actual Amounts For The Year Ended June 30, 2012

	2013				2012 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Revenues:					
Local sources	\$69,373	\$69,373	\$124,586	\$55,213	\$117,855
State sources	-	-	25,192	25,192	26,239
Federal sources	330,630	330,630	347,964	17,334	316,064
Investment income	-	-	17	17	18
Miscellaneous revenue	-	-	-	-	4,178
Total revenues	<u>400,003</u>	<u>400,003</u>	<u>497,759</u>	<u>97,756</u>	<u>464,354</u>
Expenditures:					
Pupil support services	<u>400,003</u>	<u>400,003</u>	<u>377,242</u>	<u>(22,761)</u>	<u>427,718</u>
Revenues over (under) expenditures	<u>\$0</u>	<u>\$0</u>	120,517	<u>\$120,517</u>	36,636
Fund balance (deficit) - beginning			<u>2,297</u>		<u>(34,339)</u>
Fund balance (deficit) - ending			<u>\$122,814</u>		<u>\$2,297</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, 2013

With Comparative Actual Amounts For The Year Ended June 30, 2012

	2013			Variance with Final Budget - Over (Under)	2012 Actual Amounts
	Budgeted Amounts		Actual Amounts		
	Original	Final			
Revenues:					
Local sources	\$30,628	\$30,628	\$136,218	\$105,590	\$100,403
Investment income	-	-	13	13	15
Total revenues	<u>30,628</u>	<u>30,628</u>	<u>136,231</u>	<u>105,603</u>	<u>100,418</u>
Expenditures:					
Community education and services	<u>93,029</u>	<u>93,029</u>	<u>124,478</u>	<u>31,449</u>	<u>151,168</u>
Revenues over (under) expenditures	<u>(62,401)</u>	<u>(62,401)</u>	<u>11,753</u>	<u>74,154</u>	<u>(50,750)</u>
Other financing sources (uses):					
Transfer in	-	-	132,409	132,409	
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>132,409</u>	<u>132,409</u>	<u>0</u>
Net change in fund balance	<u>(\$62,401)</u>	<u>(\$62,401)</u>	144,162	<u>\$206,563</u>	(50,750)
Fund balance (deficit) - beginning			<u>(132,410)</u>		<u>(81,660)</u>
Fund balance (deficit) - ending			<u>\$11,752</u>		<u>(\$132,410)</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, 2013

