HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For The Year Ended June 30, 2015

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

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HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
SCHOOL BOARD AND ADMINISTRATION
June 30, 2015

BOARD OF DIRECTORS

Name	Board Position During 2014 - 2015
Dr. Wayne Jennings	Chair
Paula Anderson	Vice-Chair/Teacher Member
Carei Thomas	Community Member
Darryl Young	Treasurer/Teacher Member
Tonya Draughn	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, 2015, 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 from material misstatement.

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

4810 White Bear Parkway, St. Paul, MN, 55110 651.426.7000 www.redpathcpas.com

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, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 10 to the financial statements, High School for Recording Arts adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited High School for Recording Arts' 2014 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 15, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 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, the budgetary comparison information, and the pension 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 October 12, 2015 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.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

October 12, 2015

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High School for Recording Arts

INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2015

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, 2015. Please read it in conjunction with the School's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2014-2015 fiscal year include the following:

- Fund balance of the General Fund increased by $300,368 to $687,519 at June 30, 2015.
- Enrollment increased by 46 to 279 at June 30, 2015.
- Net position of the school-wide financial statements was negatively impacted in the current year by $1,215,572 due to required implementation of a new accounting standards. This is more fully described on page 15.

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, 2015

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

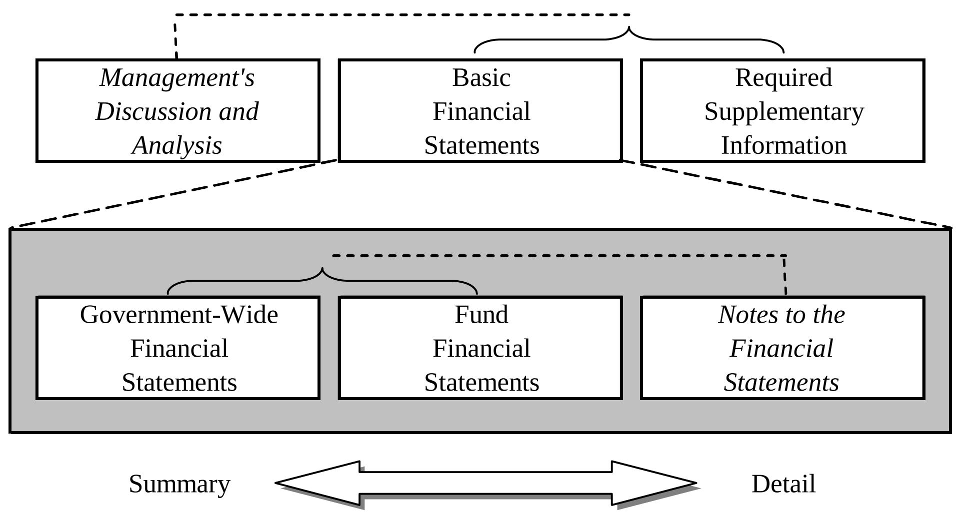


Figure A-2 summarizes the major features of the School's financial statements, including the portion of the School's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents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

Figure A-2. Major Features of the School's Government-wide and Fund Financial Statements

Type of Statements	**Government-wide**	**Governmental Funds**
Scope	Entire School (except fiduciary funds) and the School's component units	The activities of the School that are not proprietary or fiduciary
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balance
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	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
Type of inflow/outflow information	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.

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.

Financial Analysis of the School as a Whole

Net Position
The School's net position was ($727,490) and $232,124 at June 30, 2015 and 2014, respectively.

Statement of Net Position

	June 30,	
	2015	2014
Assets:		
Current assets	$1,036,776	$519,127
Capital assets - net	618,799	545,153
Total assets	1,655,575	1,064,280
Deferred outflows of resources related to pensions	269,898	-
Liabilities:		
Current liabilities	775,366	482,156
Noncurrent liabilities	1,540,765	350,000
Total liabilities	2,316,131	832,156
Deferred inflows of resources related to pensions	336,832	-
Net position:		
Net investment in capital assets	209,876	195,153
Restricted for food service	-	-
Unrestricted	(937,366)	36,971
Total net position	($727,490)	$232,124

The School adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* for the year ended June 30, 2015. The standard is required to be adopted by all schools and governmental entities nation-wide. Essentially, the standard requires the unfunded portion of cost-sharing multiple-employer pension plans (TRA and PERA in this case) to be allocated pro-rata to participating employers, including the School. The net pension liability is noncurrent and does not affect the fund financial statements. Recording the liability does not change the School's future funding requirements or obligation under the plans, which are determined by Minnesota statutes.

