

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

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

For The Year Ended June 30, 2013

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

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BOARD OF DIRECTORS

<u>Name</u>	<u>Board Position During 2012 - 2013</u>
Dr. Wayne Jennings	Chair
Paula Anderson	Vice-Chair/Member
Carei Thomas	Community Member
Darryl Young	Treasurer/Teacher Member
Vacant	Parent Member

ADMINISTRATION

Anthony Simmons	Program Director
Bonita Hughes	Financial Manager
School Office:	High School for Recording Arts Charter School No. 4039 1166 University Ave. St. Paul, MN 55104 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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise High School for Recording Arts' 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.

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 High School for Recording Arts, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited High School for Recording Arts' 2012 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated December 20, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise High School for Recording Arts' basic financial statements. The introductory section, and individual fund financial 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 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements and the Uniform Financial Accounting and 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 our report dated December 20, 2013, on our consideration of High School for Recording Arts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering High School for Recording Arts' internal control over financial reporting and compliance.

HLB Tautges Redpath, Ltd.

HLB TAUTGES REDPATH, LTD.

December 20, 2013

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High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

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, 2013. Please read it in conjunction with the School's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2012-2013 fiscal year include the following:

- Fund balance of the General Fund increased by \$247,715 to \$648,764 at June 30, 2013.

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 supplemental information. The basic financial statements include two kinds of statements that present different views of the School:

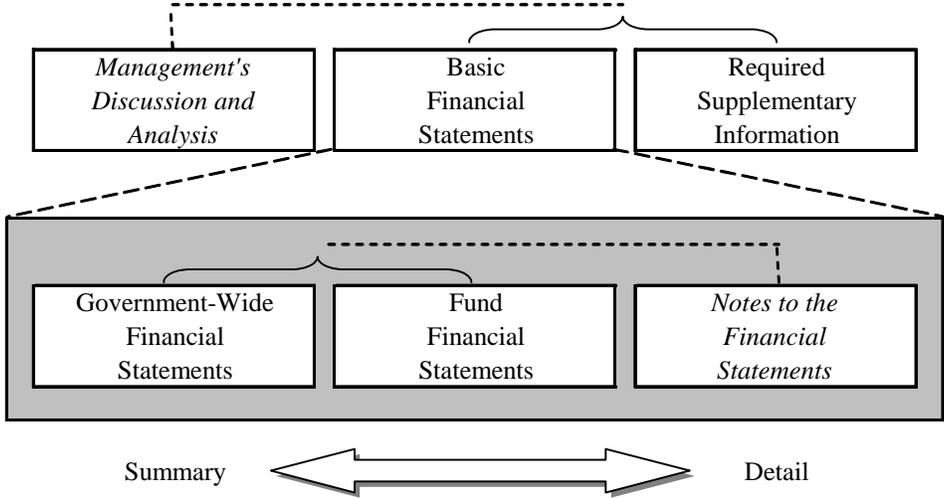
- The first two statements are school-wide financial statements that provide both short-term and long-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations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

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

High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

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, 2013

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 position	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 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.

High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT’S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

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

- Over time, increases or decreases in the School’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional non-financial factors such as changes in the 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, 2013

Financial Analysis of the School as a Whole

Net Position

The School's net position was \$347,113 and \$479,820 at June 30, 2013 and 2012, respectively.

Statement of Net Position		
	June 30,	
	<u>2013</u>	<u>2012</u>
Assets:		
Current assets	\$1,015,141	\$1,373,789
Capital assets - net	48,078	78,766
Total assets	<u>1,063,219</u>	<u>1,452,555</u>
Liabilities:		
Current liabilities	366,106	972,735
Noncurrent liabilities	350,000	-
Total liabilities	<u>716,106</u>	<u>972,735</u>
Net position:		
Net investment in capital assets	48,078	78,766
Restricted for food service	258	5
Unrestricted	298,777	401,049
Total net position	<u><u>\$347,113</u></u>	<u><u>\$479,820</u></u>

High School for Recording Arts
 INDEPENDENT SCHOOL DISTRICT NO. 4039
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended June 30, 2013

Change in Net Position

The School's total revenues were \$3,555,786 and \$3,457,546 for the years ended June 30, 2013 and 2012, respectively. State formula aid accounted for the majority of total revenue.

Change in Net Position		
	2013	2012
Revenue:		
Program revenues:		
Operating grants and contributions	\$1,325,543	\$760,282
General:		
Local and other	170,724	241,686
State	2,059,519	2,288,380
Federal	-	167,198
Total revenue	3,555,786	3,457,546
Expenses:		
School support services	1,026,764	926,542
Regular instruction	1,459,221	1,360,673
Special education instruction	506,546	492,024
Instructional support services	990	-
Pupil support services	130,106	151,030
Site, building and equipment	545,240	520,606
Fiscal and other fixed costs	19,626	21,030
Total expenses	3,688,493	3,471,905
Change in net position	(132,707)	(14,359)
Net position - beginning	479,820	494,179
Net position - ending	\$347,113	\$479,820

The total cost of all programs and services was \$3.7 million. For 2013, there was a decrease of \$132,707 in net position from the prior year. This decrease was due to the increased costs related to the move into the new building.

