

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

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

For The Year Ended June 30, 2014

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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</u> <u>During 2013 - 2014</u>
Dr. Wayne Jennings	Chair
Paula Anderson	Vice-Chair/Member
Carei Thomas	Community Member
Darryl Young	Treasurer/Teacher Member
Pamela Weems	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, 2014, 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, 2014, 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' 2013 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, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 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 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 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 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 it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2014 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.



REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

December 15, 2014

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**High School for Recording Arts**  
INDEPENDENT SCHOOL DISTRICT NO. 4039  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2014

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, 2014. Please read it in conjunction with the School's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

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

- Fund balance of the General Fund decreased by \$261,613 to \$387,151 at June 30, 2014.

**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:

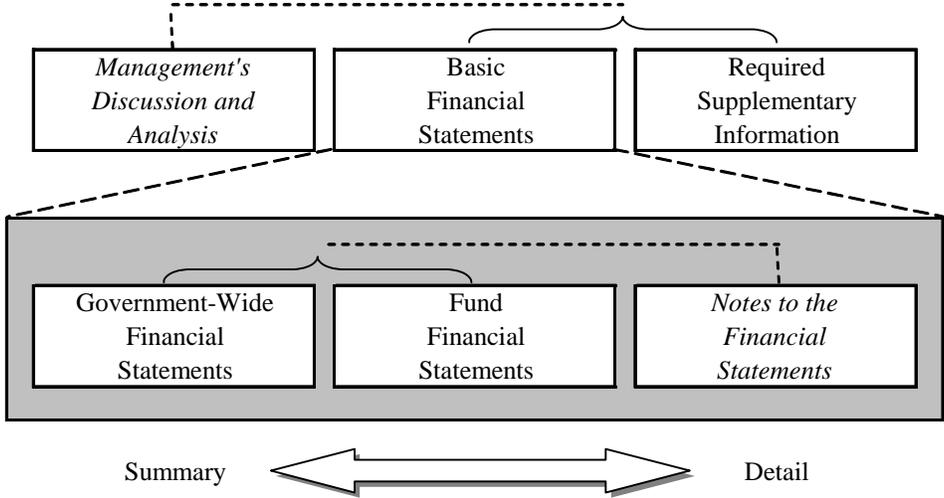
- The first two statements are school-wide financial statements that provide both short-term and long-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations 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, 2014

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, 2014

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.

<b>Figure A-2. Major Features of the School's Government-wide and Fund Financial Statements</b>		
<i>Type of Statements</i>	<b>Government-wide</b>	<b>Governmental Funds</b>
<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, 2014

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, 2014

**Financial Analysis of the School as a Whole**

**Net Position**

The School's net position was \$232,124 and \$347,113 at June 30, 2014 and 2013, respectively.

<b>Statement of Net Position</b>		June 30,	
	<u>2014</u>	<u>2013</u>	
<b>Assets:</b>			
Current assets	\$519,127	\$1,015,141	
Capital assets - net	545,153	48,078	
Total assets	<u>1,064,280</u>	<u>1,063,219</u>	
<b>Liabilities:</b>			
Current liabilities	482,156	366,106	
Noncurrent liabilities	350,000	350,000	
Total liabilities	<u>832,156</u>	<u>716,106</u>	
<b>Net position:</b>			
Net investment in capital assets	195,153	48,078	
Restricted for food service	-	258	
Unrestricted	36,971	298,777	
Total net position	<u><u>\$232,124</u></u>	<u><u>\$347,113</u></u>	

**High School for Recording Arts**  
 INDEPENDENT SCHOOL DISTRICT NO. 4039  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 Year Ended June 30, 2014

**Change in Net Position**

The School's total revenues were \$3,789,640 and \$3,555,786 for the years ended June 30, 2014 and 2013, respectively. State formula aid accounted for the majority of total revenue.