Net position was negatively impacted by $1,215,572 at June 30, 2015 due to the implementation of this standard. Pension-related amounts from above related to the standard are as follows:

Deferred outflows of resources	$269,898
Deferred inflows of resources	(336,832)
Noncurrent liabilities	(1,148,638)
Total	($1,215,572)

Change in Net Position

The School's total revenues were $4,470,062 and $3,789,640 for the years ended June 30, 2015 and 2014, respectively. State formula aid accounted for the majority of total revenue.

Change in Net Position

	2015	2014
Revenue:		
Program revenues:		
Operating grants and contributions	$1,473,999	$1,468,018
General:		
Local and other	170,904	54,510
State	2,825,159	2,267,112
Total revenue	4,470,062	3,789,640
Expenses:		
School support services	959,610	954,159
Regular instruction	1,706,606	1,625,246
Special education instruction	618,797	567,462
Instructional support services	-	-
Pupil support services	174,020	128,016
Site, building and equipment	698,460	601,835
Fiscal and other fixed costs	44,949	27,911
Total expenses	4,202,442	3,904,629
Change in net position	267,620	(114,989)
Net position - July 1, as originally reported	232,124	347,113
Prior period adjustment	(1,227,234)	-
Net position - July 1, as restated	(995,110)	347,113
Net position - ending	($727,490)	$232,124

The total cost of all programs and services was $4.2 million. For 2015, there was an increase of $267,620 before the prior period adjustment in net position from the prior year. This increase was due to an increase in student enrollment.

The prior period adjustment is due to the implementation of GASB Statement No. 68 as discussed on the previous page.

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 $278,206.

Revenues for the School's governmental funds were $4,468,226 and $3,789,640 for 2015 and 2014, respectively, while total expenditures were $4,226,991 and $4,401,704 at June 30, 2015 and 2014, respectively.

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

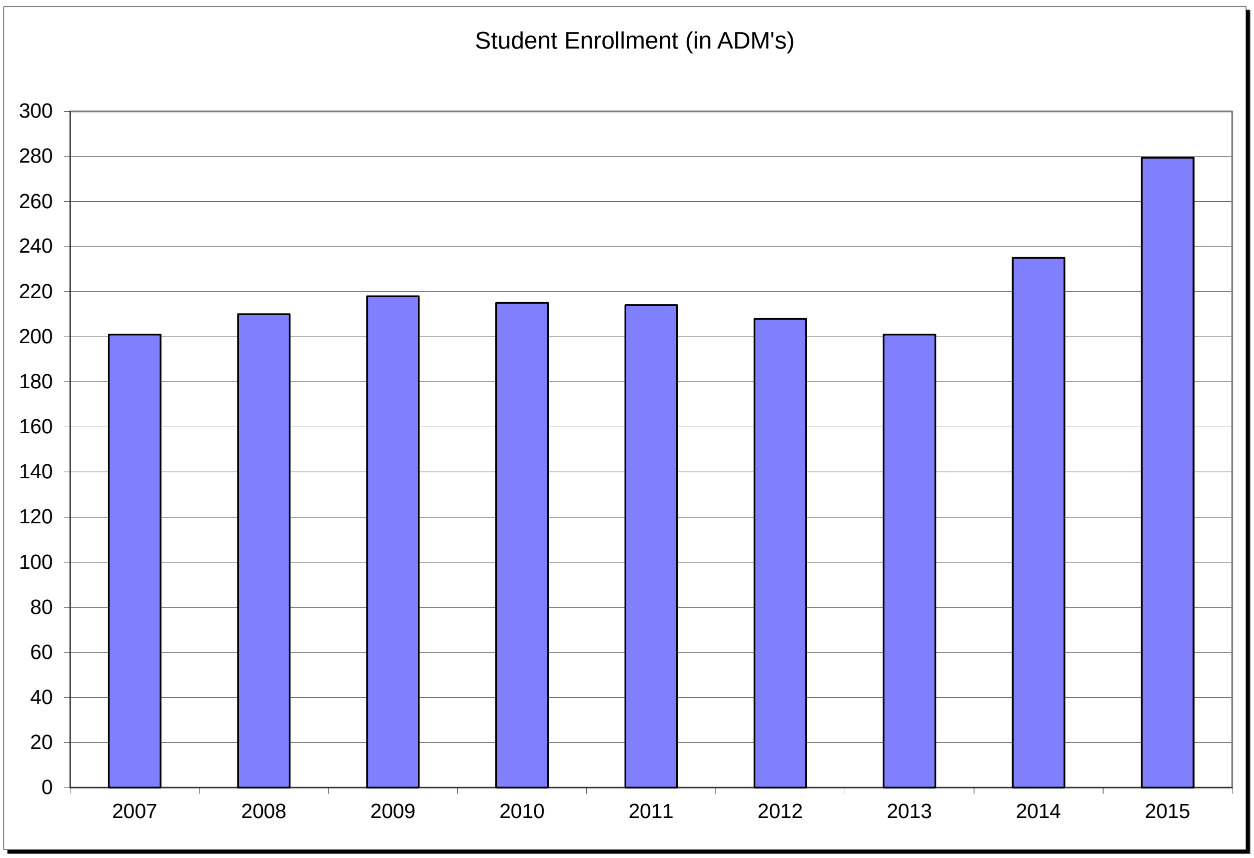
A large percentage of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources.

