

**HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039**

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

For The Year Ended June 30, 2011

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**HIGH SCHOOL FOR RECORDING ARTS
 CHARTER SCHOOL NO. 4039
 TABLE OF CONTENTS**

| | <u>Reference</u> | <u>Page Number</u> |
|---|------------------|--------------------|
| INTRODUCTORY SECTION | | |
| School Board and Administration | | 3 |
| FINANCIAL SECTION | | |
| Independent Auditor's Report | | 7 |
| Management's Discussion and Analysis | | 9 |
| Basic Financial Statements: | | |
| Government-Wide Financial Statements: | | |
| Statement of Net Assets | Statement 1 | 24 |
| Statement of Activities | Statement 2 | 25 |
| Fund Financial Statements: | | |
| Balance Sheet - Governmental Funds | Statement 3 | 26 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds | Statement 4 | 27 |
| Notes to Financial Statements | | 29 |
| REQUIRED SUPPLEMENTARY INFORMATION | | |
| Budgetary Comparison Schedule - General Fund | Statement 5 | 42 |
| Budgetary Comparison Schedule - Food Service Special Revenue Fund | Statement 6 | 44 |
| Budgetary Comparison Schedule - Note to RSI | | 45 |
| INDIVIDUAL FUND STATEMENTS | | |
| Balance Sheet - General Fund | Statement 7 | 48 |
| Balance Sheet - Food Service Special Revenue Fund | Statement 8 | 49 |
| SUPPLEMENTAL INFORMATION | | |
| Uniform Financial Accounting and Reporting Standards - Compliance Table | | 53 |
| OTHER REQUIRED REPORTS | | |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | | 57 |
| Report on Compliance with Minnesota Legal Compliance Audit Guide for Political Subdivisions | | 59 |
| Schedule of Findings and Responses | | 61 |

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INTRODUCTORY SECTION

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BOARD OF DIRECTORS

| <u>Name</u> | <u>Board Position</u> <u>During 2010 - 2011</u> |
|--------------------|--|
| Dr. Wayne Jennings | President |
| Layne Bellamy | Treasurer |
| Carei Thomas | Secretary/Community Member |
| Paula Anderson | Member |
| Darryl Young | Member |
| Penny Sherry | Parent Member |

ADMINISTRATION

| | |
|-----------------|--|
| Anthony Simmons | Program Director |
| Bonita Hughes | Financial Manager |
| School Office: | High School for Recording Arts Charter School No. 4039 550 Vandalia Street St. Paul, MN 55114 651-287-0890 |

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
High School for Recording Arts
Charter School No. 4039
St. Paul, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of High School for Recording Arts, as of and for the year ended June 30, 2011 which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of High School for Recording Arts' management. Our responsibility is to express opinions on these basic 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of High School for Recording Arts, as of June 30, 2011, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The School adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011. Adoption of the provisions of this statement results in different terminology of the components of fund balance.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 2011 on our consideration of High School for Recording Arts' 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 and should be considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise High School for Recording Arts's financial statements as a whole. The introductory section and individual fund statements are presented for purposes of additional analysis and are not a required part of the 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 not a required part of the financial statements. The individual fund 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


HLB TAUTGES REDPATH, LTD.

December 29, 2011

High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011

This section of the High School for Recording Arts' (the School) annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended June 30, 2011. Please read it in conjunction with the School's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010-2011 fiscal year include the following:

- Fund balance of the General Fund increased by \$365 to \$397,968 at June 30, 2011.
- General Fund revenues were \$3,274,389 as compared to \$3,274,024 of expenditures.

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 management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

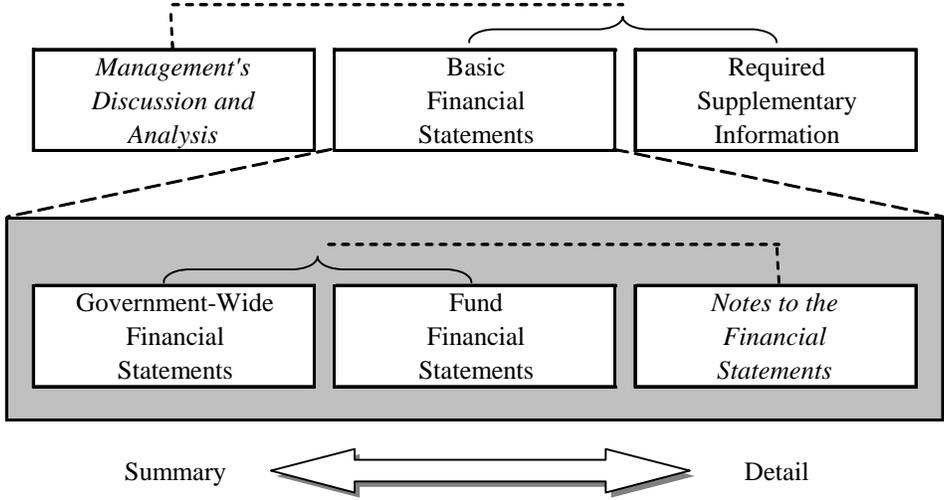
- The first two statements are school-wide financial statements that provide both short-term and long-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations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

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

High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
Annual Report Format



High School for Recording Arts
 INDEPENDENT SCHOOL DISTRICT NO. 4039
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended June 30, 2011

Figure A-2 summarizes the major features of the School's financial statements, including the portion of the School's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

| Figure A-2. Major Features of the School's Government-wide and Fund Financial Statements | | |
|---|--|--|
| <i>Type of Statements</i> | Government-wide | Governmental Funds |
| <i>Scope</i> | Entire School (except fiduciary funds) and the School's component units | The activities of the School that are not proprietary or fiduciary |
| <i>Required financial statements</i> | Statement of net assets | Balance sheet |
| | Statement of activities | Statement of revenues, expenditures and changes in fund balance |
| <i>Accounting basis and measurement focus</i> | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus |
| <i>Type of asset/liability information</i> | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included |
| <i>Type of inflow/outflow information</i> | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter |

School-Wide Statements

The school-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT’S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011

The two school-wide statements report the School’s net assets and how they have changed. Net assets – the difference between the School’s assets and liabilities – is one way to measure the School’s financial health or position.

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

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

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

Fund Financial Statements

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

- Some funds are required by State law and by debt covenants.
- Some schools may establish other funds to control and manage money for a blended component unit such as a charter school building company.