High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

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 \$649,035.

Revenues for the School's governmental funds were \$3,555,786 and \$3,457,546 for 2013 and 2012, respectively, while total expenditures were \$3,657,805 and \$3,457,039 at June 30, 2013 and 2012, respectively.

General Fund

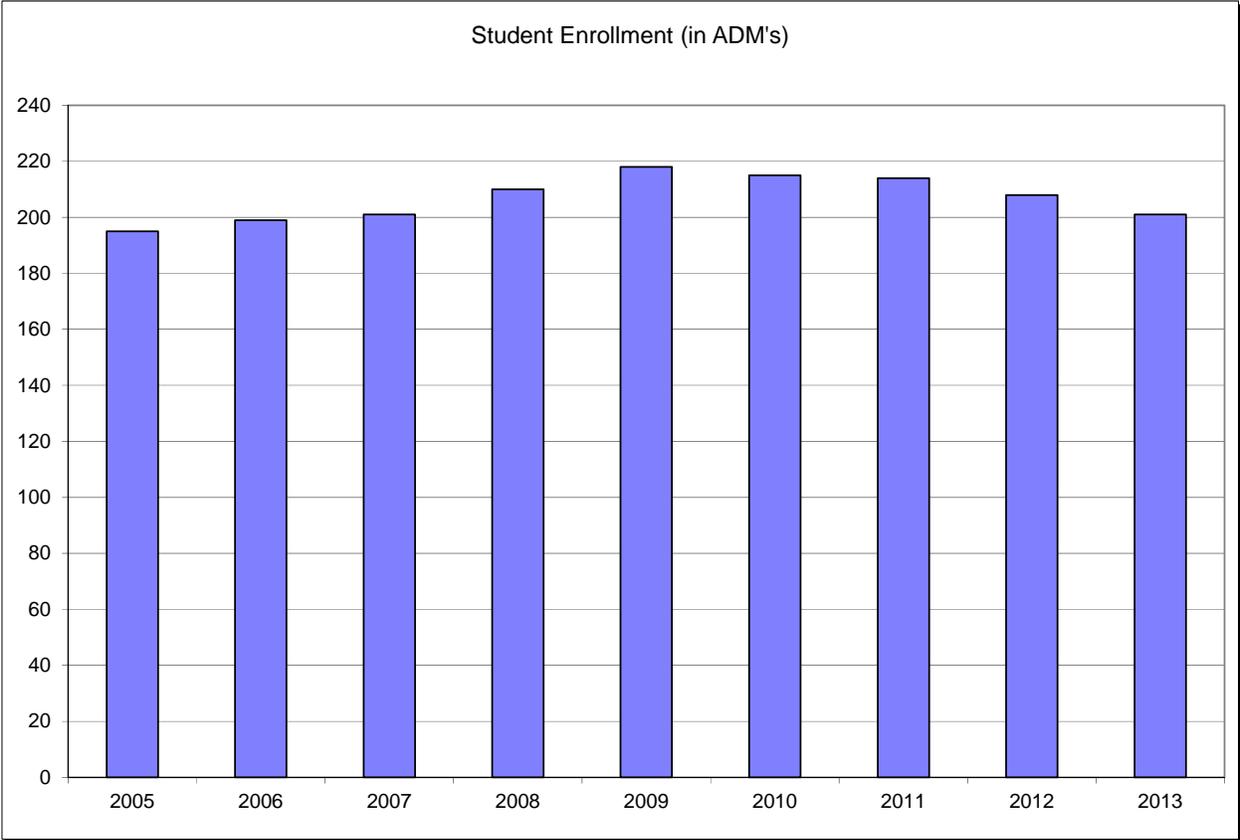
The General Fund includes the primary operations of the School in providing educational services to students from 9th through 12th grade including pupil transportation activities and capital outlay projects.

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, 2013

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.



High School for Recording Arts
 INDEPENDENT SCHOOL DISTRICT NO. 4039
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended June 30, 2013

The following schedule presents a summary of General Fund revenues:

Fund	Year Ended June 30,		Change	
	2013	2012	Increase (Decrease)	Percent
Local sources	\$170,711	\$241,686	(\$70,975)	(29.4%)
State sources	2,976,113	2,760,041	216,072	7.8%
Federal sources	364,557	401,519	(36,962)	(9.2%)
Total general fund revenue	<u>\$3,511,381</u>	<u>\$3,403,246</u>	<u>\$108,135</u>	3.2%

Total General Fund revenue increased by \$108,135 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.

High School for Recording Arts received additional funding to participate in various State Farm campaigns (Get Your Green, 26 Seconds, Ready for the Road, Celebrate My Drive) which contributed to the increase in revenue.