<b>Change in Net Position</b>		
	2014	2013
Revenue:		
Program revenues:		
Operating grants and contributions	\$1,468,018	\$1,325,543
General:		
Local and other	54,510	170,724
State	2,267,112	2,059,519
Total revenue	3,789,640	3,555,786
Expenses:		
School support services	954,159	1,026,764
Regular instruction	1,625,246	1,459,221
Special education instruction	567,462	506,546
Instructional support services	-	990
Pupil support services	128,016	130,106
Site, building and equipment	601,835	545,240
Fiscal and other fixed costs	27,911	19,626
Total expenses	3,904,629	3,688,493
Change in net position	(114,989)	(132,707)
Net position - beginning	347,113	479,820
Net position - ending	\$232,124	\$347,113

The total cost of all programs and services was \$3.9 million. For 2014, there was a decrease of \$114,989 in net position from the prior year. This decrease was due to the increased costs associated with 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, 2014

**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 \$36,971.

Revenues for the School's governmental funds were \$3,789,640 and \$3,555,786 for 2014 and 2013, respectively, while total expenditures were \$4,401,704 and \$3,657,805 at June 30, 2014 and 2013, respectively.

**General Fund**

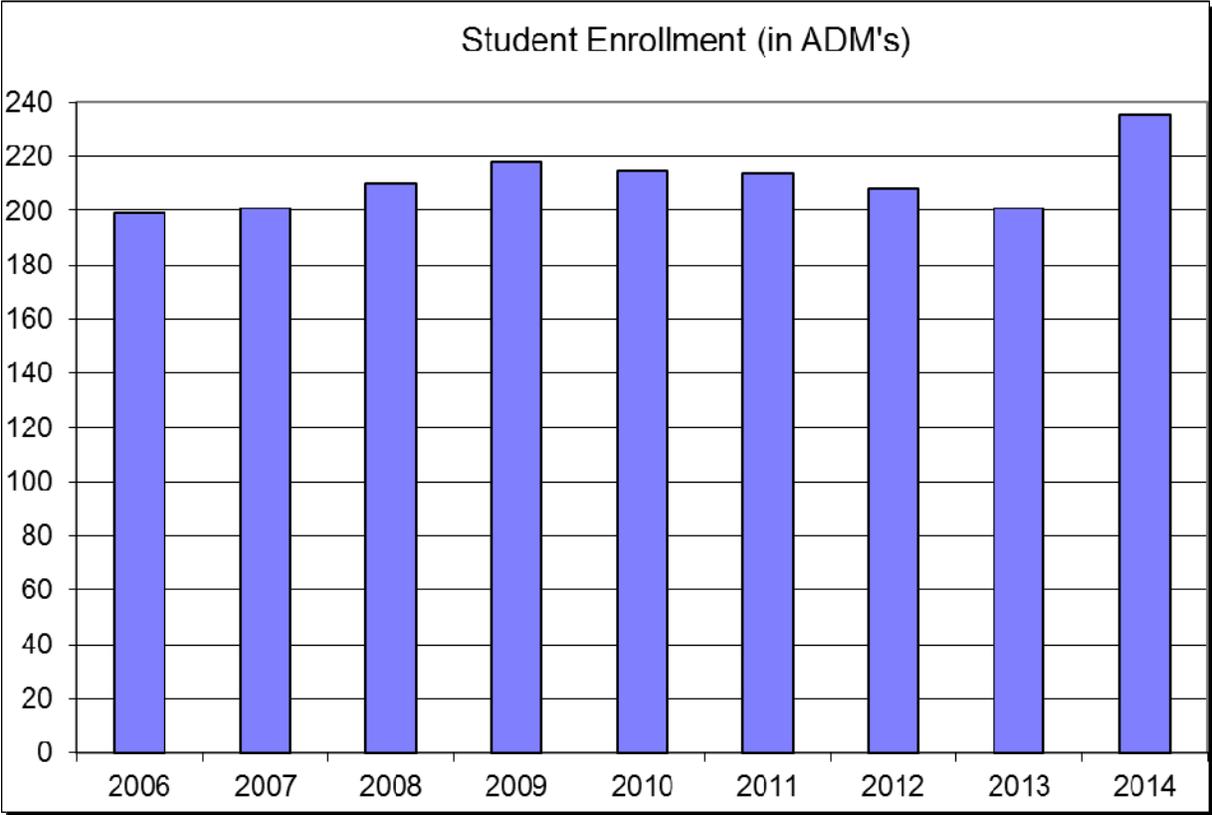
The General Fund includes the primary operations of the School in providing educational services to students from 9<sup>th</sup> through 12<sup>th</sup> grade including pupil transportation activities and capital outlay projects.