The School has the following fund type:

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

High School for Recording Arts
 INDEPENDENT SCHOOL DISTRICT NO. 4039
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended June 30, 2011

Financial Analysis of the School as a Whole

Net Assets

The School's net assets were \$494,179 and \$469,267 at June 30, 2011 and 2010, respectively.

| | | June 30, | |
|---|-------------------------|-------------------------|------|
| | | 2011 | 2010 |
| Table A-1 | | | |
| Statement of Net Assets | | | |
| Assets: | | | |
| Current assets | \$1,096,148 | \$848,543 | |
| Capital assets - net | 93,632 | 98,586 | |
| Total assets | <u>1,189,780</u> | <u>947,129</u> | |
| Liabilities: | | | |
| Current liabilities | 695,601 | 440,964 | |
| Noncurrent liabilities | - | 36,898 | |
| Total liabilities | <u>695,601</u> | <u>477,862</u> | |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 93,632 | 61,688 | |
| Restricted for food service | 2,579 | 9,976 | |
| Unrestricted | 397,968 | 397,603 | |
| Total net assets | <u><u>\$494,179</u></u> | <u><u>\$469,267</u></u> | |

High School for Recording Arts
 INDEPENDENT SCHOOL DISTRICT NO. 4039
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended June 30, 2011

Change in Net Assets

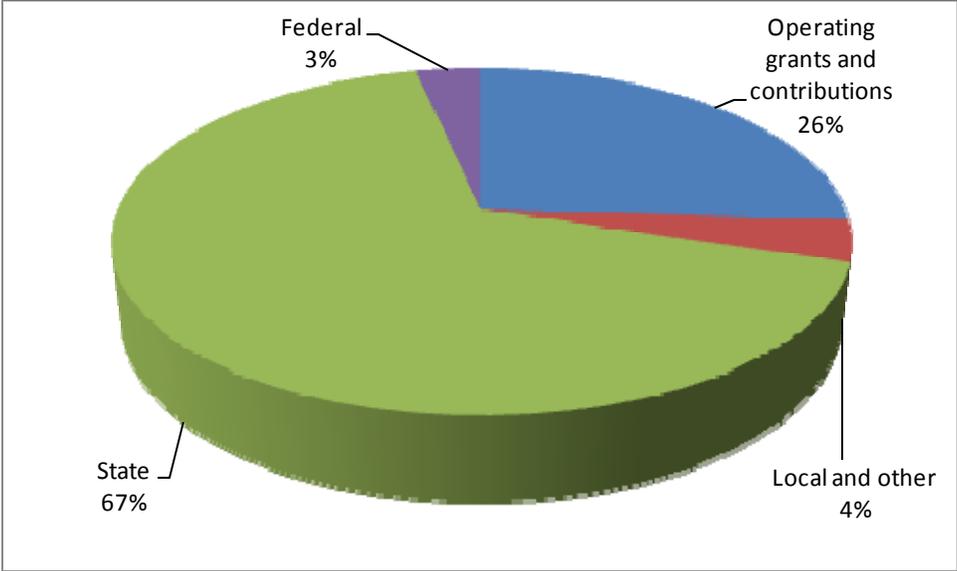
The School's total revenues were \$3,342,913 and \$3,012,482 for the years ended June 30, 2011 and 2010, respectively. State formula aid accounted for the majority of total revenue.

| Table A-2 | | |
|--|------------------|------------------|
| Change in Net Assets | | |
| | <u>2011</u> | <u>2010</u> |
| Revenue: | | |
| Program revenues: | | |
| Operating grants and contributions | \$869,081 | \$934,408 |
| General: | | |
| Local and other | 125,207 | 156,585 |
| State | 2,234,874 | 1,921,489 |
| Federal | 113,751 | - |
| Total revenue | <u>3,342,913</u> | <u>3,012,482</u> |
| Expenses: | | |
| School support services | 1,079,105 | 746,863 |
| Regular instruction | 1,278,265 | 1,102,105 |
| Special education instruction | 309,619 | 331,293 |
| Instructional support services | - | 662 |
| Pupil support services | 151,250 | 142,781 |
| Site, building and equipment | 473,279 | 500,433 |
| Fiscal and other fixed costs | 26,483 | 20,793 |
| Total expenses | <u>3,318,001</u> | <u>2,844,930</u> |
| Change in net assets | <u>24,912</u> | <u>167,552</u> |
| Net assets - beginning, as previously reported | 469,267 | 295,539 |
| Prior period adjustment | - | 6,176 |
| Net assets - beginning, as restated | <u>469,267</u> | <u>301,715</u> |
| Net assets - ending | <u>\$494,179</u> | <u>\$469,267</u> |

The total cost of all programs and services was \$3.3 million. For 2011, there was an increase of \$24,912 in net assets from the prior year.

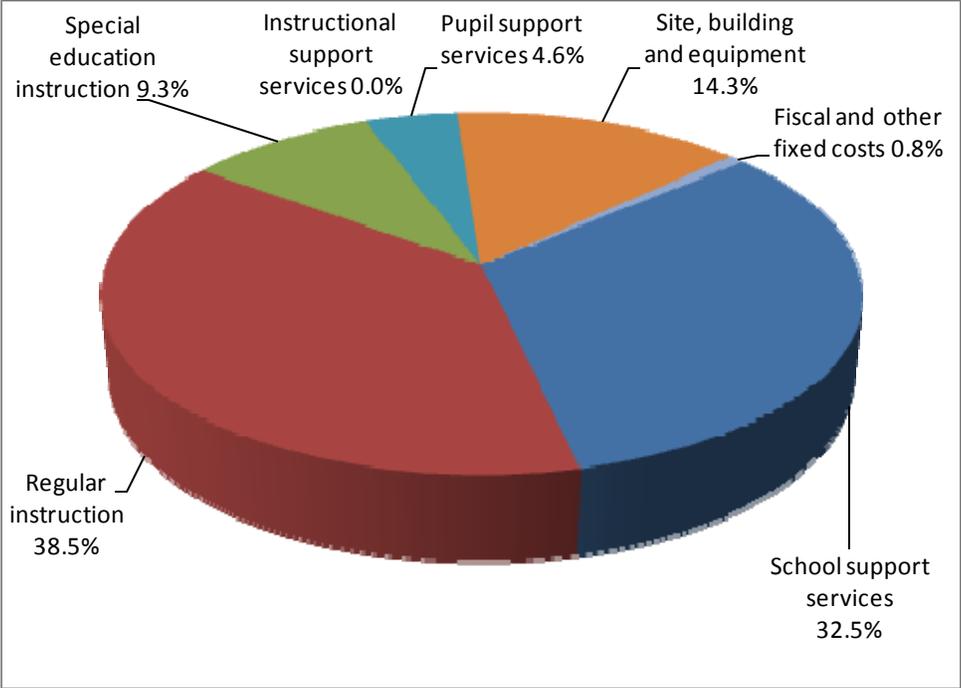
High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011

Table A-3
Sources of School Revenues for Fiscal 2011



High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011

Table A-4
School Expenses for Fiscal 2011



High School for Recording Arts
 INDEPENDENT SCHOOL DISTRICT NO. 4039
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended June 30, 2011

All governmental funds include not only funds received for the general operation of the School, which are used for classroom instruction, but also include resources from the entrepreneurial-type funds of Food Service. Funding for the general operation of the School is controlled by the state and the School does not have the latitude to allocate money received in Food Service to enhance classroom instruction resources.

Table A-5
Change in Net Assets

| | Total Cost of Services | | | Net Cost of Services | | |
|--------------------------------------|------------------------|--------------------|-------------------|----------------------|--------------------|-------------------|
| | 2011 | 2010 | Percentage Change | 2011 | 2010 | Percentage Change |
| School support services | \$1,079,105 | \$746,863 | 44.5% | \$ - | \$746,863 | (100.0%) |
| Regular instruction | 1,278,265 | 1,102,105 | 16.0% | 183,328 | 837,624 | (78.1%) |
| Special education instruction | 309,619 | 331,293 | (6.5%) | 330,409 | 1,024 | 32166.5% |
| Instructional support services | - | 662 | (100.0%) | - | 662 | (100.0%) |
| Pupil support services | 151,250 | 142,781 | 5.9% | 68,524 | 80,169 | (14.5%) |
| Sites and buildings | 473,279 | 500,433 | (5.4%) | 286,820 | 223,387 | 28.4% |
| Fiscal and other fixed cost programs | 26,483 | 20,793 | 27.4% | - | 20,793 | (100.0%) |
| Total | \$3,318,001 | \$2,844,930 | | \$869,081 | \$1,910,522 | |

Financial Analysis of the School's Funds

The financial performance of the School as a whole is reflected in its governmental funds as well. As the School completed the year, its governmental funds reported a combined fund balance of \$400,547.