High School for Recording Arts
 INDEPENDENT SCHOOL DISTRICT NO. 4039
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended June 30, 2013

The following schedule presents a summary of General Fund expenditures.

Fund	Year Ended June 30,		Change	
	2013	2012	Increase (Decrease)	Percent
Salaries	\$1,019,727	\$965,203	\$54,524	5.6%
Employee benefits	348,423	308,683	39,740	12.9%
Purchased services	2,044,710	1,914,775	129,935	6.8%
Supplies and materials	169,627	148,438	21,189	14.3%
Other expenditures	23,592	31,089	(7,497)	(24.1%)
Capital expenditures	7,587	27,777	(20,190)	(72.7%)
Total general fund expenditures	<u>\$3,613,666</u>	<u>\$3,395,965</u>	<u>\$217,701</u>	6.4%

Total General Fund expenditures increased \$217,701 from the previous year. Most of this increase can be attributed to consulting services for the new building. In addition, an advisor was added to the staff.

In 2012-2013, General Fund revenue was less than expenditures by \$102,285 before debt issuance with Studio 4 of \$350,000. Therefore, the fund balance increased from \$401,049 at June 30, 2012 to \$648,764 at June 30, 2013 after debt issuance. 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 \$470,723 greater than expected.

High School for Recording Arts
 INDEPENDENT SCHOOL DISTRICT NO. 4039
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 Year Ended June 30, 2013

Local revenue was higher due to a contribution made by State Farm. 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. Federal revenue is higher due to ARRA funds that were not anticipated.

The actual General Fund expenditures were \$485,954 over budget.

While the School's final budget for the General Fund anticipated that expenditures would exceed revenues by \$87,054, the actual results for the year show a \$102,285 decrease of revenues over expenditures.

Actual expenditures were more than budgeted because High School for Recording Arts is involved in multiple programs and community projects. It is hard to plan for and anticipate the opportunities that become available for the students.

Other Major Funds

Revenues exceeded expenditures in the Food Service Fund by \$253.

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 2013, the School had invested \$478,547 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 \$38,275.

	June 30,	
	2013	2012
Capital assets:		
Equipment	\$478,547	\$470,960
Less: accumulated depreciation	(430,469)	(392,194)
 Total capital assets - net	 \$48,078	 \$78,766

High School for Recording Arts
INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2013

Factors Bearing on the School's Future

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

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

Contacting the School's Financial Management

This financial report is designed to provide 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 POSITION
June 30, 2013

Statement 1

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$355,013
Due from other governments	537,051
Accounts receivable	88,077
Prepaid expenses	35,000
Capital assets (net of accumulated depreciation)	48,078
Total assets	<u>1,063,219</u>
Liabilities:	
Checks in excess of deposits	29,070
Accounts payable	49,542
Due to Studio 4	209,200
Salaries payable	5,267
Deferred revenue - unearned	9,027
Line of credit payable	64,000
Long term liabilities:	
Note payable - Studio 4, greater than 1 year	350,000
Total liabilities	<u>716,106</u>
Net position:	
Net investment in capital assets	48,078
Restricted for food service	258
Unrestricted	298,777
Total net position	<u>\$347,113</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, 2013

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 Position</u>
Governmental activities:			
School support services	\$1,026,764	\$ -	(\$1,026,764)
Regular instruction	1,459,221	428,923	(1,030,298)
Special education instruction	506,546	570,091	63,545
Instructional support services	990	-	(990)
Pupil support services	130,106	44,392	(85,714)
Site, building and equipment	545,240	282,137	(263,103)
Fiscal and other fixed costs	19,626	-	(19,626)
	<u>\$3,688,493</u>	<u>\$1,325,543</u>	<u>(2,362,950)</u>
General revenues:			
Local and other sources			170,724
State sources			2,059,519
Total general revenues			<u>2,230,243</u>
Change in net position			(132,707)
Net position - beginning			<u>479,820</u>
Net position - ending			<u>\$347,113</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, 2013

Statement 3

	General	Food Service Fund	HSRA Building Company	Total
Assets:				
Cash and investments	\$ -	\$ -	\$355,013	\$355,013
Accounts receivable	88,077	-	-	88,077
Due from Minnesota Department of Education	398,436	54	-	398,490
Due from Federal Government through Minnesota Department of Education	41,454	1,239	-	42,693
Due from Minnesota Department of Health	95,868	-	-	95,868
Interfund loan receivable	355,000	-	-	355,000
Prepaid items	35,000	-	-	35,000
Total assets	\$1,013,835	\$1,293	\$355,013	\$1,370,141
Liabilities and Fund Balance				
Liabilities:				
Checks in excess of deposits	\$28,035	\$1,035	\$ -	\$29,070
Accounts payable	49,542	-	-	49,542
Due to Studio 4	209,200	-	-	209,200
Salaries and taxes payable	5,267	-	-	5,267
Deferred revenue	9,027	-	-	9,027
Line of credit payable	64,000	-	-	64,000
Interfund loan payable	-	-	355,000	355,000
Total liabilities	365,071	1,035	355,000	721,106
Fund balance:				
Nonspendable	390,000	-	-	390,000
Restricted for food service	-	258	-	258
Assigned	-	-	13	13
Unassigned	258,764	-	-	258,764
Total fund balance	648,764	258	13	649,035
Total liabilities and fund balance	\$1,013,835	\$1,293	\$355,013	\$1,370,141