	<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	\$14,188,610	\$14,188,611	(\$1)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	14,538,445	14,538,448	(3)	Total Expenditures	-	-	-
<i>Non-Spendable:</i>				<i>Non-Spendable:</i>			
4.60 Non Spendable Fund Balance	55,183	55,182	1	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	-	-	-	<b>07 DEBT SERVICE</b>			
4.16 Levy Reduction	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.17 Taconite Building Maint	-	-	-	Total Expenditures	-	-	-
4.23 Certain Teacher Programs	-	-	-	<i>Non-Spendable:</i>			
4.24 Operating Capital	-	-	-	4.60 Non Spendable Fund Balance	-	-	-
4.26 \$25 Taconite	-	-	-	<i>Restricted/Reserve:</i>			
4.27 Disabled Accessibility	-	-	-	4.25 Bond Refundings	-	-	-
4.28 Learning and Development	-	-	-	4.51 QZAB Payments	-	-	-
4.34 Area Learning Center	-	-	-	<i>Restricted:</i>			
4.35 Contracted Alt. Programs	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.36 St. Approved Alt. Program	-	-	-	<i>Unassigned:</i>			
4.38 Gifted & Talented	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.41 Basic Skills Programs	-	-	-	<b>08 TRUST</b>			
4.45 Career & Tech Programs	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.46 First Grade Preparedness	-	-	-	Total Expenditures	-	-	-
4.49 Safe Schools Levy	-	-	-	<i>Unrestricted:</i>			
4.50 Pre-Kindergarten	-	-	-	4.22 Net Assets	-	-	-
4.51 QZAB Payments	-	-	-	<b>09 AGENCY</b>			
4.52 OPEB Liab Not In Trust	-	-	-	<i>Unrestricted:</i>			
4.53 Unfunded Sev & Retirement Levy	-	-	-	4.22 Net Assets	-	-	-
<i>Restricted:</i>				<b>20 INTERNAL SERVICE</b>			
4.64 Restricted Fund Balance	3,722	3,722	-	Total Revenue	\$ -	\$ -	\$ -
<i>Committed:</i>				Total Expenditures	-	-	-
4.18 Committed For Separation	-	-	-	<i>Unrestricted:</i>			
4.61 Committed Fund Balance	-	-	-	4.22 Net Assets	-	-	-
<i>Assigned:</i>				<b>25 OPEB REVOCABLE TRUST</b>			
4.62 Assigned Fund Balance	-	-	-	Total Revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	-	-	-
4.22 Unassigned Fund Balance	939,681	939,684	(3)	<i>Unrestricted:</i>			
<b>02 FOOD SERVICE</b>				4.22 Net Assets	-	-	-
Total Revenue	\$497,759	\$497,758	\$1	<b>45 OPEB IRREVOCABLE TRUST</b>			
Total Expenditures	377,242	377,241	1	Total Revenue	\$ -	\$ -	\$ -
<i>Non-Spendable:</i>				Total Expenditures	-	-	-
4.60 Non Spendable Fund Balance	-	-	-	<i>Unrestricted:</i>			
<i>Restricted/Reserve:</i>				4.22 Net Assets	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-	<b>47 OPEB DEBT SERVICE FUND</b>			
<i>Restricted:</i>				Total Revenue	\$ -	\$ -	\$ -
4.64 Restricted Fund Balance	122,814	122,814	-	Total Expenditures	-	-	-
<i>Unassigned:</i>				<i>Non-Spendable:</i>			
4.63 Unassigned Fund Balance	-	-	-	4.60 Non Spendable Fund Balance	-	-	-
<b>04 COMMUNITY SERVICE</b>				<i>Restricted/Reserve:</i>			
Total Revenue	\$136,231	\$136,231	\$ -	4.25 Bond Refundings	-	-	-
Total Expenditures	124,478	124,480	(2)	<i>Restricted:</i>			
<i>Restricted/Reserve:</i>				4.64 Restricted Fund Balance	-	-	-
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.32 E.C.F.E	-	-	-	<b>04 COMMUNITY SERVICE</b>			
4.44 School Readiness	-	-	-	Total Revenue	\$136,231	\$136,231	\$ -
4.47 Adult Basic Education	-	-	-	Total Expenditures	124,478	124,480	(2)
4.52 OPEB Liab Not In Trust	-	-	-	<i>Restricted/Reserve:</i>			
<i>Restricted:</i>				4.26 \$25 Taconite	-	-	-
4.64 Restricted Fund Balance	11,752	11,751	1	4.31 Community Education	-	-	-
<i>Unassigned:</i>				4.32 E.C.F.E	-	-	-