Revenues for the School's governmental funds were \$3,342,913 and \$3,012,482 for 2011 and 2010, respectively, while total expenditures were \$3,349,945 and \$2,849,415 at June 30, 2011 and 2010, respectively.

General Fund

The General Fund includes the primary operations of the School in providing educational services to students from 9th through 12th grade including pupil transportation activities and capital outlay projects.

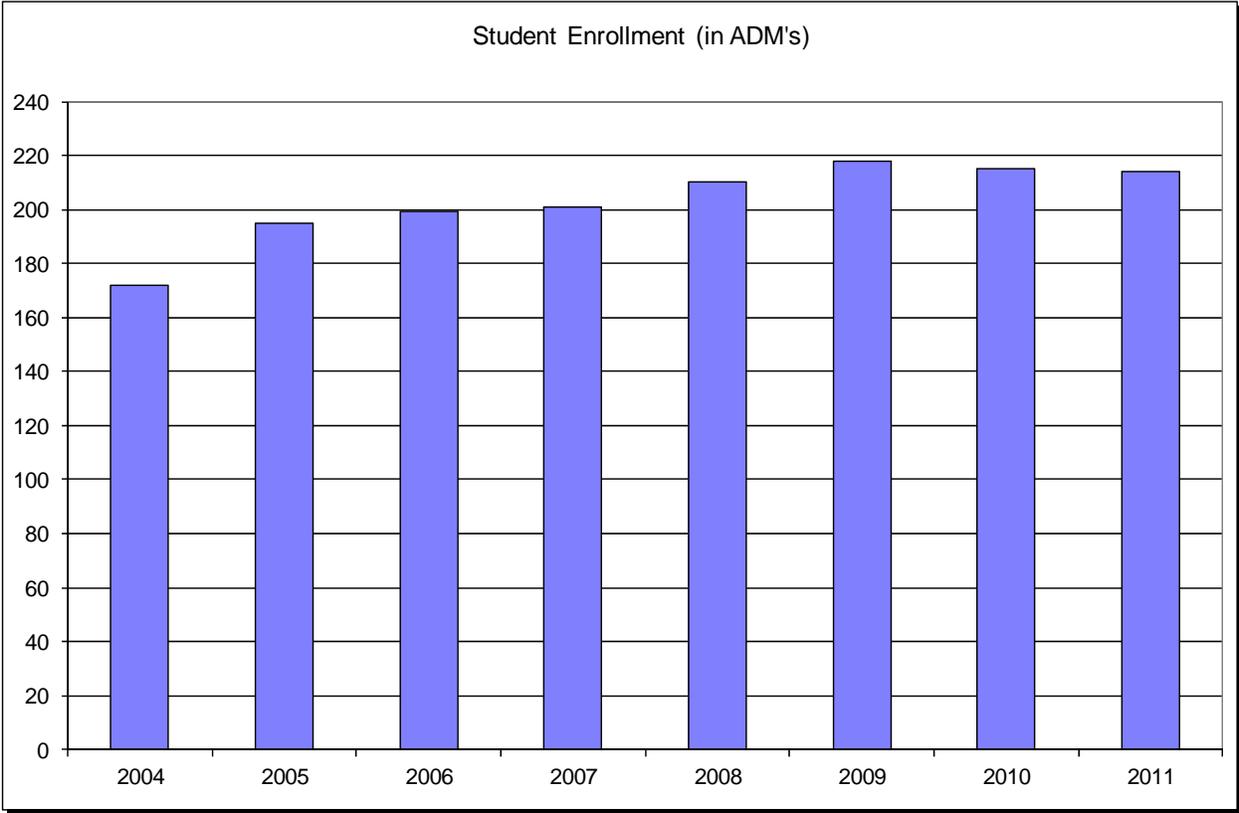
A large percentage of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources.

High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011

Enrollment

Enrollment is a critical factor in determining revenue. The following chart shows that the number of students served has been fairly level the last few years.

Table A-6
Eight-Year Enrollment Trend
Average Daily Membership (ADM)



High School for Recording Arts
 INDEPENDENT SCHOOL DISTRICT NO. 4039
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended June 30, 2011

The following schedule presents a summary of General Fund revenues:

Table A-7
General Fund Revenues

| Fund | Year Ended June 30, | | Change | |
|----------------------------|---------------------|--------------------|------------------------|---------|
| | 2011 | 2010 | Increase (Decrease) | Percent |
| Local sources | \$125,207 | \$164,152 | (\$38,945) | (23.7%) |
| State sources | 2,772,677 | 2,486,740 | 285,937 | 11.5% |
| Federal sources | 376,505 | 298,978 | 77,527 | 25.9% |
| Total general fund revenue | <u>\$3,274,389</u> | <u>\$2,949,870</u> | <u>\$324,519</u> | 11.0% |

Total General Fund revenue increased by \$324,519 from the previous year. Basic general education revenue is determined by multiple complex state formulas, largely enrollment driven, and consists of a specified minimum amount with variables such as socioeconomic indicators driving additional funding. For Minnesota charter schools the majority of all funding is made up of general education aid, special education aid and charter school lease aid. Other revenue consists of federal and private grant funding that is often expenditure driven.

An increase in state and federal sources revenue accounted for the majority of the total increase in revenue.

High School for Recording Arts
 INDEPENDENT SCHOOL DISTRICT NO. 4039
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended June 30, 2011

The following schedule presents a summary of General Fund expenditures.

Table A-8
General Fund Expenditures

| Fund | Year Ended June 30, | | Change | |
|---------------------------------|---------------------|--------------------|------------------------|---------|
| | 2011 | 2010 | Increase (Decrease) | Percent |
| Salaries | \$822,026 | \$702,325 | \$119,701 | 17.0% |
| Employee benefits | 242,097 | 234,450 | 7,647 | 3.3% |
| Purchased services | 1,973,273 | 1,674,229 | 299,044 | 17.9% |
| Supplies and materials | 115,266 | 93,997 | 21,269 | 22.6% |
| Other expenditures | 80,355 | 60,571 | 19,784 | 32.7% |
| Capital expenditures | 41,007 | 14,884 | 26,123 | 175.5% |
| Total general fund expenditures | <u>\$3,274,024</u> | <u>\$2,780,456</u> | <u>\$493,568</u> | 17.8% |

Total General Fund expenditures increased \$493,568 from the previous year. Most of this increase can be attributed to the inclusion of the HAS Program and special projects funded by State Farm.

In 2010-2011, General Fund revenue was greater than expenditures by \$365. Therefore, the fund balance increased from \$397,603 at June 30, 2010 to \$397,968 at June 30, 2011. Fund balance is the single best measure of overall financial health.