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

Fund balance reported above	\$649,035
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	48,078
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(350,000)</u>
Net position of governmental activities (Statement 1)	<u>\$347,113</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, 2013

Statement 4

	General	Food Service Fund	HSRA Building Company	Total
Revenues:				
Local and other sources	\$170,711	\$ -	\$13	\$170,724
State sources	2,976,113	2,166	-	2,978,279
Federal sources	364,557	42,226	-	406,783
Total revenues	<u>3,511,381</u>	<u>44,392</u>	<u>13</u>	<u>3,555,786</u>
Expenditures:				
Current:				
School support services	1,026,764	-	-	1,026,764
Regular instruction	1,427,056	-	-	1,427,056
Special education instruction	500,436	-	-	500,436
Instructional support services	990	-	-	990
Pupil support services	85,967	44,139	-	130,106
Site, building and equipment	545,240	-	-	545,240
Fiscal and other fixed costs	19,626	-	-	19,626
Capital outlay	7,587	-	-	7,587
Total expenditures	<u>3,613,666</u>	<u>44,139</u>	<u>0</u>	<u>3,657,805</u>
Revenues over (under) expenditures	(102,285)	253	13	(102,019)
Other financing sources:				
Proceeds from debt issuance	350,000	-	-	350,000
Net change in fund balance	247,715	253	13	247,981
Fund balance - beginning	401,049	5	-	401,054
Fund balance - ending	<u>\$648,764</u>	<u>\$258</u>	<u>\$13</u>	<u>\$649,035</u>

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

Revenues over expenditures reported above	\$247,981
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	(38,275)
Capital outlay - capitalized	7,587
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, neither has any effect on net position:	
Proceeds of long-term debt	<u>(350,000)</u>
Change in net position of governmental activities (Statement 2)	<u><u>(\$132,707)</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, 2013

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 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 before fiscal year 2013. 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 an educational site which would be leased to the School. No separate financial statements of the Building Company are issued.

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 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*.

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, 2013

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 *HSRA Building Company Fund* is used to account for revenues and expenditures of the Building Company.

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.

**HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
NOTES TO FINANCIAL STATEMENTS
June 30, 2013**

G. CASH AND INVESTMENTS

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

H. ACCOUNTS RECEIVABLE

Accounts receivable 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
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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 and long-term amounts due from other funds.

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, 2013**

P. NET POSITION

Net position represents the difference between assets and liabilities in the School-wide financial statements. Net position 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 position 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.

Q. STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceeded budgeted amounts in the following funds at June 30, 2013:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$3,127,712	\$3,613,666	\$485,954
Food Service Fund	39,125	44,139	5,014
Total	<u>\$3,166,837</u>	<u>\$3,657,805</u>	<u>\$490,968</u>

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

The School maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and 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, 2013, collateral was not obtained for deposits not covered by FDIC insurance. The bank balance of the uninsured/uncollateralized deposits was \$105,013.

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

B. INVESTMENTS

Minnesota Statutes outline authorized investments for Charter Schools. During 2013, the School did not have any such investments.

Note 3 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, being depreciated:				
Equipment	\$470,960	\$7,587	\$ -	\$478,547
Less accumulated depreciation for:				
Equipment	<u>392,194</u>	<u>38,275</u>	<u>-</u>	<u>430,469</u>
Governmental activities capital assets - net	<u><u>\$78,766</u></u>	<u><u>(\$30,688)</u></u>	<u><u>\$0</u></u>	<u><u>\$48,078</u></u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	\$32,165
Special education	<u>6,110</u>
Total depreciation expense - governmental activities	<u><u>\$38,275</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.minnesotatra.org. 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)296-2409, (800)657-3669.

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 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 \$35,021, \$29,315 and \$26,510, respectively, which was materially equal to the required contributions for each year as set by State Statute.

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

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 6.25% of their annual covered salary. The School is required to contribute 7.25%. The School's contributions for the year ended June 30, 2013, 2012 and 2011, were \$34,945, \$34,286 and \$24,244, 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, 2013**

Note 6 SHORT-TERM DEBT

The School has a line of credit with a local bank for cash flows purposes. At June 30, 2013, \$64,000 was outstanding. The current terms include maximum borrowing of \$250,000 with a current rate of 5% and expiration date of May 1, 2014. This is secured by all School assets.