High School for Recording Arts

INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2015

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.



The following schedule presents a summary of General Fund revenues:

Fund	Year Ended June 30, 2015	Year Ended June 30, 2014	Change Increase (Decrease)	Change Percent
Local sources	$170,902	$54,484	$116,418	213.7%
State sources	3,841,126	3,302,607	538,519	16.3%
Federal sources	428,935	416,892	12,043	2.9%
Total general fund revenue	$4,440,963	$3,773,983	$666,980	17.7%

Total General Fund revenue increased by $666,980 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 primarily due to an increase in student enrollment in 2015. It also includes an unrestricted donation of $100,000 in local sources.

High School for Recording Arts

INDEPENDENT SCHOOL DISTRICT NO. 4039
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2015

The following schedule presents a summary of General Fund expenditures.

Fund	Year Ended June 30, 2015	Year Ended June 30, 2014	Change Increase (Decrease)	Change Percent
Salaries	$1,366,387	$1,208,712	$157,675	13.0%
Employee benefits	390,007	381,995	8,012	2.1%
Purchased services	2,145,004	1,970,430	174,574	8.9%
Supplies and materials	157,992	156,449	1,543	1.0%
Other expenditures	35,488	30,011	5,477	18.2%
Capital expenditures	14,697	264,431	(249,734)	(94.4%)
Total general fund expenditures	$4,109,575	$4,012,028	$97,547	2.4%

Total General Fund expenditures increased $97,547 from the previous year. Most of this increase can be attributed to additional staffing and contracted services related to the increase in student enrollment.

In 2014-2015, General Fund revenue was more than expenditures by $331,388 before transfers out to the Food Service Fund of $31,020. Therefore, the fund balance increased from $387,151 at June 30, 2014 to $687,519 at June 30, 2015. 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 $111,072 less than expected.

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 $403,931 under budget.

While the School's final budget for the General Fund anticipated that revenue would exceed expenditures by $38,529, the actual results for the year show a $331,388 excess of revenues over expenditures.

The decrease in expenditures was due in part to a reduction in contracted fees from vendors.

Other Major Funds

Revenues were under expenditures in the Food Service Fund by $31,020.

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 2015, the School had invested $1,168,900 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 $87,550.

	June 30, 2015	June 30, 2014
Capital assets:		
Equipment	$654,058	$504,242
Leasehold improvements	514,842	58,664
Construction in progress	-	440,552
Less: accumulated depreciation	(550,101)	(458,305)
Total capital assets - net	$618,799	$545,153

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.

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BASIC FINANCIAL STATEMENTS

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039 **Statement 1**
STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities
Assets:	
Cash and investments	$236,831
Cash with escrow agent	65,000
Due from other governments	704,945
Prepaid expenses	30,000
Capital assets (net of accumulated depreciation)	618,799
Total assets	1,655,575
Deferred outflows of resources related to pensions	269,898
Total assets and deferred outflows of resources	$1,925,473
Liabilities:	
Accounts payable	$58,699
Due to Studio 4	575,321
Salaries payable	25,274
Unearned revenue	99,276
Note payable - due in less than 1 year	16,796
Long term liabilities:	
Note payable - due in more than 1 year	42,127
Note payable - Studio 4, due in more than 1 year	350,000
Net pension liability, due in more than 1 year	1,148,638
Total liabilities	2,316,131
Deferred inflows of resources related to pensions	336,832
Net position:	
Net investment in capital assets	209,876
Unrestricted	(937,366)
Total net position	(727,490)
Total liabilities, deferred inflows and net position	$1,925,473

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

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039 **Statement 2**
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2015

		Program Revenues	Net (Expense)
Functions/Programs	Expenses	Operating Grants and Contributions	Revenue and Changes in Net Position
Governmental activities:			
School support services	$959,610	$ -	($959,610)
Regular instruction	1,706,606	448,237	(1,258,369)
Special education instruction	618,797	594,041	(24,756)
Pupil support services	174,020	27,261	(146,759)
Site, building and equipment	698,460	404,460	(294,000)
Fiscal and other fixed costs	44,949	-	(44,949)
Total governmental activities	$4,202,442	$1,473,999	(2,728,443)
General revenues:			
Local and other sources			170,904
State sources			2,825,159
Total general revenues			2,996,063
Change in net position			267,620
Net position - July 1, as originally reported			232,124
Prior period adjustment			(1,227,234)
Net position - July 1, as restated			(995,110)
Net position - ending			($727,490)