General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the School revises the annual operating budget in mid-year. These budget amendments typically fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants and reinstating unexpended funds being carried over from the prior fiscal year.
- Legislation passed, subsequent to budget adoption, changes necessitated by employment agreements, and increases in appropriations for significant unbudgeted costs.

Actual General Fund revenues were \$101,490 greater than expected.

High School for Recording Arts
 INDEPENDENT SCHOOL DISTRICT NO. 4039
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended June 30, 2011

The actual General Fund expenditures were \$99,010 over budget.

While the School's final budget for the General Fund anticipated that expenditures would exceed revenues by \$2,115, the actual results for the year show a \$365 increase of revenues over expenditures.

Other Major Funds

Expenditures exceeded revenues in the Food Service Fund by \$7,397.

From the standpoint of maintaining current operating expenditures within the range of annual revenue and maintaining a sound fund balance, the Food Service Fund continues to operate on a sound financial basis.

Capital Assets

By the end of 2011, the School had invested \$445,364 in a broad range of capital assets, including computer and audio-visual equipment, and administrative offices. (More detailed information about capital assets can be found in Note 3 to the financial statements). Total depreciation expense for the year totaled \$40,215.

Table A-9
Capital Assets

| | June 30, | |
|--------------------------------|-----------------|-----------------|
| | 2011 | 2010 |
| Equipment | \$445,364 | \$410,103 |
| Less: accumulated depreciation | (351,732) | (311,517) |
| Total capital assets - net | <u>\$93,632</u> | <u>\$98,586</u> |

Long-Term Debt

During 2008, the School obtained equipment via a capital lease. Terms include three annual payments of \$40,004 with the final payment made in October 2010.

High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2011

Factors Bearing on the School's Future

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

There have been legislative changes in state aid funding that have significantly delayed payments of state aids. This required the use of credit more in 2011 than in the past and is expected to continue in the foreseeable future.

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

Contacting the School's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, High School for Recording Arts, 550 Vandalia Street, St. Paul, Minnesota 55114.

BASIC FINANCIAL STATEMENTS

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
STATEMENT OF NET ASSETS
June 30, 2011

Statement 1

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets: | |
| Cash and investments | \$10,521 |
| Due from other governments | 1,085,627 |
| Capital assets (net of accumulated depreciation) | 93,632 |
| Total assets | <u>1,189,780</u> |
| Liabilities: | |
| Accounts payable | 82,758 |
| Due to Studio 4 | 366,934 |
| Deferred revenue - unearned | 10,909 |
| Line of credit payable | 235,000 |
| Total liabilities | <u>695,601</u> |
| Net assets: | |
| Invested in capital assets, net of related debt | 93,632 |
| Restricted for food service | 2,579 |
| Unrestricted | 397,968 |
| Total net assets | <u><u>\$494,179</u></u> |

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

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2011

Statement 2

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> Operating Grants and Contributions | <u>Net (Expense) Revenue and Changes in Net Assets</u> |
|-------------------------------|--------------------|---|--|
| Governmental activities: | | | |
| School support services | \$1,079,105 | \$ - | (\$1,079,105) |
| Regular instruction | 1,278,265 | 183,328 | (1,094,937) |
| Special education instruction | 309,619 | 330,409 | 20,790 |
| Pupil support services | 151,250 | 68,524 | (82,726) |
| Site, building and equipment | 473,279 | 286,820 | (186,459) |
| Fiscal and other fixed costs | 26,483 | - | (26,483) |
| Total governmental activities | <u>\$3,318,001</u> | <u>\$869,081</u> | <u>(2,448,920)</u> |
| General revenues: | | | |
| Local and other sources | | | 125,207 |
| State sources | | | 2,234,874 |
| Federal sources | | | 113,751 |
| Total general revenues | | | <u>2,473,832</u> |
| Change in net assets | | | 24,912 |
| Net assets - beginning | | | <u>469,267</u> |
| Net assets - ending | | | <u>\$494,179</u> |

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

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

Statement 3

| | <u>General</u> | <u>Food Service Fund</u> | <u>Total</u> |
|--|---------------------------|----------------------------------|---------------------------|
| Assets: | | | |
| Cash | \$7,942 | \$2,579 | \$10,521 |
| Due from Minnesota Department of Education | 873,063 | - | 873,063 |
| Due from Federal Government through Minnesota Department of Education | <u>212,564</u> | <u>-</u> | <u>212,564</u> |
| Total assets | <u><u>\$1,093,569</u></u> | <u><u>\$2,579</u></u> | <u><u>\$1,096,148</u></u> |
| Liabilities and Fund Balance | | | |
| Liabilities: | | | |
| Accounts payable | \$82,758 | \$ - | \$82,758 |
| Due to Studio 4 | 366,934 | - | 366,934 |
| Deferred revenue | 10,909 | - | 10,909 |
| Line of credit payable | <u>235,000</u> | <u>-</u> | <u>235,000</u> |
| Total liabilities | <u><u>695,601</u></u> | <u><u>0</u></u> | <u><u>695,601</u></u> |
| Fund balance: | | | |
| Restricted for food service | - | 2,579 | 2,579 |
| Unassigned | <u>397,968</u> | <u>-</u> | <u>397,968</u> |
| Total fund balance | <u><u>397,968</u></u> | <u><u>2,579</u></u> | <u><u>400,547</u></u> |
| Total liabilities and fund balance | <u><u>\$1,093,569</u></u> | <u><u>\$2,579</u></u> | <u><u>\$1,096,148</u></u> |

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

| | |
|--|-------------------------|
| Fund balance reported above | \$400,547 |
| Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. | <u>93,632</u> |
| Net assets of governmental activities (Statement 1) | <u><u>\$494,179</u></u> |

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

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2011

Statement 4

| | <u>General</u> | <u>Food Service Fund</u> | <u>Total</u> |
|------------------------------------|-------------------------|----------------------------------|-------------------------|
| Revenues: | | | |
| Local and other sources | \$125,207 | \$ - | \$125,207 |
| State sources | 2,772,677 | 2,788 | 2,775,465 |
| Federal sources | 376,505 | 65,736 | 442,241 |
| Total revenues | <u>3,274,389</u> | <u>68,524</u> | <u>3,342,913</u> |
| Expenditures: | | | |
| Current: | | | |
| School support services | 1,079,105 | - | 1,079,105 |
| Regular instruction | 1,241,455 | - | 1,241,455 |
| Special education instruction | 300,468 | - | 300,468 |
| Pupil support services | 75,329 | 75,921 | 151,250 |
| Site, building and equipment | 473,279 | - | 473,279 |
| Fiscal and other fixed costs | 63,381 | - | 63,381 |
| Capital outlay | 41,007 | - | 41,007 |
| Total expenditures | <u>3,274,024</u> | <u>75,921</u> | <u>3,349,945</u> |
| Revenues over (under) expenditures | 365 | (7,397) | (7,032) |
| Fund balance - beginning | <u>397,603</u> | <u>9,976</u> | <u>407,579</u> |
| Fund balance - ending | <u><u>\$397,968</u></u> | <u><u>\$2,579</u></u> | <u><u>\$400,547</u></u> |

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

| | |
|--|------------------------|
| Revenues over (under) expenditures reported above | (\$7,032) |
| 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: | |
| Depreciation | (40,215) |
| Capital outlay - capitalized | 35,261 |
| The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. | <u>36,898</u> |
| Change in net assets of governmental activities (Statement 2) | <u><u>\$24,912</u></u> |

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

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HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. BASIS OF PRESENTATION

The financial statements of High School for Recording Arts, Charter School No. 4039, (the School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

B. FINANCIAL REPORTING ENTITY

The School is a nonprofit corporation that was formed, and began operating as a separate entity in July 1998. The School operates a high school site serving students in grades nine through twelve. The School is authorized by Pillsbury United Communities. The School educational program operates together with a professional music studio, Studio 4. Learners split their time between individual learning in traditional academic areas, instruction in critical areas of the music industry, and time spent developing and mastering production and performance skills in the recording studio. The board of directors consists of not less than five, but not exceeding ten members elected at an annual meeting by voters of the general membership of the School to serve three-year terms.