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

	Beginning Balance June 30, 2012	Total Advances	Total Repayments	Ending Balance June 30, 2013
Line of credit - expires May 1, 2014	<u>\$500,000</u>	<u>\$66,000</u>	<u>\$502,000</u>	<u>\$64,000</u>

Note 7 LONG-TERM LIABILITIES

During 2013, the School obtained a promissory note from Studio 4 (the “management company”, see Note 9C) in the amount of \$350,000. The note is interest free and payable in full upon maturity June 30, 2018.

Note 8 INTERFUND ACTIVITY

The General Fund loaned the Building Company \$355,000 during 2013 to make improvements to and possibly acquire a new facility. A repayment timeline has not been established.

Note 9 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 2013 rent expense for all leases was \$339,726.

During 2013, the School entered into a lease agreement effective July 1, 2013 and amended July 3, 2013 for a building location for the 2014 school year. The lease term is for seventeen years ending June 30, 2030. At any time during lease months six through forty-eight, the School’s Building Company has the option to purchase the building for \$4,715,000. Future lease payments will be based on the greater of an enrollment calculation or a minimum payment of \$360,000 for the initial years and \$400,000 through the remainder of the lease.

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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

	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
2014	\$360,000	\$10,620	\$370,620
2015	400,000	2,710	402,710
2016	400,000	-	400,000
2017	400,000	-	400,000
2018	400,000	-	400,000
2019-2023	2,000,000	-	2,000,000
2024-2028	2,000,000	-	2,000,000
2029-2030	800,000	-	800,000
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$6,760,000</u>	<u>\$13,330</u>	<u>\$6,773,330</u>

B. FEDERAL AND STATE PROGRAMS

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable 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 through December 31, 2018. 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 net management fee expense to Studio 4 for fiscal 2012-2013 under the terms of this agreement totaled \$1,016,944. The amount payable at June 30, 2013 was \$209,200.

In 2013, Studio 4 issued a \$350,000 promissory note to the School (see Note 7).

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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, 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	\$151,234	\$90,000	\$170,711	\$80,711	\$241,686
State sources	2,625,566	2,778,516	2,976,113	197,597	2,760,041
Federal sources	166,785	172,142	364,557	192,415	401,519
Total revenues	<u>2,943,585</u>	<u>3,040,658</u>	<u>3,511,381</u>	<u>470,723</u>	<u>3,403,246</u>
Expenditures:					
School support services:					
Current:					
Salaries	2,000	1,587	1,587	-	13,252
Employee benefits	5,000	-	26	26	156
Purchased services	820,627	836,794	999,442	162,648	885,118
Supplies and materials	-	-	6,688	6,688	3,841
Other expenditures	12,000	18,000	19,021	1,021	24,175
Total School support services	<u>839,627</u>	<u>856,381</u>	<u>1,026,764</u>	<u>170,383</u>	<u>926,542</u>
Regular instruction:					
Current:					
Salaries	546,512	494,210	637,771	143,561	632,350
Employee benefits	224,983	244,944	242,403	(2,541)	225,712
Purchased services	322,000	368,933	405,865	36,932	335,330
Supplies and materials	51,000	49,175	140,407	91,232	130,412
Other expenditures	-	-	610	610	-
Capital expenditures	10,000	6,000	5,066	(934)	23,577
Total regular instruction	<u>1,154,495</u>	<u>1,163,262</u>	<u>1,432,122</u>	<u>268,860</u>	<u>1,347,381</u>
Special education instruction:					
Current:					
Salaries	288,947	321,428	366,583	45,155	304,412
Employee benefits	33,500	56,709	103,754	47,045	80,547
Purchased services	34,750	41,130	26,348	(14,782)	97,329
Supplies and materials	2,635	1,725	3,751	2,026	3,962
Capital expenditures	-	-	2,521	2,521	4,200
Total special education instruction	<u>359,832</u>	<u>420,992</u>	<u>502,957</u>	<u>81,965</u>	<u>490,450</u>
Instructional support services:					
Current:					
Supplies and materials	-	-	990	990	-
Pupil support services:					
Current:					
Purchased services	70,000	73,200	85,967	12,767	89,956

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
 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