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, 2014

**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, 2014

The following schedule presents a summary of General Fund revenues:

Fund	Year Ended June 30,		Change	
	2014	2013	Increase (Decrease)	Percent
Local sources	\$54,484	\$170,711	(\$116,227)	(68.1%)
State sources	3,302,607	2,976,113	326,494	11.0%
Federal sources	416,892	364,557	52,335	14.4%
Total general fund revenue	<u>\$3,773,983</u>	<u>\$3,511,381</u>	<u>\$262,602</u>	7.5%

Total General Fund revenue increased by \$262,602 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.

The increase in revenue was due to an increase in student enrollment in 2014.

**High School for Recording Arts**  
 INDEPENDENT SCHOOL DISTRICT NO. 4039  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 Year Ended June 30, 2014

The following schedule presents a summary of General Fund expenditures.

Fund	Year Ended June 30,		Change	
	2014	2013	Increase (Decrease)	Percent
Salaries	\$1,208,712	\$1,019,727	\$188,985	18.5%
Employee benefits	381,995	348,423	33,572	9.6%
Purchased services	1,970,430	2,044,710	(74,280)	(3.6%)
Supplies and materials	156,449	169,627	(13,178)	(7.8%)
Other expenditures	30,011	23,592	6,419	27.2%
Capital expenditures	264,431	7,587	256,844	3385.3%
Total general fund expenditures	<u>\$4,012,028</u>	<u>\$3,613,666</u>	<u>\$398,362</u>	11.0%

Total General Fund expenditures increased \$398,362 from the previous year. Most of this increase can be attributed to capital expenditures related to the new building.

In 2013-2014, General Fund revenue was less than expenditures by \$238,045 before transfers out to the Food Service Fund of \$23,568. Therefore, the fund balance decreased from \$648,764 at June 30, 2013 to \$387,151 at June 30, 2014. 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 \$201,332 greater than expected.

**High School for Recording Arts**  
 INDEPENDENT SCHOOL DISTRICT NO. 4039  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 Year Ended June 30, 2014

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.

The actual General Fund expenditures were \$192,165 over budget.

While the School's final budget for the General Fund anticipated that expenditures would exceed revenues by \$247,212, the actual results for the year show a \$238,045 deficit of revenues over expenditures.

The decrease in revenue was due in part to a decrease in funding from corporate programs and community projects. It is hard to plan for and anticipate the opportunities that become available for the students.

**Other Major Funds**

Revenues were under expenditures in the Food Service Fund by \$23,826.

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 2014, the School had invested \$1,003,458 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 \$27,836.

	June 30,	
	2014	2013
Capital assets:		
Equipment	\$504,242	\$478,547
Leasehold improvements	58,664	-
Construction in progress	440,552	-
Less: accumulated depreciation	<u>(458,305)</u>	<u>(430,469)</u>
Total capital assets - net	<u>\$545,153</u>	<u>\$48,078</u>

**High School for Recording Arts**  
INDEPENDENT SCHOOL DISTRICT NO. 4039  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2014

**Factors Bearing on the School's Future**

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

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

**Contacting the School's Financial Management**

This financial report is designed to provide 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, 1166 University Avenue W., St. Paul, Minnesota 55104.

## **BASIC FINANCIAL STATEMENTS**

**HIGH SCHOOL FOR RECORDING ARTS**  
**CHARTER SCHOOL NO. 4039**  
STATEMENT OF NET POSITION  
June 30, 2014

**Statement 1**

---

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$213,209
Due from other governments	275,859
Accounts receivable	59
Prepaid expenses	30,000
Capital assets (net of accumulated depreciation)	<u>545,153</u>
Total assets	<u>1,064,280</u>
Liabilities:	
Accounts payable	42,166
Due to Studio 4	312,563
Salaries payable	18,237
Unearned revenue	9,190
Line of credit payable	100,000
Long term liabilities:	
Note payable - Studio 4, greater than 1 year	<u>350,000</u>
Total liabilities	<u>832,156</u>
Net position:	
Net investment in capital assets	195,153
Unrestricted	<u>36,971</u>
Total net position	<u><u>\$232,124</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, 2014