4.63 Unassigned Fund Balance	-	-	-	4.44 School Readiness	-	-	-
<b>04 COMMUNITY SERVICE</b>				4.47 Adult Basic Education	-	-	-
Total Revenue	\$136,231	\$136,231	\$ -	4.52 OPEB Liab Not In Trust	-	-	-
Total Expenditures	124,478	124,480	(2)	<i>Restricted:</i>			
<i>Restricted/Reserve:</i>				4.64 Restricted Fund Balance	11,752	11,751	1
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.32 E.C.F.E	-	-	-	<b>04 COMMUNITY SERVICE</b>			
4.44 School Readiness	-	-	-	Total Revenue	\$136,231	\$136,231	\$ -
4.47 Adult Basic Education	-	-	-	Total Expenditures	124,478	124,480	(2)
4.52 OPEB Liab Not In Trust	-	-	-	<i>Restricted/Reserve:</i>			
<i>Restricted:</i>				4.26 \$25 Taconite	-	-	-
4.64 Restricted Fund Balance	11,752	11,751	1	4.31 Community Education	-	-	-
<i>Unassigned:</i>				4.32 E.C.F.E	-	-	-
4.63 Unassigned Fund Balance	-	-	-	4.44 School Readiness	-	-	-
<b>04 COMMUNITY SERVICE</b>				4.47 Adult Basic Education	-	-	-
Total Revenue	\$136,231	\$136,231	\$ -	4.52 OPEB Liab Not In Trust	-	-	-
Total Expenditures	124,478	124,480	(2)	<i>Restricted:</i>			
<i>Restricted/Reserve:</i>				4.64 Restricted Fund Balance	11,752	11,751	1
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.32 E.C.F.E	-	-	-	<b>04 COMMUNITY SERVICE</b>			
4.44 School Readiness	-	-	-	Total Revenue	\$136,231	\$136,231	\$ -
4.47 Adult Basic Education	-	-	-	Total Expenditures	124,478	124,480	(2)
4.52 OPEB Liab Not In Trust	-	-	-	<i>Restricted/Reserve:</i>			
<i>Restricted:</i>				4.26 \$25 Taconite	-	-	-
4.64 Restricted Fund Balance	11,752	11,751	1	4.31 Community Education	-	-	-
<i>Unassigned:</i>				4.32 E.C.F.E	-	-	-
4.63 Unassigned Fund Balance	-	-	-	4.44 School Readiness	-	-	-
<b>04 COMMUNITY SERVICE</b>				4.47 Adult Basic Education	-	-	-
Total Revenue	\$136,231	\$136,231	\$ -	4.52 OPEB Liab Not In Trust	-	-	-
Total Expenditures	124,478	124,480	(2)	<i>Restricted:</i>			
<i>Restricted/Reserve:</i>				4.64 Restricted Fund Balance	11,752	11,751	1
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.32 E.C.F.E	-	-	-	<b>04 COMMUNITY SERVICE</b>			
4.44 School Readiness	-	-	-	Total Revenue	\$136,231	\$136,231	\$ -
4.47 Adult Basic Education	-	-	-	Total Expenditures	124,478	124,480	(2)
4.52 OPEB Liab Not In Trust	-	-	-	<i>Restricted/Reserve:</i>			
<i>Restricted:</i>				4.26 \$25 Taconite	-	-	-
4.64 Restricted Fund Balance	11,752	11,751	1	4.31 Community Education	-	-	-
<i>Unassigned:</i>				4.32 E.C.F.E	-	-	-
4.63 Unassigned Fund Balance	-	-	-	4.44 School Readiness	-	-	-
<b>04 COMMUNITY SERVICE</b>				4.47 Adult Basic Education	-	-	-
Total Revenue	\$136,231	\$136,231	\$ -	4.52 OPEB Liab Not In Trust	-	-	-
Total Expenditures	124,478	124,480	(2)	<i>Restricted:</i>			
<i>Restricted/Reserve:</i>				4.64 Restricted Fund Balance	11,752	11,751	1
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.32 E.C.F.E	-	-	-	<b>04 COMMUNITY SERVICE</b>			
4.44 School Readiness	-	-	-	Total Revenue	\$136,231	\$136,231	\$ -
4.47 Adult Basic Education	-	-	-	Total Expenditures	124,478	124,480	(2)
4.52 OPEB Liab Not In Trust	-	-	-	<i>Restricted/Reserve:</i>			
<i>Restricted:</i>				4.26 \$25 Taconite	-	-	-
4.64 Restricted Fund Balance	11,752	11,751	1	4.31 Community Education	-	-	-
<i>Unassigned:</i>				4.32 E.C.F.E	-	-	-
4.63 Unassigned Fund Balance	-	-	-	4.44 School Readiness	-	-	-
<b>04 COMMUNITY SERVICE</b>				4.47 Adult Basic Education	-	-	-
Total Revenue	\$136,231	\$136,231	\$ -	4.52 OPEB Liab Not In Trust	-	-	-
Total Expenditures	124,478	124,480	(2)	<i>Restricted:</i>			