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

Component units are legally separate entities for which the School is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there is one organization that is considered to be a component unit of the School. HSRA Building Company (the Building Company) was formed in February 2009. The Building Company is a Minnesota non-profit 501(c)(3) tax exempt corporation which was formed for the purpose of a possible future acquisition of an educational site which would be leased to the School. The Building Company had no financial activity through the period ending June 30, 2011. Therefore, there are no amounts reported in the financial statements related to the Building Company component unit.

The School's authorizer has limited oversight responsibility but is not financially accountable for the School. Therefore, the School is not considered a component unit of the authorizer.

C. SCHOOL-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets 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*.

D. 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 for Minnesota School Districts (UFARS) 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.

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.

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

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.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services, are similarly treated when they involve other funds of the School. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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.

E. INCOME TAXES

The School is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and comparable sections of the Minnesota income tax statutes.

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.

F. 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 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.

G. CASH AND INVESTMENTS

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

H. ACCOUNTS RECEIVABLE

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

I. PREPAID ITEMS

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

J. CAPITAL ASSETS

Capital assets, which include property, plant and equipment are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$500, 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 the following estimated useful lives:

| | |
|-----------|--------------|
| Equipment | 3 - 10 years |
|-----------|--------------|

K. STUDENT ACTIVITIES

There were no student activities that were not under Board control.

L. 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.

M. DEFERRED REVENUE

Deferred revenue represents amounts received under federal or private grant programs but not expended in the current year. Such amounts are deferred until subsequent periods when the funds are expended.

N. ACCRUED EMPLOYEE BENEFITS

Personal leave benefits do not carry over at year end, thus, no long-term liability for unused personal leave has been recorded. Substantially all employees are entitled to sick leave at rates specified in their contracts. Employees are not compensated for unused sick leave upon termination of employment, therefore, no long-term liability for unused sick leave has been recorded.

O. 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.

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.

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

P. NET ASSETS

Net assets represent the difference between assets and liabilities in the School-wide financial statements. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulation depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net assets are reported as restricted in the School-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

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

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

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

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

At June 30, 2011, all deposit bank balances were fully insured or collateralized.

B. INVESTMENTS

Minnesota Statutes outline authorized investments for charter Schools. During 2011, the School did not have any such investments.

**HIGH SCHOOL FOR RECORDING ARTS
 CHARTER SCHOOL NO. 4039
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

Note 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------------|-------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Equipment | \$410,103 | \$35,261 | \$ - | \$445,364 |
| Less accumulated depreciation for: | | | | |
| Equipment | <u>311,517</u> | <u>40,215</u> | <u>-</u> | <u>351,732</u> |
| Governmental activities capital assets - net | <u><u>\$98,586</u></u> | <u><u>(\$4,954)</u></u> | <u><u>\$0</u></u> | <u><u>\$93,632</u></u> |

Depreciation expense was charged to functions/programs as follows:

| | |
|--|------------------------|
| Governmental activities: | |
| Regular instruction | \$34,441 |
| Special education | <u>5,774</u> |
| Total depreciation expense - governmental activities | <u><u>\$40,215</u></u> |

Note 4 RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School purchases commercial insurance for such risks. There were no significant reductions in coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in the past three fiscal years.

Note 5 **PENSION PLANS**

A. TEACHERS' RETIREMENT ASSOCIATION (TRA)

PLAN DESCRIPTION

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

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

FUNDING POLICY

Minnesota Statutes Chapter 354.42 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 5.5% of their annual covered salary. The School is required to contribute 5.5%. The School's contributions for the years ended June 30, 2011, 2010 and 2009, was \$26,510, \$20,874 and \$17,713, respectively, which was materially equal to the required contributions for each year as set by State Statute.

B. PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION (PERA)

PLAN DESCRIPTION

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The School does not have any employees participating under the Basic Plan.

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

The benefit provisions stated in the previous paragraph of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or (800)652-9026.

FUNDING POLICY

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The School makes annual contributions to the pension plans equal to the amount required by State Statutes. GERF Coordinated Plan members are required to contribute 6.0% of their annual covered salary through January 1, 2011 and 6.25% thereafter. The School is required to contribute 7% through January 1, 2011 and 7.25% thereafter. The School's contributions for the year ended June 30, 2011, 2010 and 2009, were \$24,244, \$23,334 and \$26,308, respectfully. The School's contributions were equal to the contractually required contributions for each year as set by State Statute.

**HIGH SCHOOL FOR RECORDING ARTS
 CHARTER SCHOOL NO. 4039
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011**

Note 6 DEBT

A. LONG-TERM DEBT – CAPITAL LEASE

The School entered into a capital lease agreement for equipment on October 10, 2008. The lease term called for three annual payments of \$40,004 through October 10, 2010.

A summary of 2011 activity is as follows:

| <u>Balance</u> <u>June 30, 2010</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> <u>June 30, 2011</u> |
|--|------------------|--------------------|--|
| <u>\$36,898</u> | <u>\$0</u> | <u>(\$36,898)</u> | <u>\$ -</u> |

B. SHORT TERM DEBT

The School has a line of credit with a local bank for cash flows purposes. The maximum amount as of June 30, 2011 was \$250,000 (raised to \$350,000 July 8, 2011) with a current rate of 6.0% and an expiration date of February 1, 2012. It is secured by all School assets. At June 30, 2011, \$235,000 was outstanding on this line of credit.

During the course of the fiscal year, the School drew on the line of credit as follows:

| <u>Beginning Balance</u> <u>June 30, 2010</u> | <u>Total</u> <u>Advances</u> | <u>Total</u> <u>Repayments</u> | <u>Ending Balance</u> <u>June 30, 2011</u> |
|--|---------------------------------|-----------------------------------|---|
| <u>\$149,000</u> | <u>\$1,093,000</u> | <u>(\$1,007,000)</u> | <u>\$235,000</u> |

Note 7 COMMITMENTS AND CONTINGENCIES

A. OPERATING LEASE COMMITMENTS AND TERMS

The School leases its facility at 550 Vandalia Street, St. Paul, Minnesota. The current lease term is through June 30, 2013, and calls for minimum monthly payments of \$24,692 plus shared operating costs. The School also leases equipment at various terms through October 2014.

The 2011 rent expense for all leases was \$313,734.