**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	\$954,159	\$ -	(\$954,159)
Regular instruction	1,625,246	372,674	(1,252,572)
Special education instruction	567,462	755,643	188,181
Pupil support services	128,016	15,631	(112,385)
Site, building and equipment	601,835	324,070	(277,765)
Fiscal and other fixed costs	27,911	-	(27,911)
Total governmental activities	<u>\$3,904,629</u>	<u>\$1,468,018</u>	<u>(2,436,611)</u>
General revenues:			
Local and other sources			54,510
State sources			<u>2,267,112</u>
Total general revenues			<u>2,321,622</u>
Change in net position			(114,989)
Net position - beginning			<u>347,113</u>
Net position - ending			<u>\$232,124</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, 2014

**Statement 3**

	General	Food Service Fund	HSRA Building Company	Total
<b>Assets:</b>				
Cash and investments	\$208,389	\$ -	\$4,820	\$213,209
Accounts receivable	59	-	-	59
Due from Minnesota Department of Education	149,016	238	-	149,254
Due from Federal Government through Minnesota Department of Education	121,631	4,974	-	126,605
Due from other funds	5,212	-	-	5,212
Interfund loan receivable	355,000	-	-	355,000
Prepaid items	30,000	-	-	30,000
<b>Total assets</b>	<b>\$869,307</b>	<b>\$5,212</b>	<b>\$4,820</b>	<b>\$879,339</b>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
Accounts payable	\$42,166	\$ -	\$ -	\$42,166
Due to Studio 4	312,563	-	-	312,563
Due to other funds	-	5,212	-	5,212
Salaries and taxes payable	18,237	-	-	18,237
Unearned revenue	9,190	-	-	9,190
Line of credit payable	100,000	-	-	100,000
Interfund loan payable	-	-	355,000	355,000
<b>Total liabilities</b>	<b>482,156</b>	<b>5,212</b>	<b>355,000</b>	<b>842,368</b>
<b>Fund balance:</b>				
Nonspendable	30,000	-	-	30,000
Assigned	355,000	-	-	355,000
Unassigned	2,151	-	(350,180)	(348,029)
<b>Total fund balance</b>	<b>387,151</b>	<b>0</b>	<b>(350,180)</b>	<b>36,971</b>
<b>Total liabilities and fund balance</b>	<b>\$869,307</b>	<b>\$5,212</b>	<b>\$4,820</b>	<b>\$879,339</b>

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

Fund balance reported above	\$36,971
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	545,153
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(350,000)
<b>Net position of governmental activities (Statement 1)</b>	<b>\$232,124</b>

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, 2014

**Statement 4**

	General	Food Service Fund	HSRA Building Company	Total
<b>Revenues:</b>				
Local and other sources	\$54,484	\$ -	\$26	\$54,510
State sources	3,302,607	951	-	3,303,558
Federal sources	416,892	14,680	-	431,572
<b>Total revenues</b>	<u>3,773,983</u>	<u>15,631</u>	<u>26</u>	<u>3,789,640</u>
<b>Expenditures:</b>				
<b>Current:</b>				
School support services	948,113	-	-	948,113
Regular instruction	1,504,990	-	-	1,504,990
Special education instruction	565,333	-	-	565,333
Pupil support services	88,559	39,457	-	128,016
Site, building and equipment	612,691	-	219	612,910
Fiscal and other fixed costs	27,911	-	-	27,911
Capital outlay	264,431	-	350,000	614,431
<b>Total expenditures</b>	<u>4,012,028</u>	<u>39,457</u>	<u>350,219</u>	<u>4,401,704</u>
Revenues over (under) expenditures	(238,045)	(23,826)	(350,193)	(612,064)
<b>Other financing sources:</b>				
Transfers in	-	23,568	-	23,568
Transfers out	(23,568)	-	-	(23,568)
<b>Total other financing sources (uses)</b>	<u>(23,568)</u>	<u>23,568</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(261,613)	(258)	(350,193)	(612,064)
Fund balance - beginning	648,764	258	13	649,035
Fund balance - ending	<u>\$387,151</u>	<u>\$0</u>	<u>(\$350,180)</u>	<u>\$36,971</u>

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

Revenues over expenditures reported above	(\$612,064)
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	(27,836)
Capital outlay - capitalized	524,911
Change in net position of governmental activities (Statement 2)	<u>(\$114,989)</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, 2014

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**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 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 school-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

*Governmental activities* generally are financed through intergovernmental revenues, and other nonexchange transactions.