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

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039 **Statement 3**
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	General	Food Service Fund	HSRA Building Company	Total
Assets:				
Cash and investments	$230,215	$2,088	$4,528	$236,831
Cash with escrow agent	-	-	65,000	65,000
Due from Minnesota Department of Education	592,642	77	-	592,719
Due from Federal Government through Minnesota Department of Education	110,817	1,409	-	112,226
Interfund loan receivable	478,841	-	-	478,841
Prepaid items	30,000	-	-	30,000
Total assets	$1,442,515	$3,574	$69,528	$1,515,617
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	$55,125	$3,574	$ -	$58,699
Due to Studio 4	575,321	-	-	575,321
Salaries and taxes payable	25,274	-	-	25,274
Unearned revenue	99,276	-	-	99,276
Interfund loan payable	-	-	478,841	478,841
Total liabilities	754,996	3,574	478,841	1,237,411
Fund balance:				
Nonspendable	30,000	-	-	30,000
Assigned	478,841	-	-	478,841
Unassigned	178,678	-	(409,313)	(230,635)
Total fund balance	687,519	0	(409,313)	278,206
Total liabilities and fund balance	$1,442,515	$3,574	$69,528	$1,515,617

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

Fund balance reported above	$278,206
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	618,799
Deferred outflows of resources related to pensions - see Note 5	269,898
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Note payable	(58,923)
Note payable - Studio 4	(350,000)
Net pension liability	(1,148,638)
Deferred inflows of resources related to pensions - see Note 5	(336,832)
Net position of governmental activities (Statement 1)	($727,490)

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

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039 **Statement 4**
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2015

	General	Food Service Fund	HSRA Building Company	Total
Revenues:				
Local and other sources	$170,902	$ -	$2	$170,904
State sources	3,841,126	1,245	-	3,842,371
Federal sources	428,935	26,016	-	454,951
Total revenues	4,440,963	27,261	2	4,468,226
Expenditures:				
Current:				
School support services	959,610	-	-	959,610
Regular instruction	1,679,245	-	-	1,679,245
Special education instruction	617,903	-	-	617,903
Pupil support services	115,739	58,281	-	174,020
Site, building and equipment	677,432	-	294	677,726
Fiscal and other fixed costs	44,949	-	-	44,949
Capital outlay	14,697	-	58,841	73,538
Total expenditures	4,109,575	58,281	59,135	4,226,991
Revenues over (under) expenditures	331,388	(31,020)	(59,133)	241,235
Other financing sources:				
Transfers in	-	31,020	-	31,020
Transfers out	(31,020)	-	-	(31,020)
Total other financing sources (uses)	(31,020)	31,020	-	-
Net change in fund balance	300,368	-	(59,133)	241,235
Fund balance - beginning	387,151	-	(350,180)	36,971
Fund balance - ending	$687,519	$0	($409,313)	$278,206

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

Revenues over expenditures reported above	$241,235
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	(87,550)
Capital outlay - capitalized	73,538
Current expenditures - capitalized	6,980
Governmental funds report the repayment of the principal of long-term liabilities as a consumption of current financial resources while it has no effect on net position	15,355
Amortization of deferred outflows and inflows of resources relating to pensions	18,062
Change in net position of governmental activities (Statement 2)	$267,620

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

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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.

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.

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. CASH WITH ESCROW AGENT

During 2015, the Building Company deposited $65,000 into an escrow account. The funds are expected to be used as a down payment towards purchasing the building currently leased by the School.

I. 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.

J. 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.

K. 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 - 15 years

L. STUDENT ACTIVITIES

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

M. USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

N. 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.

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.

O. 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.

P. 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.

Q. FUND BALANCE CLASSIFICATIONS

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the School Board.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the School's intended use. These constraints are established by the School Board and/or management. The School's assigned fund balance consists of amounts relating to interfund loans receivable.

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.

R. NET POSITION

Net position represents assets plus deferred outflows of resources less liabilities less deferred inflows of resources 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.

S. STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceeded budgeted amounts in the following funds at June 30, 2015:

	Budget	Expenditures	Excess
Food Service Fund	$54,479	$58,281	$3,802

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.

At June 30, 2015, all deposit bank balances were fully insured or collateralized.

B. INVESTMENTS

Minnesota Statutes outline authorized investments for Charter Schools. During 2015, the School did not have any such investments.