<i>Restricted/Reserve:</i>				4.64 Restricted Fund Balance	11,752	11,751	1
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.32 E.C.F.E	-	-	-	<b>04 COMMUNITY SERVICE</b>			
4.44 School Readiness	-	-	-	Total Revenue	\$136,231	\$136,231	\$ -
4.47 Adult Basic Education	-	-	-	Total Expenditures	124,478	124,480	(2)
4.52 OPEB Liab Not In Trust	-	-	-	<i>Restricted/Reserve:</i>			
<i>Restricted:</i>				4.26 \$25 Taconite	-	-	-
4.64 Restricted Fund Balance	11,752	11,751	1	4.31 Community Education	-	-	-
<i>Unassigned:</i>				4.32 E.C.F.E	-	-	-
4.63 Unassigned Fund Balance	-	-	-	4.44 School Readiness	-	-	-
<b>04 COMMUNITY SERVICE</b>				4.47 Adult Basic Education	-	-	-
Total Revenue	\$136,231	\$136,231	\$ -	4.52 OPEB Liab Not In Trust	-	-	-
Total Expenditures	124,478	124,480	(2)	<i>Restricted:</i>			
<i>Restricted/Reserve:</i>				4.64 Restricted Fund Balance	11,752	11,751	1
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.32 E.C.F.E	-	-	-	<b>04 COMMUNITY SERVICE</b>			
4.44 School Readiness	-	-	-	Total Revenue	\$136,231	\$136,231	\$ -
4.47 Adult Basic Education	-	-	-	Total Expenditures	124,478	124,480	(2)
4.52 OPEB Liab Not In Trust	-	-	-	<i>Restricted/Reserve:</i>			
<i>Restricted:</i>				4.26 \$25 Taconite	-	-	-
4.64 Restricted Fund Balance	11,752	11,751	1	4.31 Community Education	-	-	-
<i>Unassigned:</i>				4.32 E.C.F.E	-	-	-
4.63 Unassigned Fund Balance	-	-	-	4.44 School Readiness	-	-	-
<b>04 COMMUNITY SERVICE</b>				4.47 Adult Basic Education	-	-	-
Total Revenue	\$136,231	\$136,231	\$ -	4.52 OPEB Liab Not In Trust	-	-	-
Total Expenditures	124,478	124,480	(2)	<i>Restricted:</i>			
<i>Restricted/Reserve:</i>				4.64 Restricted Fund Balance	11,752	11,751	1
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.32 E.C.F.E	-	-	-	<b>04 COMMUNITY SERVICE</b>			
4.44 School Readiness	-	-	-	Total Revenue	\$136,231	\$136,231	\$ -
4.47 Adult Basic Education	-	-	-	Total Expenditures	124,478	124,480	(2)
4.52 OPEB Liab Not In Trust	-	-	-	<i>Restricted/Reserve:</i>			
<i>Restricted:</i>				4.26 \$25 Taconite	-	-	-
4.64 Restricted Fund Balance	11,752	11,751	1	4.31 Community Education	-	-	-
<i>Unassigned:</i>				4.32 E.C.F.E	-	-	-
4.63 Unassigned Fund Balance	-	-	-	4.44 School Readiness	-	-	-
<b>04 COMMUNITY SERVICE</b>				4.47 Adult Basic Education	-	-	-
Total Revenue	\$136,231	\$136,231	\$ -	4.52 OPEB Liab Not In Trust	-	-	-
Total Expenditures	124,478	124,480	(2)	<i>Restricted:</i>			
<i>Restricted/Reserve:</i>				4.64 Restricted Fund Balance	11,752	11,751	1
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.32 E.C.F.E	-	-	-	<b>04 COMMUNITY SERVICE</b>			
4.44 School Readiness	-	-	-	Total Revenue	\$136,231	\$136,231	\$ -
4.47 Adult Basic Education	-	-	-	Total Expenditures	124,478	124,480	(2)
4.52 OPEB Liab Not In Trust	-	-	-	<i>Restricted/Reserve:</i>			
<i>Restricted:</i>				4.26 \$25 Taconite	-	-	-
4.64 Restricted Fund Balance	11,752	11,751	1	4.31 Community Education	-	-	-
<i>Unassigned:</i>				4.32 E.C.F.E	-	-	-
4.63 Unassigned Fund Balance	-	-	-	4.44 School Readiness	-	-	-
<b>04 COMMUNITY SERVICE</b>				4.47 Adult Basic Education	-	-	-
Total Revenue	\$136,231	\$136,231	\$ -	4.52 OPEB Liab Not In Trust	-	-	-
Total Expenditures	124,478	124,480	(2)	<i>Restricted:</i>			
<i>Restricted/Reserve:</i>				4.64 Restricted Fund Balance	11,752	11,751	1
4.26 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
4.31 Community Education	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.32 E.C.F.E	-	-	-	<b>04 COMMUNITY SERVICE</b>			
4.44 School Readiness	-	-					