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

**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 school-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

*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**  
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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 school-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 and the Building Company are each classified as tax-exempt organizations 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 and the Building Company have 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.

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**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. RECEIVABLES**

Receivables represent amounts receivable from other governments, 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 school-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures at the time of consumption.

**J. CAPITAL ASSETS**

Capital assets, which include property, plant and equipment are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Equipment	3 - 10 years
Leasehold Improvements	5 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 OUTFLOWS/INFLOWS OF RESOURCES**

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

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

**N. UNEARNED REVENUE**

Unearned revenue represents amounts received under federal or private grant programs but not expended in the current year. Such amounts are unearned (not recognized as revenue) until subsequent periods when the funds are expended.

**O. 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.

**P. 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. The School's assigned fund balance consists of an interfund loan receivable as that is assigned to repay the long-term note receivable.

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*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.

**Q. NET POSITION**

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

**R. STEWARDSHIP AND ACCOUNTABILITY**

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

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	<u>\$3,819,863</u>	<u>\$4,012,028</u>	<u>\$192,165</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.

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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.

At June 30, 2014, all deposit bank balances were fully insured or collateralized.

**B. INVESTMENTS**

Minnesota Statutes outline authorized investments for Charter Schools. During 2014, the School did not have any such investments.

**Note 3 CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$440,552	\$ -	\$440,552
Capital assets, being depreciated:				
Equipment	478,547	25,695	-	504,242
Leasehold improvements	-	58,664	-	58,664
Total capital assets, being depreciated	<u>478,547</u>	<u>84,359</u>	<u>-</u>	<u>562,906</u>
Less accumulated depreciation for:				
Equipment	430,469	21,970	-	452,439
Leasehold improvements	-	5,866	-	5,866
Total accumulated depreciation	<u>430,469</u>	<u>27,836</u>	<u>-</u>	<u>458,305</u>
Governmental activities capital assets - net	<u>\$48,078</u>	<u>\$497,075</u>	<u>\$0</u>	<u>\$545,153</u>

**HIGH SCHOOL FOR RECORDING ARTS  
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Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	\$19,660
Special education	2,129
Site, building and equipment	<u>6,047</u>
Total depreciation expense - governmental activities	<u><u>\$27,836</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](http://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.

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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 7% of their annual covered salary. The School is required to contribute 7% of annual covered payroll. The School's contributions for the years ended June 30, 2014, 2013 and 2012, were \$41,370, \$35,021 and \$29,315, 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](http://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.

**HIGH SCHOOL FOR RECORDING ARTS  
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**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. GERP 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, 2014, 2013 and 2012, were \$44,584, \$34,945 and \$34,286, respectfully. The School's contributions were equal to the contractually required contributions for each year as set by State Statute.

**Note 6 SHORT-TERM DEBT**

The School has a line of credit with a local bank for cash flows purposes. At June 30, 2014, \$100,000 was outstanding. The current terms include maximum borrowing of \$250,000 with a variable interest rate and expiration date of October 31, 2014. As of December 15, 2014, this line of credit is in the renegotiation process. 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, 2013	Total Advances	Total Repayments	Ending Balance June 30, 2014
Line of credit	\$64,000	\$156,000	\$120,000	\$100,000

**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. The School's due to/from other funds of \$5,212 is for the purpose of eliminating temporary negative cash balances in individual funds. During 2014, the School made a routine transfer of \$23,568 to eliminate a deficit in the Food Service Fund.

**HIGH SCHOOL FOR RECORDING ARTS  
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**Note 9 COMMITMENTS AND CONTINGENCIES**

**A. OPERATING LEASE COMMITMENTS AND TERMS**

The School leases its facility at 1166 University Avenue, St. Paul, Minnesota. 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 year and \$400,000 through the remainder of the lease. For 2015 only, the school signed a lease amendment for \$438,000. The School also leases equipment at various terms through October 2014.

The 2014 rent expense for all leases was \$395,848.