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Future minimum lease payments for the year ending June 30 are as follows:

| | <u>Building</u> | <u>Equipment</u> | <u>Total</u> |
|------|------------------|------------------|------------------|
| 2012 | \$296,314 | \$12,360 | \$308,674 |
| 2013 | 296,314 | 12,360 | 308,674 |
| 2014 | - | 9,180 | 9,180 |
| 2015 | - | 2,000 | 2,000 |
| | <u>\$592,628</u> | <u>\$35,900</u> | <u>\$628,528</u> |

B. 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.

C. MANAGEMENT AGREEMENT

The School has an agreement with Studio 4 (hereinafter referred to as “the management company”), a for-profit corporation, to provide management services, program delivery, technology and studio facilities to the School for the 2009 - 2010, 2010 - 2011 and 2011 - 2012 school year. The management agreement specifies that 50% of the state aid revenues generated from student enrollment are to be paid to the management company. In return for the management fees paid, the management company agrees to provide an onsite staff of 9 full-time employees, management, supervisory, administrative and technology functions for the School. This includes long-term strategic planning, budgeting and fiscal oversight, fund raising, records management, bookkeeping, personnel management and educational oversight. It also includes program development, technical assistance, recording facilities and recording and video equipment. The management fee expense to Studio 4 for fiscal 2010-2011 under the terms of this agreement totaled \$1,006,701 and the amount payable at June 30, 2011 was \$366,934.

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REQUIRED SUPPLEMENTARY INFORMATION

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 For The Year Ended June 30, 2011
 With Comparative Actual Amounts For the Year Ended June 30, 2010

| | 2011 | | Actual Amounts | Variance with Final Budget - Over (Under) | 2010 Actual Amounts |
|-------------------------------------|------------------|------------------|-------------------|---|---------------------------|
| | Budgeted Amounts | | | | |
| | Original | Final | | | |
| Revenues: | | | | | |
| Local sources | \$92,600 | \$444,926 | \$125,207 | (\$319,719) | \$164,152 |
| State sources | 2,516,635 | 2,516,635 | 2,772,677 | 256,042 | 2,486,740 |
| Federal sources | 211,338 | 211,338 | 376,505 | 165,167 | 298,978 |
| Total revenues | <u>2,820,573</u> | <u>3,172,899</u> | <u>3,274,389</u> | <u>101,490</u> | <u>2,949,870</u> |
| Expenditures: | | | | | |
| School support services: | | | | | |
| Current: | | | | | |
| Salaries | 130,266 | 15,621 | 15,840 | 219 | 1,671 |
| Employee benefits | 107,526 | 130 | 129 | (1) | - |
| Purchased services | 737,113 | 876,215 | 1,035,647 | 159,432 | 728,780 |
| Other expenditures | 12,000 | 12,000 | 27,489 | 15,489 | 15,942 |
| Total School support services | <u>986,905</u> | <u>903,966</u> | <u>1,079,105</u> | <u>175,139</u> | <u>746,393</u> |
| Regular instruction: | | | | | |
| Current: | | | | | |
| Salaries | 396,922 | 602,211 | 546,841 | (55,370) | 443,391 |
| Employee benefits | 149,707 | 208,049 | 208,771 | 722 | 192,238 |
| Purchased services | 312,080 | 342,530 | 378,833 | 36,303 | 358,642 |
| Supplies and materials | 58,000 | 95,338 | 106,835 | 11,497 | 63,781 |
| Other expenditures | - | - | 175 | 175 | 604 |
| Capital expenditures | 32,000 | 12,463 | 11,325 | (1,138) | 14,884 |
| Total regular instruction | <u>948,709</u> | <u>1,260,591</u> | <u>1,252,780</u> | <u>(7,811)</u> | <u>1,073,540</u> |
| Special education instruction: | | | | | |
| Current: | | | | | |
| Salaries | 275,868 | 295,868 | 244,306 | (51,562) | 242,224 |
| Employee benefits | - | 87,625 | 31,336 | (56,289) | 42,212 |
| Purchased services | 18,750 | 41,750 | 24,826 | (16,924) | 26,861 |
| Supplies and materials | 12,900 | 8,854 | - | (8,854) | 19,483 |
| Capital expenditures | - | 25,000 | 29,682 | 4,682 | - |
| Total special education instruction | <u>307,518</u> | <u>459,097</u> | <u>330,150</u> | <u>(128,947)</u> | <u>330,780</u> |
| Instructional support services: | | | | | |
| Current: | | | | | |
| Purchased services | - | - | - | - | 662 |
| Pupil support services: | | | | | |
| Current: | | | | | |
| Purchased services | 70,000 | 73,500 | 75,329 | 1,829 | 73,822 |

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 For The Year Ended June 30, 2011
 With Comparative Actual Amounts For the Year Ended June 30, 2010

| | 2011 | | | Variance with Final Budget - Over (Under) | 2010 Actual Amounts |
|------------------------------------|------------------|------------------|-------------------|---|---------------------------|
| | Budgeted Amounts | | Actual Amounts | | |
| | Original | Final | | | |
| Site, building and equipment: | | | | | |
| Current: | | | | | |
| Salaries | \$15,039 | \$15,039 | \$15,039 | \$ - | \$15,039 |
| Employee benefits | - | 1,900 | 1,861 | (39) | - |
| Purchased services | 480,125 | 449,519 | 447,948 | (1,571) | 474,661 |
| Supplies and materials | 7,000 | 7,000 | 8,431 | 1,431 | 10,733 |
| Total site, building and equipment | <u>502,164</u> | <u>473,458</u> | <u>473,279</u> | <u>(179)</u> | <u>500,433</u> |
| Fiscal and other fixed costs: | | | | | |
| Current: | | | | | |
| Purchased services | 6,500 | 3,402 | 10,690 | 7,288 | 10,801 |
| Other expenditures | 1,000 | 1,000 | 52,691 | 51,691 | 44,025 |
| Total fiscal and other fixed costs | <u>7,500</u> | <u>4,402</u> | <u>63,381</u> | <u>58,979</u> | <u>54,826</u> |
| Total expenditures | <u>2,822,796</u> | <u>3,175,014</u> | <u>3,274,024</u> | <u>99,010</u> | <u>2,780,456</u> |
| Revenues over (under) expenditures | <u>(\$2,223)</u> | <u>(\$2,115)</u> | 365 | <u>\$2,480</u> | 169,414 |
| Fund balance - beginning | | | <u>397,603</u> | | <u>228,189</u> |
| Fund balance - ending | | | <u>\$397,968</u> | | <u>\$397,603</u> |

**HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039**

Statement 6

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE SPECIAL REVENUE FUND

For The Year Ended June 30, 2011

With Comparative Actual Amounts For the Year Ended June 30, 2010

| | 2011 | | | Variance with Final Budget - Over (Under) | 2010 Actual Amounts |
|------------------------------------|------------------|----------------|-------------------|---|---------------------------|
| | Budgeted Amounts | | Actual Amounts | | |
| | Original | Final | | | |
| Revenues: | | | | | |
| State sources | \$4,950 | \$4,950 | \$2,788 | (\$2,162) | \$2,961 |
| Federal sources | 72,262 | 72,262 | 65,736 | (6,526) | 59,651 |
| Total revenues | <u>77,212</u> | <u>77,212</u> | <u>68,524</u> | <u>(8,688)</u> | <u>62,612</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Salaries | 5,000 | 5,000 | 9,785 | 4,785 | 8,154 |
| Employee benefits | 1,100 | 1,100 | 1,510 | 410 | 1,806 |
| Purchased services | 68,000 | 68,000 | 64,626 | (3,374) | 58,732 |
| Supplies and materials | - | - | - | - | 267 |
| Total expenditures | <u>74,100</u> | <u>74,100</u> | <u>75,921</u> | <u>1,821</u> | <u>68,959</u> |
| Revenues over (under) expenditures | <u>\$3,112</u> | <u>\$3,112</u> | (7,397) | <u>(\$10,509)</u> | (6,347) |
| Fund balance - beginning | | | <u>9,976</u> | | <u>16,323</u> |
| Fund balance - ending | | | <u>\$2,579</u> | | <u>\$9,976</u> |

**HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
June 30, 2011**

Note A BUDGETS

The General and Special Revenue Funds budgets are 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.