## **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, 2013, 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 18, 2013.

**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 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 the 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 have not been identified. Given these

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

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 certain deficiencies in internal control that we consider to be a significant deficiency, described in the accompanying schedule of findings and questioned costs as finding 2013-01.

**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 Schools Academy's Response to Findings**

Duluth Public Schools Academy's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Duluth Public Schools 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.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

November 18, 2013

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, 2013, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2013.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minnesota Statutes Section 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*, except as described in the attached schedule of findings and questioned costs as finding 2013-02. 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.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

November 18, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE 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, 2013. 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.

Duluth Public Schools Academy  
Independent Auditor's Report on Compliance for  
Each Major Program and on Internal Control  
Over Compliance Required By OMB Circular A-133

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, 2013.

**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 a 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.

Duluth Public Schools Academy  
Independent Auditor's Report on Compliance for  
Each Major Program and on Internal Control  
Over Compliance Required By OMB Circular A-133

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 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, 2013, 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 18, 2013, 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 and 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 and 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.

*HLB Tautges Redpath, Ltd.*

HLB TAUTGES REDPATH, LTD.

November 18, 2013

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For The Year Ended June 30, 2013**

Federal Funding Source/ Pass Through Agency/ Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Education:</b>			
Passed through State of Minnesota:			
Title I Grants to Local Educational Agencies	84.010	None noted	\$267,060
Total Title I Cluster			<u>267,060</u>
Title II Grants to Local Educational Agencies	84.367	None noted	44,127
Total Title II Cluster			<u>44,127</u>
Title V Part B - Federal Charter School Facilities Incentives Grant	84.282	None noted	44,246
Total Title V Cluster			<u>44,246</u>
Special Education Grants to States	84.027	None noted	272,514
IDEA Part B Section 619 Preschool Incentive, Ages 3-5	84.173	None noted	5,690
Total Special Education Cluster			<u>278,204</u>
Total U.S. Department of Education			<u>633,637</u>
<b>U.S. Department of Agriculture:</b>			
Passed through State of Minnesota:			
School Breakfast Program	10.553	None noted	70,108
National School Lunch Program	10.555	None noted	277,854
Total Child Nutrition Cluster			<u>347,962</u>
Total U.S. Department of Agriculture			<u>347,962</u>
<b>Total Federal Expenditures</b>			<u><u>\$981,599</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 \$27,319 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, 2013

**SECTION I - SUMMARY OF AUDIT RESULTS**

Financial Statements

- A. Type of auditors' report issued: Unmodified
- B. Internal control over financial reporting:
- Material weakness(es) identified?  Yes  No
  - Significant deficiencies identified that are not considered to be material weaknesses?  Yes  No
- C. Noncompliance material to financial statements noted?  Yes  No

Federal Awards

- D. Internal control over major programs:
- Material weakness(es) identified?  Yes  No
  - Significant deficiencies identified that are not considered to be material weaknesses?  Yes  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  No

G. Identification of major programs:

Name of Federal Program	CFDA Number
Title I Cluster	84.010
Child Nutrition Cluster	10.553/10.555

- H. Dollar threshold used to distinguish between Type A and Type B programs: \$300,000
- I. Auditee qualified as a low-risk auditee  Yes  No

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For The Year Ended June 30, 2013

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

See attached finding 2013-01.

**SECTION III - FEDERAL AWARD FINDINGS**

None.

**SECTION IV – MINNESOTA LEGAL COMPLIANCE FINDINGS**

See attached finding 2013-02.

**SECTION V - PRIOR YEAR FINDINGS – FEDERAL AWARDS**

***Prior Year Finding 2012-03:*** Identification of Federal Expenditures: Child Nutrition Cluster CFDA 10.553 and 10.555.

*Condition:* We identified non-cash assistance in the form of commodities with a value of \$25,921 that was received and used by the School during the year, but was not identified by the School for inclusion on the schedule of federal expenditures.

*Current Status:* Tested in current year without exception.