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

	<u>Building</u>	<u>Equipment</u>	<u>Total</u>
2015	\$438,000	\$2,710	\$440,710
2016	400,000	-	400,000
2017	400,000	-	400,000
2018	400,000	-	400,000
2019	400,000	-	400,000
2020-2024	2,000,000	-	2,000,000
2025-2029	2,000,000	-	2,000,000
2030	400,000	-	400,000
Total	<u>\$6,438,000</u>	<u>\$2,710</u>	<u>\$6,440,710</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.

**HIGH SCHOOL FOR RECORDING ARTS**  
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**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 2013-2014, after a voluntary net reduction by the management company of \$169,000, totaled \$961,432. The amount payable at June 30, 2014 was \$312,563.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**HIGH SCHOOL FOR RECORDING ARTS**  
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REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
For The Year Ended June 30, 2014  
With Comparative Actual Amounts For the Year Ended June 30, 2013

	2014				2013 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
<b>Revenues:</b>					
Local sources	\$100,000	\$25,000	\$54,484	\$29,484	\$170,711
State sources	3,110,553	3,115,421	3,302,607	187,186	2,976,113
Federal sources	146,385	432,230	416,892	(15,338)	364,557
Total revenues	<u>3,356,938</u>	<u>3,572,651</u>	<u>3,773,983</u>	<u>201,332</u>	<u>3,511,381</u>
<b>Expenditures:</b>					
School support services:					
Current:					
Salaries	-	-	-	-	1,587
Employee benefits	-	-	-	-	26
Purchased services	1,216,919	884,004	914,488	30,484	999,442
Supplies and materials	-	-	5,318	5,318	6,688
Other expenditures	17,000	17,000	28,307	11,307	19,021
Capital expenditures	-	-	6,046	6,046	-
Total School support services	<u>1,233,919</u>	<u>901,004</u>	<u>954,159</u>	<u>53,155</u>	<u>1,026,764</u>
Regular instruction:					
Current:					
Salaries	601,968	728,167	768,035	39,868	637,771
Employee benefits	346,282	259,080	275,741	16,661	242,403
Purchased services	23,500	366,130	366,946	816	405,865
Supplies and materials	54,000	72,371	94,268	21,897	140,407
Other expenditures	-	-	-	-	610
Capital expenditures	245,000	242,609	214,373	(28,236)	5,066
Total regular instruction	<u>1,270,750</u>	<u>1,668,357</u>	<u>1,719,363</u>	<u>51,006</u>	<u>1,432,122</u>
Special education instruction:					
Current:					
Salaries	398,410	461,670	425,638	(36,032)	366,583
Employee benefits	-	137,628	104,013	(33,615)	103,754
Purchased services	14,500	17,250	33,459	16,209	26,348
Supplies and materials	7,500	2,000	2,223	223	3,751
Capital expenditures	-	-	-	-	2,521
Total special education instruction	<u>420,410</u>	<u>618,548</u>	<u>565,333</u>	<u>(53,215)</u>	<u>502,957</u>
Instructional support services:					
Current:					
Supplies and materials	-	-	-	-	990
Pupil support services:					
Current:					
Purchased services	116,875	83,300	88,559	5,259	85,967

**HIGH SCHOOL FOR RECORDING ARTS**  
**CHARTER SCHOOL NO. 4039**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 For The Year Ended June 30, 2014  
 With Comparative Actual Amounts For the Year Ended June 30, 2013