	2013		Actual Amounts	Variance with Final Budget - Over (Under)	2012 Actual Amounts
	Budgeted Amounts				
	Original	Final			
Site, building and equipment:					
Current:					
Salaries	\$15,039	\$15,039	\$13,786	(\$1,253)	\$15,189
Employee benefits	1,247	2,200	2,240	40	2,268
Purchased services	469,740	566,524	511,423	(55,101)	492,926
Supplies and materials	7,000	8,362	17,791	9,429	10,223
Total site, building and equipment	<u>493,026</u>	<u>592,125</u>	<u>545,240</u>	<u>(46,885)</u>	<u>520,606</u>
Fiscal and other fixed costs:					
Current:					
Purchased services	20,500	14,752	15,665	913	14,116
Other expenditures	10,000	7,000	3,961	(3,039)	6,914
Total fiscal and other fixed costs	<u>30,500</u>	<u>21,752</u>	<u>19,626</u>	<u>(2,126)</u>	<u>21,030</u>
Total expenditures	<u>2,947,480</u>	<u>3,127,712</u>	<u>3,613,666</u>	<u>485,954</u>	<u>3,395,965</u>
Revenues over expenditures	(3,895)	(87,054)	(102,285)	(15,231)	7,281
Other financing sources (uses):					
Proceeds from debt issuance	-	-	350,000	350,000	-
Transfer to Food Service Fund	-	-	-	-	(4,200)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>350,000</u>	<u>350,000</u>	<u>(4,200)</u>
Net change in fund balance	<u>(\$3,895)</u>	<u>(\$87,054)</u>	247,715	<u>\$334,769</u>	3,081
Fund balance - beginning			<u>401,049</u>		<u>397,968</u>
Fund balance - ending			<u>\$648,764</u>		<u>\$401,049</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, 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:					
State sources	\$4,950	\$2,548	\$2,166	(\$382)	\$2,422
Federal sources	71,050	36,577	42,226	5,649	51,878
Total revenues	<u>76,000</u>	<u>39,125</u>	<u>44,392</u>	<u>5,267</u>	<u>54,300</u>
Expenditures:					
Current:					
Purchased services	68,000	39,125	44,139	5,014	61,074
Total expenditures	<u>68,000</u>	<u>39,125</u>	<u>44,139</u>	<u>5,014</u>	<u>61,074</u>
Revenues over (under) expenditures	8,000	-	253	253	(6,774)
Other financing sources:					
Transfer from General Fund	-	-	-	-	4,200
Net change in fund balance	<u>\$8,000</u>	<u>\$0</u>	253	<u>\$253</u>	(2,574)
Fund balance - beginning			5		2,579
Fund balance - ending			<u>\$258</u>		<u>\$5</u>

**HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
June 30, 2013**

Note A BUDGETS

The General Fund and Food Service Special Revenue Fund 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, 2013

With Comparative Amounts For June 30, 2012

	2013	2012
Assets		
Cash and investments	\$ -	\$26,555
Accounts receivable	88,077	-
Due from Minnesota Department of Education	398,436	1,023,600
Due from Federal Government through Minnesota Department of Education	41,454	240,009
Due from Minnesota Department of Health	95,868	81,117
Due from other funds	-	1,983
Interfund loan receivable	355,000	-
Prepaid items	35,000	-
Total assets	\$1,013,835	\$1,373,264
Liabilities and Fund Balance		
Liabilities:		
Checks in excess of deposits	\$28,035	\$ -
Accounts payable	49,542	79,530
Due to Studio 4	209,200	368,052
Salaries and taxes payable	5,267	19,633
Deferred revenue	9,027	5,000
Line of credit payable	64,000	500,000
Total liabilities	365,071	972,215
Fund balance:		
Nonspendable	390,000	-
Unassigned	258,764	401,049
Total fund balance	648,764	401,049
Total liabilities and fund balance	\$1,013,835	\$1,373,264

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND
June 30, 2013
With Comparative Amounts For June 30, 2012

Statement 8

	<u>2013</u>	<u>2012</u>
Assets		
Due from Minnesota Department of Education	\$54	\$127
Due from Federal Government through Minnesota Department of Education	<u>1,239</u>	<u>2,381</u>
Total assets	<u><u>\$1,293</u></u>	<u><u>\$2,508</u></u>
Liabilities and Fund Balance		
Liabilities:		
Checks in excess of deposits	\$1,035	\$ -
Accounts payable	-	520
Due to other funds	-	1,983
Total liabilities	<u>1,035</u>	<u>2,503</u>
Fund balance:		
Restricted for food service	<u>258</u>	<u>5</u>
Total liabilities and fund balance	<u><u>\$1,293</u></u>	<u><u>\$2,508</u></u>

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

Statement 9

BALANCE SHEET - HSRA BUILDING COMPANY SPECIAL REVENUE FUND

June 30, 2013

With Comparative Amounts For June 30, 2012

	<u>2013</u>	<u>2012</u>
Assets		
Cash and investments	<u>\$355,013</u>	<u>\$ -</u>
Total assets	<u><u>\$355,013</u></u>	<u><u>\$0</u></u>
Liabilities and Fund Balance		
Liabilities:		
Interfund loan payable	<u>\$355,000</u>	<u>\$ -</u>
Total liabilities	<u><u>355,000</u></u>	<u><u>0</u></u>
Fund balance:		
Assigned	<u>13</u>	<u>-</u>
Total liabilities and fund balance	<u><u>\$355,013</u></u>	<u><u>\$0</u></u>