Note 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Restated Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	$440,552	$ -	($440,552)	$ -
Capital assets, being depreciated:				
Equipment	504,242	149,816	-	654,058
Leasehold improvements	143,588	371,254	-	514,842
Total capital assets, being depreciated	647,830	521,070	-	1,168,900
Less accumulated depreciation for:				
Equipment	452,439	47,440	-	499,879
Leasehold improvements	10,112	40,110	-	50,222
Total accumulated depreciation	462,551	87,550	-	550,101
Governmental activities capital assets - net	$625,831	$433,520	($440,552)	$618,799

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	$39,325
Special edcucation	5,765
Site, building and equipment	42,460
Total depreciation expense - governmental activities	$87,550

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 RETIREMENT PLANS

Substantially all employees of the School are required by state law to belong to pension plans administered by Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a statewide basis. Disclosures relating to these plans are as follows:

TEACHER'S RETIREMENT ASSOCIATION (TRA)

A. Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of TRA and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. Additional information can be found in section G.

B. Plan Description

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials. Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state are required to be TRA members.

C. Benefits Provided

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

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2 percent per year
	First ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 of after	1.9 percent per year

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) 3 percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

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

D. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

	Ending June 30, 2014		Ending June 30, 2015	
	Employee	Employer	Employee	Employer
Basic	10.5%	11.0%	11.0%	11.5%
Coordinated	7.0%	7.0%	7.5%	7.5%

The School's contributions to TRA for the plan's fiscal year ended June 30, 2014 were $41,426. The contributions were equal to the required contributions for each year as set by state statute.

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

	Amounts
Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$299,299,837
Deduct employer contributions not related to future contribution efforts	(398,798)
Deduct TRA's contributions not included in allocation	(370,701)
Employer contributions reported in schedule of employer and non-employer pension allocations	$298,530,338

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

E. Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Information	
Measurement Date	June 30, 2014
Valuation Date	July 1, 2014
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	8.25%
Wage Inflation	3.0%
Projected Salary Increase	3.5 - 12%, based on years of service
Cost of living adjustment	2.0% until year 2034; 2.5% thereafter
Mortality Assumption	
Pre-retirement	RP 2000 non-annuitant generational mortaility, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortaility, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortaility, without adjustment.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Unallocated Cash	2%	0.50%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability was 8.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2015 contribution rate, contributions from schools will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Net Pension Liability

On June 30, 2015, the School reported a liability of $599,031 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The School's proportionate share was 0.0130% at the end of the measurement period and 0.0119% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the School as its proportionate share of the net pension liability, the state's proportionate share, and the total portion of the net pension liability that was associated with the School were $599,031, $42,097 and $641,128, respectively.

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer. Section D contains the rate information.

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to increase from 2.0 percent annually to 2.5 percent annually once the legally specified criteria are met. This is estimated to occur July 1, 2034.

For the year ended June 30, 2015, the School recognized pension expense of $44,646 including $1,836 relating to the support provided by direct aid.

On June 30, 2015, the School had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$51,114	$ -
Difference between projected and actual investment earnings	-	188,329
Changes in proportion	52,204	-
Contributions paid to TRA subsequent to the measurement date	50,071	-
Total	$153,389	$188,329

$50,071 reported as deferred outflows of resources related to pensions resulting from the School's contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized as pension expense during the following years:

Year	Pension Expense
2016	($25,512)
2017	(25,512)
2018	(25,512)
2019	(25,512)
2020	17,037

H. Pension Liability Sensitivity

The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 8.25 percent as well as the liability measured using one percent lower and one percent higher.

1% decrease (7.25%)	Current (8.25%)	1% increase (9.25%)
$989,993	$599,031	$273,104

The School's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

I. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling 651-296-2409 or 800-657-3669.

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION (PERA)

A. Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

B. Plan Description

The School participates in the General Employees Retirement Plan (GERF), which is a cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

All full-time and certain part-time employees of the School, other than teachers, are covered by GERF. 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

C. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraph 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.

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. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

D. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the School was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The School's contributions to the GERF for the plan's fiscal year ended June 30, 2014, were $44,584. The School's contributions were equal to the required contributions for each year as set by state statute.

E. Pension Costs

At June 30, 2015, the School reported a liability of $549,607 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the School's proportion was 0.0117%.

For the year ended June 30, 2015, the School recognized pension expense of $40,630 for its proportionate share of GERF's pension expense.

At June 30, 2015, the School reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$8,435	$ -
Changes in actuarial assumptions	56,643	-
Difference between projected and actual investment earnings	-	148,503
Contributions paid to PERA subsequent to the measurement date	51,431	-
Total	$116,509	$148,503

$51,431 reported as deferred outflows of resources related to pensions resulting from the School's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized as pension expense as follows:

Year	Pension Expense
2016	($15,433)
2017	(15,433)
2018	(15,433)
2019	(37,126)

F. Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions:

Measurement Date	June 30, 2014
Valuation Date	June 30, 2014
Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

G. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.9 percent as well as the liability measured using one percent lower and one percent higher.