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INDIVIDUAL FUND STATEMENTS

**HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039**

Statement 7

BALANCE SHEET - GENERAL FUND

June 30, 2011

With Comparative Amounts For June 30, 2010

| | <u>2011</u> | <u>2010</u> |
|--|--------------------|-------------------|
| Assets | | |
| Cash and investments | \$7,942 | \$15,051 |
| Due from Minnesota Department of Education | 873,063 | 677,160 |
| Due from Federal Government through Minnesota Department of Education | 212,564 | 145,831 |
| Prepaid items | - | 525 |
| | <u> </u> | <u> </u> |
| Total assets | <u>\$1,093,569</u> | <u>\$838,567</u> |
| Liabilities and Fund Balance | | |
| Liabilities: | | |
| Accounts payable | \$82,758 | \$65,922 |
| Salaries and taxes payable | - | 19,681 |
| Due to Studio 4 | 366,934 | 144,502 |
| Funds held for others | - | 45,381 |
| Deferred revenue | 10,909 | 16,478 |
| Line of credit payable | 235,000 | 149,000 |
| Total liabilities | <u>695,601</u> | <u>440,964</u> |
| Fund balance: | | |
| Nonspendable - prepaid items | - | 525 |
| Unassigned | 397,968 | 397,078 |
| Total fund balance | <u>397,968</u> | <u>397,603</u> |
| | <u> </u> | <u> </u> |
| Total liabilities and fund balance | <u>\$1,093,569</u> | <u>\$838,567</u> |

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND
June 30, 2011
With Comparative Amounts For June 30, 2010

Statement 8

| | <u>2011</u> | <u>2010</u> |
|--|-----------------------|-----------------------|
| Assets | | |
| Cash and investments | \$2,579 | \$5,520 |
| Due from Minnesota Department of Education | - | 150 |
| Due from Federal Government through Minnesota Department of Education | <u>-</u> | <u>4,306</u> |
| Total assets | <u><u>\$2,579</u></u> | <u><u>\$9,976</u></u> |
| Liabilities and Fund Balance | | |
| Liabilities | \$ - | \$ - |
| Fund balance: | | |
| Restricted for food service | <u>2,579</u> | <u>9,976</u> |
| Total liabilities and fund balance | <u><u>\$2,579</u></u> | <u><u>\$9,976</u></u> |

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SUPPLEMENTAL INFORMATION

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Fiscal Compliance Report - 6/30/2011
District: HIGH SCHOOL FOR RECORDIN (4039-7)

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| | Audit | UFARS | Audit - UFARS |
|-------------------------------------|-------------|--------------------|---------------|
| 01 GENERAL FUND | | | |
| Total Revenue | \$3,274,389 | <u>\$3,274,388</u> | <u>\$1</u> |
| Total Expenditures | \$3,274,024 | <u>\$3,274,022</u> | <u>\$2</u> |
| <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted / Reserved:</i> | | | |
| 4.03 Staff Development | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.05 Deferred Maintenance | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.06 Health and Safety | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.07 Capital Projects Levy | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.08 Cooperative Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.14 Operating Debt | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.16 Levy Reduction | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.17 Taconite Building Maint | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.23 Certain Teacher Programs | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.24 Operating Capital | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.26 \$25 Taconite | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.27 Disabled Accessibility | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.28 Learning & Development | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.34 Area Learning Center | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.35 Contracted Alt. Programs | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.36 State Approved Alt. Program | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.38 Gifted & Talented | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.41 Basic Skills Programs | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.45 Career Tech Programs | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.49 Safe School Crime | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.50 Pre-Kindergarten | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.51 QZAB Payments | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.52 OPEB Liab Not In Trust | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.53 Unfunded Sev & Retirement Levy | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Committed:</i> | | | |
| 4.18 Committed for Separation | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.61 Committed Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Assigned:</i> | | | |
| 4.62 Assigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | |
| 4.22 Unassigned Fund Balance | \$397,968 | <u>\$397,969</u> | <u>(\$1)</u> |

| | | | |
|---------------------------------|----------|-----------------|------------|
| 02 FOOD SERVICES | | | |
| Total Revenue | \$68,524 | <u>\$68,523</u> | <u>\$1</u> |
| Total Expenditures | \$75,921 | <u>\$75,921</u> | <u>\$0</u> |
| <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted / Reserved:</i> | | | |
| 4.52 OPEB Liab Not In Trust | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.64 Restricted Fund Balance | \$2,579 | <u>\$2,579</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |

| | | | |
|---------------------------------|-----|------------|------------|
| 04 COMMUNITY SERVICE | | | |
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted / Reserved:</i> | | | |
| 4.26 \$25 Taconite | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.31 Community Education | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.32 E.C.F.E | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.44 School Readiness | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.47 Adult Basic Education | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.52 OPEB Liab Not In Trust | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |

| | Audit | UFARS | Audit - UFARS |
|-----------------------------------|-------|------------|---------------|
| 06 BUILDING CONSTRUCTION | | | |
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted / Reserved:</i> | | | |
| 4.07 Capital Projects Levy | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.09 Alternative Facility Program | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.13 Project Funded by COP | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |

| | | | |
|---------------------------------|-----|------------|------------|
| 07 DEBT SERVICE | | | |
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted / Reserved:</i> | | | |
| 4.25 Bond Refundings | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.51 QZAB Payments | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |

| | | | |
|---|-----|------------|------------|
| 08 TRUST | | | |
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | <u>\$0</u> |

| | | | |
|---|-----|------------|------------|
| 20 INTERNAL SERVICE | | | |
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | <u>\$0</u> |

| | | | |
|---|-----|------------|------------|
| 25 OPEB REVOCABLE TRUST | | | |
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | <u>\$0</u> |

| | | | |
|---|-----|------------|------------|
| 45 OPEB IRREVOCABLE TRUST | | | |
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | <u>\$0</u> |

| | | | |
|---------------------------------|-----|------------|------------|
| 47 OPEB DEBT SERVICE | | | |
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.25 Bond Refundings | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |

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OTHER REQUIRED REPORTS

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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
High School for Recording Arts
Charter School No. 4039
St. Paul, Minnesota

We have audited the financial statements of the governmental activities and each major fund, of High School for Recording Arts, as of and for the year ended June 30, 2011, which collectively comprise High School for Recording Arts' basic financial statements and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered High School for Recording Arts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of High School for Recording Arts' internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of High School for Recording Arts' internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there

High School for Recording Arts
Report on Internal Control over Financial Reporting
And on Compliance and Other Matters

is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider item 2011-01 to be a material weakness.

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. We consider items 2011-02 through 2011-05 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether High School for Recording Arts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 and other matters that are required to be reported under *Government Auditing Standards*.