SUPPLEMENTAL INFORMATION

	Audit	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$3,511,381	\$3,511,383	(\$2)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	3,613,666	3,613,671	(5)	Total Expenditures	-	-	-
<i>Non-Spendable:</i>				<i>Non-Spendable:</i>			
4.60 Non Spendable Fund Balance	390,000	390,000	-	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	-	-	-
4.14 Operating Debt	-	-	-	<i>Unassigned:</i>			
4.16 Levy Reduction	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.17 Taconite Building Maint	-	-	-				
4.23 Certain Teacher Programs	-	-	-	07 DEBT SERVICE			
4.24 Operating Capital	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.26 \$25 Taconite	-	-	-	Total Expenditures	-	-	-
4.27 Disabled Accessibility	-	-	-	<i>Non-Spendable:</i>			
4.28 Learning and Development	-	-	-	4.60 Non Spendable Fund Balance	-	-	-
4.34 Area Learning Center	-	-	-	<i>Restricted/Reserve:</i>			
4.35 Contracted Alt. Programs	-	-	-	4.25 Bond Refundings	-	-	-
4.36 St. Approved Alt. Program	-	-	-	4.51 QZAB Payments	-	-	-
4.38 Gifted & Talented	-	-	-	<i>Restricted:</i>			
4.41 Basic Skills Programs	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.45 Career & Tech Programs	-	-	-	<i>Unassigned:</i>			
4.49 Safe School Crime	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.50 Pre-Kindergarten	-	-	-				
4.51 QZAB Payments	-	-	-	08 TRUST			
4.52 OPEB Liab Not In Trust	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.53 Unfunded Sev & Retirement Levy	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.64 Restricted Fund Balance	-	-	-				
<i>Committed:</i>				20 INTERNAL SERVICE			
4.18 Committed For Separation	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.61 Committed Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Assigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.62 Assigned Fund Balance	-	-	-				
<i>Unassigned:</i>				25 OPEB REVOCABLE TRUST			
4.22 Unassigned Fund Balance	258,764	258,762	2	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	-	-	-
02 FOOD SERVICE				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
Total Revenue	\$44,392	\$44,392	\$ -				
Total Expenditures	44,139	44,138	1	45 OPEB IRREVOCABLE TRUST			
<i>Non-Spendable:</i>				Total Revenue	\$ -	\$ -	\$ -
4.60 Non Spendable Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Restricted/Reserve:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-				
<i>Restricted:</i>				47 OPEB DEBT SERVICE FUND			
4.64 Restricted Fund Balance	258	258	-	Total Revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	-	-	-
4.63 Unassigned Fund Balance	-	-	-	<i>Non-Spendable:</i>			
				4.60 Non Spendable Fund Balance	-	-	-
04 COMMUNITY SERVICE				<i>Restricted:</i>			
Total Revenue	\$ -	\$ -	\$ -	4.25 Bond Refundings	-	-	-
Total Expenditures	-	-	-	4.64 Restricted Fund Balance	-	-	-
<i>Restricted/Reserve:</i>				<i>Unassigned:</i>			
4.26 \$25 Taconite	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.31 Community Education	-	-	-				
4.32 E.C.F.E	-	-	-				
4.44 School Readiness	-	-	-				
4.47 Adult Basic Education	-	-	-				
4.52 OPEB Liab Not In Trust	-	-	-				
<i>Restricted:</i>							
4.64 Restricted Fund Balance	-	-	-				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	-	-	-				

OTHER REQUIRED REPORTS

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

To the Board of Directors
High School for Recording Arts
Charter School No. 4039
St. Paul, 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 High School for Recording Arts, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise High School for Recording Arts' basic financial statements, and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered High School for Recording Arts' 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 High School for Recording Arts' internal control. Accordingly, we do not express an opinion of the effectiveness of High School for Recording Arts' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 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 findings

High School for Recording Arts
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*

2013-01 and 2013-05 described in the accompany schedule of findings and responses to be material weaknesses.

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 the findings 2013-02, 2013-03 and 2013-04 described in the accompany schedule of findings and responses 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 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 and other matters that are required to be reported under *Government Auditing Standards*.

High School for Recording Arts' Response to Findings

High School for Recording Arts' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. High School for Recording Arts' response were 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.

December 20, 2013

MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Directors
High School for Recording Arts
Charter School No. 4039
St. Paul, 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 the governmental activities and each major fund of High School for Recording Arts, 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 December 20, 2013.

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

In connection with our audit, nothing came to our attention that caused us to believe that High School for Recording Arts failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the schedule of findings and responses as item 2013-06. 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 High School for Recording Arts'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, and 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.

December 20, 2013

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HIGH SCHOOL FOR RECORDING ARTS
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2013

INTERNAL CONTROL FINDINGS

Finding: 2013-01 Audit Adjustments

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

Condition: During the course of our audit, an audit adjustment was required to reclassify health insurance expenditures to Special Education UFARS account codes. The effect of this transaction increased special education revenue and receivables by \$45,970.

Cause: Unknown, however the School's year end closing process did not timely identify all needed adjustments.

Effect: Inadequate controls over year end closing process results in an increased risk that financial statement misstatements may occur and not be detected on a timely basis.

Recommendation: We recommend the School continue efforts to improve its year end closing process to eliminate this needed adjustment.

Management Response

Corrective Action Plan (CAP) including explanation of agreement or disagreement: We agree with the finding. We will continue to put policies and procedures in place that will include making these adjustments in a timely manner.