1% decrease (6.9%)	Current (7.9%)	1% increase (8.9%)
$885,989	$549,607	$272,844

I. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

TOTAL PENSION AMOUNTS – ALL PLANS

Total pension related assets, deferred outflows of resources, deferred inflows of resources, liabilities and expense for all pension plans is as follows:

	PERA	TRA	Total
Pension-related assets	$ -	$ -	$ -
Deferred outflows of resources	116,509	153,389	269,898
Liabilities	549,607	599,031	1,148,638
Deferred inflows of resources	148,503	188,329	336,832
Pension expense	40,630	44,646	85,276

Note 6 SHORT-TERM DEBT

At June 30, 2014, the School had a line of credit at a local bank with an outstanding balance of $100,000. During 2015, no additional draws were made on the line, the $100,000 balance was paid in full and the line of credit was closed.

The School opened a line of credit at a different bank during 2015 for cash flow purposes. Terms include maximum borrowing of $250,000, a fixed interest rate of 4.5% and a maturity date of May 12, 2016. The line of credit is secured by all School assets. No amount was drawn on the line of credit at June 30, 2015.

Note 7 LONG-TERM DEBT

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.

During 2014, the School entered into a commercial finance agreement related to the purchase of equipment in the principal amount of $84,924 with an interest rate of 9% per annum.

Long-term liability activity for the year ended June 30, 2015 was as follows:

	Restated Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Note payable - Studio 4	$350,000	$ -	$ -	$350,000	$ -
Note payable - equipment	74,278	-	15,355	58,923	16,796
Total	$424,278	$0	$15,355	$408,923	$16,796

Annual debt service requirements to maturity are as follows:

	Principal	Interest	Total
2016	$16,796	$4,621	$21,417
2017	18,371	3,046	21,417
2018	370,094	1,323	371,417
2019	3,662	43	3,705
Total	$408,923	$9,033	$417,956

Note 8 INTERFUND ACTIVITY

The General Fund has made the following zero percent loans to the Building Company:

- $355,000 in 2013 for leasehold improvements to new facility; no established repayment timeline.
- $65,000 in 2015 for down payment to purchase new facility; payable in full on or before December 31, 2015.
- $58,841 in 2015 for equipment and leasehold improvements to new facility; no established repayment timeline.

The combined interfund loan receivable/payable balance at June 30, 2015 was $478,841. On August 19, 2015, the Board approved an additional $50,000 advancement for architectural services relating to the new facility. During 2015, the School also made a routine transfer in the amount of $31,020 to eliminate a deficit in the Food Service Fund.

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 (December 1, 2013 – June 30, 2017), the School's Building Company has the option to purchase the building for $4,715,000. Annual lease payments are based on the greater of an enrollment calculation or a minimum payment of $400,000. For 2016 only, the School signed a lease amendment for $490,560. The School also leases equipment at various terms through August 2019.

The 2015 rent expense for all leases was $477,181.

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

	Building	Equipment	Total
2016	$490,560	$32,865	$523,425
2017	400,000	25,513	425,513
2018	400,000	5,976	405,976
2019	400,000	5,976	405,976
2020-2024	2,000,000	996	2,000,996
2025-2029	2,000,000	-	2,000,000
2030	400,000	-	400,000
Total	$6,090,560	$71,326	$6,161,886

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 year 2014-2015, after a voluntary net reduction by the management company of $409,516, totaled $994,311. The amount payable at June 30, 2015 was $575,321.

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

Note 10 PRIOR PERIOD ADJUSTMENTS

For the year ended June 30, 2015, the School implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* GASB 68 addresses accounting and financial reporting for defined benefit pension plans that are provided to employees of state and local governments, including schools. The standard requires the School to record its share of the net pension liability of these plans, as well as any corresponding deferred inflows and outflows of resources. See Note 5 for further information.

As a result of implementing this standard, the School has recorded a prior period adjustment on the Statement of Activities to reduce its beginning net position by $1,233,634, which is equal to its share of the net pension liability at June 30, 2014.

During 2014, the School purchased equipment and entered into a commercial finance agreement with the vendor, but did not record the transaction at that time. As a result, the School has recorded a prior period adjustment on the Statement of Activities to increase its beginning net position by $6,400. This amount is equal to the net book value of equipment ($80,678) less the related debt ($74,278) at June 30, 2014.