***Prior Year Finding 2012-04:*** Inconsistent Documentation for Federal Payroll Expenditures: Title I Cluster CFDA 84.010.

*Condition:* For employees whose time is charged to the Title I Program, we tested two employees' time reports for the entire year and noted 24 out of the 44 federal personnel activity reports had no supervisor signature. In addition, for two employees tested we noted the amounts actually charged to Title I exceed the amounts supported by the federal personnel activity reports and payroll records for both these employees by a total of \$7,800.

*Current Status:* Tested in current year without exception.

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For The Year Ended June 30, 2013

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**INTERNAL CONTROL FINDINGS**

**Finding: 2013-01 Documentation and Approval of Disbursements from Edison Account**

*Criteria:* Generally, receipts/invoices and documentation of approval should be retained for all disbursements.

*Condition:* Of 25 disbursements tested, two had no supporting documentation and one had no documentation of approval.

*Cause:* Unknown.

*Effect:* Lack of approval and not retaining supporting documentation for expenditures are an indicator of a higher risk that errors could occur and not be detected on a timely basis.

*Questioned Costs:* None.

*Recommendation:* We recommend that the School work with Edison to continue efforts to ensure that all expenditures are approved and supporting documentation is retained.

**Management Response**

*Corrective Action Plan (CAP):* The School Finance Manager will verify that all disbursements have the appropriate documentation, including the expense approval, attached to the invoice prior to processing for payment.

*Explanation of agreement or disagreement:* There is no disagreement with this finding. Prior to the commencement of the audit, during the transition of site disbursement approval, this procedure was addressed and revised to include verification of supporting documentation and approval documentation prior to processing.

*Official responsible for ensuring CAP:* The School Finance Manager.

*Planned completion date for CAP:* Ongoing – procedure was implemented summer of 2013.

*Plan to monitor completion for CAP:* The School Finance Manager will continue to verify that all disbursements have the appropriate documentation, including the expense approval, attached to the invoice prior to processing for payment.

**DULUTH PUBLIC SCHOOLS ACADEMY  
CHARTER SCHOOL NO. 4020  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2013**

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**LEGAL COMPLIANCE FINDINGS**

**Finding: 2013-02 Missing Declaration for Payment**

*Condition:* The required declaration for payment was not included on the School's manually written checks for the food service and community service accounts.

*Criteria:* Minnesota Statute 471.391 reads as follows:

**471.391 Declaration form.**

Subdivision 1. **Sufficiency.** The declaration provided for in section 471.38 is sufficient if in the following form: "I declare under the penalties of law that this account, claim or demand is just and correct and that no part of it has been paid."

.....  
"Signature of Claimant"

Subd. 2. **Above check endorsement.** The check or order-check by which the claim is paid may have printed on its reverse side, above the space for endorsement thereof by the payee, the following statement: "The undersigned payee, in endorsing this check (or order-check) declares that the same is received in payment of a just and correct claim against the county (county board of education for unorganized territory, school district, town or city), and that no part of it has heretofore been paid." When endorsed by the payee named in the check or order-check, such statement shall operate and shall be deemed sufficient as the required declaration of the claim.

*Questioned Costs:* None.

*Cause:* Unknown.

*Effect:* Not determinable.

*Recommendation:* We recommend the School use check stock containing the declaration, to be in compliance with Minnesota Statute 471.391.

**DULUTH PUBLIC SCHOOLS ACADEMY**  
**CHARTER SCHOOL NO. 4020**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For The Year Ended June 30, 2013

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**Management Response (2013-03)**

*Corrective Action Plan (CAP):* Implement the use of system checks, which have the declaration statement pre-printed on all check stock, as well as obtain a declaration stamp to use on all manual checks that are issued.

*Explanation of agreement or disagreement:* There is no disagreement with this finding.

*Official responsible for ensuring CAP:* The School Finance Manager.

*Planned completion date for CAP:* December 1, 2013.

*Plan to monitor completion for CAP:* System checks were ordered and received in November 2013, all containing the required declaration. As part of the procedure for writing manual checks, the School Finance Manager and/or Head of Schools will verify the declaration stamp is on the back of all manual checks issued prior to disbursing to the payee.

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