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, 2013

Finding: 2013-02 Documentation for Expenditures

Criteria: All disbursements should be supported by original receipts or other documentation supporting the expenditure. This is especially important for credit card transactions and employee expense reimbursements, which have higher inherent risks, and to support the public purpose requirement.

Condition and Context: Audit procedures detected the following:

- Sufficient supporting documentation was not retained for 12 of 108 credit card transactions tested. Adequate documentation includes original source documents or equivalent documentation.
- Documentation of approval was not retained for 96 of 108 credit card transactions tested.
- Included in the preceding exceptions were several individually small payments to vendors that carry a higher inherent risk of abuse/public purpose (i.e. coffee, restaurants, etc.).

Cause: Unknown.

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

Recommendation: We recommend original supporting documentation be retained for all School expenditures along with proper identification of the purpose of such expenditures, especially for items such as food, clothing, etc.

Management Response

Corrective Action Plan (CAP) including explanation of agreement or disagreement: We agree with the finding. We will review the current processes and make changes as needed to ensure the correct procedures are in place. We will continue to 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, 2013

Finding: 2013-03 Lack of Ideal Segregation of Duties – Credit Cards

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: There is a lack of ideal segregation of duties relating to credit card transactions.

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.

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 entered by a School employee and reviewed by a member of the Board of Directors before being distributed.

Official responsible for ensuring CAP: 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, 2013

Finding: 2013-04 Unrecorded Bank Accounts

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

Condition and Context: Continuing a finding that originated in 2011, this relates to bank accounts that were used to account for student activity funds which were not recorded on the School's accounting records. Activity in these bank accounts were 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. We wish to state that the above referenced accounts were a student account for the Junior Achievement Program and that the year end balance was \$2,548. All student activities funds will be reviewed by the Business Manager and submitted to the Board of Director.

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.

HIGH SCHOOL FOR RECORDING ARTS
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2013

Finding: 2013-05 Bank Reconciliation – Deposits

Criteria: Deposit/bank reconciliation procedures should be designed to timely identify deposit errors.

Condition and Context: Five checks dated August, 2012 for \$47,070 were deposited into the account of Studio 4. This error was identified by the School's year end closing procedures several months later. It was not determinable if this was only the Bank's error, or something else. Regardless, deposit errors, especially in this amount, should be identified on a more timely basis.

Cause: We understand the error was not timely identified because deposits have been reconciled to bank statements rather than deposit slips.

Effect: There is an increased risk of unaccounted for School funds.

Recommendation: The School should evaluate deposit/bank reconciliation procedures to ensure they are designed to timely identify deposit errors.

Management Response

Corrective Action Plan (CAP) including explanation of agreement or disagreement: The School agrees with the finding. We will change our process to ensure the proper documents are used when entering deposits to help identify any errors that may occur.

Official responsible for ensuring CAP: Business Manager.

Planned completion date for CAP: Ongoing.

Plan to monitor completion for CAP: The Business Manager will monitor the School's bank accounts to ensure deposits are appropriately credited to the School's accounts.

HIGH SCHOOL FOR RECORDING ARTS
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2013

STATE LEGAL COMPLIANCE FINDINGS

Finding: 2013-06 Deficiencies in Collateral for Deposits

Criteria: Minnesota Statute 118A requires uninsured bank deposits be covered by collateral or surety bond. Excerpts include:

M.S. 118A.03 **When and What Collateral Required.** Subdivision 1. **For deposits beyond insurance.** To the extent that funds deposited are in excess of available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state.

Subd. 2. **In lieu of surety bond.** The following are the allowable forms of collateral in lieu of a corporate surety bond:

- (1) United States government treasury bills, treasury notes, treasury bonds;
- (2) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- (3) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- (4) irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- (5) time deposits that are fully insured by the Federal Deposit Insurance Corporation.

Subd. 3. **Amount.** The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

Condition: At times during the year the School's deposits exceeded FDIC coverage and collateral was not obtained. For example, audit procedures detected uninsured and uncollateralized deposits in the Building Company's bank account of approximately \$105,000 at June 30, 2013.

Cause: Unknown.

Effect: The effect was noncompliance with Minnesota Statutes. The School did not have any losses of uninsured bank deposits.

Recommendation: We recommend the School obtain sufficient collateral to comply with Minnesota Statute 118A.03, and monitor it on an ongoing basis to verify that pledged collateral remains sufficient to cover uninsured deposits.

HIGH SCHOOL FOR RECORDING ARTS
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2013

Management Response

Corrective Action Plan (CAP) including explanation of agreement or disagreement: The School agrees with the finding. The School's Director and Business Manager have worked with the School's bank to obtain the necessary collateral and make changes necessary to ensure that School balances are properly collateralized in FY 2014 and the future.

Official responsible for ensuring CAP: School Director.

Planned completion date for CAP: Ongoing.

Plan to monitor completion for CAP: The School Director and Business Manager will monitor bank balances and the necessity for collateral.

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