The total amount of the prior period adjustment shown on the Statement of Activities is as follows:

Adjustment to implement GASB 68 related to pensions	($1,233,634)
Adjustment to record equipment purchase, net of related debt	6,400
Total adjustment	($1,227,234)

Note 11 SUBSEQUENT EVENTS

On October 9, 2015, the Building Company obtained loan proceeds via the issuance of $7,550,000 of Charter School Lease Revenue Bonds, Series 2015A and $330,000 of Taxable Charter School Lease Revenue Bonds, Series 2015B to finance the purchase and renovation of the building currently leased by the School (see Note 9A). The interest rates of the bonds range from 5.125% - 6.250%. Principal payments are due October 1, 2016 – October 1, 2045.

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REQUIRED SUPPLEMENTARY INFORMATION

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039 **Statement 5**
REQUIRED SUPPLEMENTARY INFORMATION **Page 1 of 2**
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended June 30, 2015
With Comparative Actual Amounts For the Year Ended June 30, 2014

	2015				
	Budgeted Amounts		Actual	Variance with Final Budget -	2014 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$100,000	$476,405	$170,902	($305,503)	$54,484
State sources	3,172,349	3,626,547	3,841,126	214,579	3,302,607
Federal sources	421,571	449,083	428,935	(20,148)	416,892
Total revenues	3,693,920	4,552,035	4,440,963	(111,072)	3,773,983
Expenditures:					
School support services:					
Current:					
Purchased services	828,371	1,225,526	933,372	(292,154)	914,488
Supplies and materials	500	500	-	(500)	5,318
Other expenditures	24,700	24,700	26,238	1,538	28,307
Capital expenditures	-	-	-	-	6,046
Total School support services	853,571	1,250,726	959,610	(291,116)	954,159
Regular instruction:					
Current:					
Salaries	808,737	805,633	846,504	40,871	768,035
Employee benefits	332,118	288,104	263,030	(25,074)	275,741
Purchased services	311,087	504,694	434,434	(70,260)	366,946
Supplies and materials	89,450	117,158	130,277	13,119	94,268
Other expenditures	-	-	5,000	5,000	-
Capital expenditures	19,200	64,841	14,697	(50,144)	214,373
Total regular instruction	1,560,592	1,780,430	1,693,942	(86,488)	1,719,363
Special education instruction:					
Current:					
Salaries	452,727	461,015	468,619	7,604	425,638
Employee benefits	86,267	120,614	122,907	2,293	104,013
Purchased services	18,750	27,104	24,325	(2,779)	33,459
Supplies and materials	1,750	1,183	2,052	869	2,223
Total special education instruction	559,494	609,916	617,903	7,987	565,333
Pupil support services:					
Current:					
Purchased services	95,250	111,500	115,739	4,239	88,559

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039 **Statement 5**
REQUIRED SUPPLEMENTARY INFORMATION **Page 2 of 2**
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended June 30, 2015
With Comparative Actual Amounts For the Year Ended June 30, 2014

	2015				
	Budgeted Amounts		Actual	Variance with Final Budget -	2014 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Site, building and equipment:					
Current:					
Salaries	$51,089	$51,264	$51,264	$ -	$15,039
Employee benefits	2,350	16,278	4,070	(12,208)	2,241
Purchased services	517,378	631,354	596,435	(34,919)	540,771
Supplies and materials	10,500	25,368	25,663	295	54,640
Capital expenditures	6,000	-	-	-	44,012
Total site, building and equipment	587,317	724,264	677,432	(46,832)	656,703
Fiscal and other fixed costs:					
Current:					
Purchased services	26,000	32,420	40,699	8,279	26,207
Other expenditures	5,000	4,250	4,250	-	1,704
Total fiscal and other fixed costs	31,000	36,670	44,949	8,279	27,911
Total expenditures	3,687,224	4,513,506	4,109,575	(403,931)	4,012,028
Revenues over (under) expenditures	6,696	38,529	331,388	292,859	(238,045)
Other financing sources (uses):					
Transfer to Food Service Fund	-	(23,129)	(31,020)	(7,891)	(23,568)
Net change in fund balance	$6,696	$15,400	300,368	$284,968	(261,613)
Fund balance - beginning			387,151		648,764
Fund balance - ending			$687,519		$387,151

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, 2015
With Comparative Actual Amounts For the Year Ended June 30, 2014

	2015				
	Budgeted Amounts		Actual	Variance with Final Budget -	2014 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
State sources	$2,000	$1,622	$1,245	($377)	$951
Federal sources	75,642	29,728	26,016	(3,712)	14,680
Total revenues	77,642	31,350	27,261	(4,089)	15,631
Expenditures:					
Current:					
Purchased services	77,642	54,479	58,281	3,802	39,457
Revenues over (under) expenditures	-	(23,129)	(31,020)	(7,891)	(23,826)
Other financing sources:					
Transfer from General Fund	-	23,129	31,020	7,891	23,568
Net change in fund balance	$0	$0	-	$0	(258)
Fund balance - beginning			-		258
Fund balance - ending			$0		$0