	2014				2013 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Site, building and equipment:					
Current:					
Salaries	\$15,791	\$15,039	\$15,039	\$ -	\$13,786
Employee benefits	-	-	2,241	2,241	2,240
Purchased services	459,000	496,615	540,771	44,156	511,423
Supplies and materials	15,000	10,000	54,640	44,640	17,791
Capital expenditures	-	-	44,012	44,012	-
Total site, building and equipment	<u>489,791</u>	<u>521,654</u>	<u>656,703</u>	<u>135,049</u>	<u>545,240</u>
Fiscal and other fixed costs:					
Current:					
Purchased services	20,500	26,000	26,207	207	15,665
Other expenditures	11,475	1,000	1,704	704	3,961
Total fiscal and other fixed costs	<u>31,975</u>	<u>27,000</u>	<u>27,911</u>	<u>911</u>	<u>19,626</u>
Total expenditures	<u>3,563,720</u>	<u>3,819,863</u>	<u>4,012,028</u>	<u>192,165</u>	<u>3,613,666</u>
Revenues over expenditures	(206,782)	(247,212)	(238,045)	9,167	(102,285)
Other financing sources (uses):					
Proceeds from debt issuance	-	-	-	-	350,000
Transfer to Food Service Fund	-	-	(23,568)	(23,568)	-
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>(23,568)</u>	<u>(23,568)</u>	<u>350,000</u>
Net change in fund balance	<u>(\$206,782)</u>	<u>(\$247,212)</u>	(261,613)	<u>(\$14,401)</u>	247,715
Fund balance - beginning			648,764		401,049
Fund balance - ending			<u>\$387,151</u>		<u>\$648,764</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, 2014  
With Comparative Actual Amounts For the Year Ended June 30, 2013

	2014			Variance with Final Budget - Over (Under)	2013 Actual Amounts
	Budgeted Amounts		Actual Amounts		
	Original	Final			
Revenues:					
State sources	\$4,950	\$2,000	\$951	(\$1,049)	\$2,166
Federal sources	71,050	28,000	14,680	(13,320)	42,226
Total revenues	<u>76,000</u>	<u>30,000</u>	<u>15,631</u>	<u>(14,369)</u>	<u>44,392</u>
Expenditures:					
Current:					
Purchased services	<u>76,000</u>	<u>42,500</u>	<u>39,457</u>	<u>(3,043)</u>	<u>44,139</u>
Revenues over (under) expenditures	-	(12,500)	(23,826)	(11,326)	253
Other financing sources:					
Transfer from General Fund	<u>-</u>	<u>-</u>	<u>23,568</u>	<u>23,568</u>	<u>-</u>
Net change in fund balance	<u>\$0</u>	<u>(\$12,500)</u>	<u>(258)</u>	<u>\$12,242</u>	<u>253</u>
Fund balance - beginning			<u>258</u>		<u>5</u>
Fund balance - ending			<u>\$0</u>		<u>\$258</u>

**HIGH SCHOOL FOR RECORDING ARTS  
CHARTER SCHOOL NO. 4039  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
NOTE TO RSI  
JUNE 30, 2014**

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**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, 2014

With Comparative Amounts For June 30, 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash and investments	\$208,389	\$ -
Accounts receivable	59	88,077
Due from Minnesota Department of Education	149,016	398,436
Due from Federal Government through Minnesota Department of Education	121,631	41,454
Due from Minnesota Department of Health	-	95,868
Due from other funds	5,212	-
Interfund loan receivable	355,000	355,000
Prepaid items	<u>30,000</u>	<u>35,000</u>
 Total assets	 <u><u>\$869,307</u></u>	 <u><u>\$1,013,835</u></u>
 <b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Checks in excess of deposits	\$ -	\$28,035
Accounts payable	42,166	49,542
Due to Studio 4	312,563	209,200
Salaries and taxes payable	18,237	5,267
Unearned revenue	9,190	9,027
Line of credit payable	<u>100,000</u>	<u>64,000</u>
Total liabilities	<u><u>482,156</u></u>	<u><u>365,071</u></u>
 <b>Fund balance:</b>		
Nonspendable	30,000	35,000
Assigned	355,000	355,000
Unassigned	<u>2,151</u>	<u>258,764</u>
Total fund balance	<u><u>387,151</u></u>	<u><u>648,764</u></u>
 Total liabilities and fund balance	 <u><u>\$869,307</u></u>	 <u><u>\$1,013,835</u></u>

**HIGH SCHOOL FOR RECORDING ARTS**  
**CHARTER SCHOOL NO. 4039**  
BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND  
June 30, 2014  
With Comparative Amounts For June 30, 2013