High School for Recording Arts' response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit High School for Recording Arts' responses and, accordingly, we express no opinion on them.

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


HLB TAUTGES REDPATH, LTD.

December 29, 2011



TAUTGES REDPATH, LTD.
Certified Public Accountants

REPORT ON COMPLIANCE WITH MINNESOTA LEGAL
COMPLIANCE AUDIT GUIDE FOR POLITICAL SUBDIVISIONS

To the Board of Directors
High School for Recording Arts
Charter School No. 4039
St. Paul, Minnesota

We have audited the financial statements of High School for Recording Arts, as of and for the year ended June 30, 2011 and have issued our report thereon dated December 29, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to Minnesota Statutes Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

The results of our tests indicate that for the items tested, High School for Recording Arts complied with the material terms and conditions of applicable legal provisions, except as noted in item 2011-01, as it applies to UFARS compliance.

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

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

December 29, 2011

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HIGH SCHOOL FOR RECORDING ARTS
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2011

INTERNAL CONTROL FINDINGS

Finding: 2011-01 Accounting for Miscellaneous Revenues and Grants/Identification of Federal Funds/UFARS Compliance

Criteria: Miscellaneous revenues, contracts and grants may have different accounting requirements depending on whether they are categorized as expenditure driven grants/contracts, temporarily restricted for purpose, unrestricted, or agency transactions (funds held for others). Additionally, federal and State funds must be identified and recorded in correct UFARS codes. Identification of federal funds is especially important due to the compliance requirements of *OMB Circular A-133*.

Condition: During 2011, several miscellaneous revenue and related accounts were analyzed by the School's business provider and adjusted for activity that had been previously not accounted for. The adjustments were to recognize revenue of approximately \$61,800. Additionally, the audit identified \$187,222 of federal and state funds that had not been recorded as such (\$113,751 Federal and \$73,471 State). Although the audited financial statements were corrected to report revenues by the proper codes, the School's UFARS submission did not have them properly classified.

Context: In our experience, the School has generated many more miscellaneous revenue streams than the typical charter school. This requires additional attention to make sure each revenue stream is evaluated and properly categorized to allow for proper accounting. The Federal and State funds involved funds passed through the MN Department of Health.

Cause: Unknown

Effect: There is an increased risk that financial statement misstatements or noncompliance could occur.

Recommendation: We recommend that the School review its processes for miscellaneous revenues to ensure proper categorization, identify all federal and state funds, and reconcile each at year-end in accordance with the accounting requirements for each category.

HIGH SCHOOL FOR RECORDING ARTS
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2011

Management Response

Corrective Action Plan (CAP) including explanation of agreement or disagreement: We agree with the finding. We will closely review all miscellaneous revenues and grants that are received by the School with the goal of making sure all revenue is properly coded.

Official responsible for ensuring CAP: Business Manager

Planned completion date for CAP: Ongoing

Plan to monitor completion for CAP: The Business Manager will have several meetings with the appropriate staff and consult with others to insure that all parties involved understand what grants and miscellaneous income are being received.

HIGH SCHOOL FOR RECORDING ARTS
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2011

Finding: 2011-02 Documentation for Expenditures

Criteria: All disbursements should be supported by original receipts or other documentation supporting the expenditure.

Condition and Context: Audit procedures detected the following:

- Sufficient supporting documentation was not retained for 7 of 14 employee reimbursements and 13 of 40 credit card transactions that were tested. Adequate documentation includes original source documents or equivalent documentation.
- Cash advances for a couple of student activities had discrepancies in the amount of unused cash returned. Amounts involved were minor.

Cause: Unknown.

Effect: Lack of adequate documentation increases the risk that errors or fraud could occur and not be detected.

Questioned Costs: None.

Recommendation: We recommend original supporting documentation be retained for all School expenditures.

Management Response

Corrective Action Plan (CAP) including explanation of agreement or disagreement: We agree with the findings. We will continue to follow processes in place and communicate to staff the importance of the requirements.

Official responsible for ensuring CAP: Business Manager

Planned completion date for CAP: Ongoing

Plan to monitor completion for CAP: Ongoing

HIGH SCHOOL FOR RECORDING ARTS
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2011

Finding: 2011-03 Inconsistent Account Coding

Criteria: Whenever possible, best practice is to code transactions consistently from year-to-year and budget-to-actual. The School is required by the Minnesota Department of Education to follow UFARS.

Condition and Context: Audit analyses detected account coding being performed inconsistently with the budget and with prior year.

Cause: In some cases, inconsistencies may have been caused by UFARS changes made by the Minnesota Department of Education.

Effect: Inconsistent coding makes it more difficult to compare actual data from one year to the next and budget to actual.

Questioned Costs: None.

Recommendation: We recommend the School review its account coding procedures for both actual and budgeted transactions.

Management Response

Corrective Action Plan (CAP) including explanation of agreement or disagreement: We agree with the finding. We will compare UFARS codes to budget monthly, as well as eliminating multiple codes in the system that are not in use.

Official responsible for ensuring CAP: Business Manager

Planned completion date for CAP: Ongoing

Plan to monitor completion for CAP: The Business Manager will monitor quarterly.

HIGH SCHOOL FOR RECORDING ARTS
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2011

Finding: 2011-04 Lack of Ideal Segregation of Duties

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition and Context: The School made improvement with segregation of duties during the year. However, there remains a lack of ideal segregation of duties in some areas, including cash disbursements. In some cases, all or most of the duties are performed by employees of the related management company. While that may be efficient, it carries a higher inherent risk since a related party is involved.

Cause: Limited number of staff in business office.

Effect: The lack of an ideal segregation of duties subjects the School to a higher risk that errors or fraud could occur and not be detected in a timely manner.

Questioned Costs: None.

Recommendation: We recommend that the School continue to segregate duties as best it can within the limits of what the School considers to be cost beneficial. In addition, the School's Board should remain aware of this situation as their oversight is one compensating control. Whenever possible, it is desirable that any key process involve at least one employee or board member of the School.

Management Response

Corrective Action Plan (CAP) including explanation of agreement or disagreement: We believe we have done what we could to correct this finding. We will continue to review our processes with the goal of maintaining or creating segregation of duties. We will continue to have an outside agency reconciling our bank accounts. We will continue to have all vendor checks and invoices reviewed by a member of the Board of Directors before being distributed.

Official responsible for ensuring CAP: The Business Manager

Planned completion date for CAP: Ongoing

Plan to monitor completion for CAP: The Business Manager will address this annually.

HIGH SCHOOL FOR RECORDING ARTS
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2011

Finding: 2011-05 Unrecorded Bank Account

Criteria: All bank accounts that are in the School's name should be recorded on the School's books.

Condition and Context: We identified a bank account that was used to account for a new student activity fund which was not recorded on the School's accounting records. Activity in this bank account was immaterial to the financial statements.

Cause: Unknown.

Effect: Unrecorded bank accounts are subject to a higher risk of fraud and error.

Recommendation: We recommend that the School record all bank accounts that are in the School's name.

Management Response

Corrective Action Plan (CAP) including explanation of agreement or disagreement: We agree with the finding. All student activities funds will be reviewed by the Board of Directors and Business Manager.

Official responsible for ensuring CAP: Business Manager

Planned completion date for CAP: Ongoing

Plan to monitor completion for CAP: The Business Manager will monitor this monthly.