**Statement 8**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Due from Minnesota Department of Education	\$238	\$54
Due from Federal Government through Minnesota Department of Education	<u>4,974</u>	<u>1,239</u>
Total assets	<u><u>\$5,212</u></u>	<u><u>\$1,293</u></u>
<b>Liabilities and Fund Balance</b>		
<b>Liabilities:</b>		
Checks in excess of deposits	\$ -	\$1,035
Due to other funds	<u>5,212</u>	<u>-</u>
Total liabilities	<u><u>5,212</u></u>	<u><u>1,035</u></u>
<b>Fund balance:</b>		
Restricted for food service	<u>-</u>	<u>258</u>
Total liabilities and fund balance	<u><u>\$5,212</u></u>	<u><u>\$1,293</u></u>

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

**Statement 9**

**BALANCE SHEET - HSRA BUILDING COMPANY SPECIAL REVENUE FUND**

June 30, 2014

With Comparative Amounts For June 30, 2013

	<u>2014</u>	<u>2013</u>
Assets		
Cash and investments	<u>\$4,820</u>	<u>\$355,013</u>
Total assets	<u><u>\$4,820</u></u>	<u><u>\$355,013</u></u>
Liabilities and Fund Balance		
Liabilities:		
Interfund loan payable	<u>\$355,000</u>	<u>\$355,000</u>
Fund balance:		
Assigned	-	13
Unassigned	<u>(350,180)</u>	<u>-</u>
Total fund balance	<u><u>(350,180)</u></u>	<u><u>13</u></u>
Total liabilities and fund balance	<u><u>\$4,820</u></u>	<u><u>\$355,013</u></u>

## **SUPPLEMENTAL INFORMATION**

	Audit	UFARS	Variance		Audit	UFARS	Variance
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$3,773,983	\$3,773,982	\$1	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	4,012,028	4,012,024	4	Total Expenditures	-	-	-
<i>Non-Spendable:</i>				<i>Non-Spendable:</i>			
4.60 Non Spendable Fund Balance	30,000	30,000	-	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	-	-	-	<b>07 DEBT SERVICE</b>			
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	-	-	-	<b>08 TRUST</b>			
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>				<b>20 INTERNAL SERVICE</b>			
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	355,000	355,000	-				
<i>Unassigned:</i>				<b>25 OPEB REVOCABLE TRUST</b>			
4.22 Unassigned Fund Balance	2,151	2,152	(1)	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	-	-	-
<b>02 FOOD SERVICE</b>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
Total Revenue	\$15,631	\$15,631	\$ -				
Total Expenditures	39,457	39,457	-	<b>45 OPEB IRREVOCABLE TRUST</b>			
<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>				<b>47 OPEB DEBT SERVICE FUND</b>			
4.64 Restricted Fund Balance	-	-	-	Total Revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	-	-	-
4.63 Unassigned Fund Balance	-	-	-	<i>Non-Spendable:</i>			
				4.60 Non Spendable Fund Balance	-	-	-
<b>04 COMMUNITY SERVICE</b>				<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, 2014, 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 15, 2014.

**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 on the effectiveness of High School for Recording Arts' internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, 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 the

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*

deficiency described as finding 2014-001 in the accompanying schedule of findings and questioned costs 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 deficiencies described as findings 2014-002 and 2014-003 in the accompanying schedule of findings and questioned costs 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

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



REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

December 15, 2014



## 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, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 15, 2014.

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

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

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

December 15, 2014

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**HIGH SCHOOL FOR RECORDING ARTS**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
For The Year Ended June 30, 2014

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**INTERNAL CONTROL FINDINGS**

**Finding: 2014-001 Audit Adjustments/Year End Closing Process**

*Criteria:* A School's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. Audit adjustments are considered to be a deficiency in internal control as defined by auditing standards.

*Condition and Context:* During our audit, several audit adjustments were identified affecting revenues, accounts receivables, accounts payable, and capitalized assets. The two most significant audit adjustments were due to the school not recognizing \$499,000 of capitalized asset additions in its accounting records and not recording \$76,000 of accounts payables due to Studio 4. A few other audit adjustments were made in addition to the adjustments noted above.

*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 reduce or eliminate the number of needed adjustments.

**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, 2014

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**Finding: 2014-002 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 10 of 83 credit card transactions tested. Adequate documentation includes original source documents or equivalent documentation.
- Documentation of approval was not retained for 13 of 83 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, 2014

---

**Finding: 2014-003 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 \$1,350. All student activities funds will be reviewed by the Business Manager and submitted to the Board of Directors.

*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.

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