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY*
For The Year Ended June 30, 2015

Measurement Date	School Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability	Proportionate Share (Amount) of the Net Pension Liability (a)	Covered-Employee Payroll (b)	Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Teacher's Retirement Association						
June 30, 2014	June 30, 2015	0.0130%	$599,031	$593,047	101.0%	81.5%
PERA - General Employees Retirement Fund						
June 30, 2014	June 30, 2015	0.0117%	$549,607	$615,665	89.3%	78.8%

* The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS*
For The Year Ended June 30, 2015

School Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
Teacher's Retirement Association					
June 30, 2015	$50,071	$50,071	$0	$667,612	7.50%
PERA - General Employees Retirement Fund					
June 30, 2015	$51,431	$51,431	$0	$698,775	7.36%

* The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO RSI
JUNE 30, 2015

Note A BUDGETARY INFORMATION

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.

Note B PENSION INFORMATION

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details can be obtained from the financial reports of TRA and PERA.

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INDIVIDUAL FUND STATEMENTS

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039 **Statement 7**
BALANCE SHEET - GENERAL FUND
June 30, 2015
With Comparative Amounts For June 30, 2014

	2015	2014
Assets		
Cash and investments	$230,215	$208,389
Accounts receivable	-	59
Due from Minnesota Department of Education	592,642	149,016
Due from Federal Government through Minnesota Department of Education	110,817	121,631
Due from other funds	-	5,212
Interfund loan receivable	478,841	355,000
Prepaid items	30,000	30,000
Total assets	$1,442,515	$869,307
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$55,125	$42,166
Due to Studio 4	575,321	312,563
Salaries and taxes payable	25,274	18,237
Unearned revenue	99,276	9,190
Line of credit payable	-	100,000
Total liabilities	754,996	482,156
Fund balance:		
Nonspendable	30,000	30,000
Assigned	478,841	355,000
Unassigned	178,678	2,151
Total fund balance	687,519	387,151
Total liabilities and fund balance	$1,442,515	$869,307

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039 **Statement 8**
BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND
June 30, 2015
With Comparative Amounts For June 30, 2014

	2015	2014
Assets		
Cash and investments	$2,088	$ -
Due from Minnesota Department of Education	77	238
Due from Federal Government through Minnesota Department of Education	1,409	4,974
Total assets	$3,574	$5,212
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	$3,574	$ -
Due to other funds	-	5,212
Total liabilities	3,574	5,212
Fund balance:		
Restricted for food service	-	-
Total liabilities and fund balance	$3,574	$5,212

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039 **Statement 9**
BALANCE SHEET - HSRA BUILDING COMPANY SPECIAL REVENUE FUND
June 30, 2015
With Comparative Amounts For June 30, 2014

	2015	2014
Assets		
Cash and investments	$4,528	$4,820
Cash with escrow agent	65,000	-
Total assets	$69,528	$4,820
Liabilities and Fund Balance		
Liabilities:		
Interfund loan payable	$478,841	$355,000
Fund balance:		
Unassigned	(409,313)	(350,180)
Total liabilities and fund balance	$69,528	$4,820

SUPPLEMENTAL INFORMATION

HIGH SCHOOL FOR RECORDING ARTS
CHARTER SCHOOL NO. 4039 **Schedule 1**
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2015

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	$4,440,963	$4,440,963	$ -
Total Expenditures	4,109,575	4,109,575	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	30,000	30,000	-
Restricted/Reserve:			
4.03 Staff Development	-	-	-
4.05 Deferred Maintenance	-	-	-
4.06 Health and Safety	-	-	-
4.07 Capital Projects Levy	-	-	-
4.08 Cooperative Revenue	-	-	-
4.14 Operating Debt	-	-	-
4.16 Levy Reduction	-	-	-
4.17 Taconite Building Maint	-	-	-
4.23 Certain Teacher Programs	-	-	-
4.24 Operating Capital	-	-	-
4.26 $25 Taconite	-	-	-
4.27 Disabled Accessibility	-	-	-
4.28 Learning and Development	-	-	-
4.34 Area Learning Center	-	-	-
4.35 Contracted Alt. Programs	-	-	-
4.36 St. Approved Alt. Program	-	-	-
4.38 Gifted & Talented	-	-	-
4.41 Basic Skills Programs	-	-	-
4.45 Career & Tech Programs	-	-	-
4.49 Safe School Crime	-	-	-
4.50 Pre-Kindergarten	-	-	-
4.51 QZAB Payments	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
4.53 Unfunded Sev & Retiremt Levy	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Committed:			
4.18 Committed For Separation	-	-	-
4.61 Committed Fund Balance	-	-	-
Assigned:			
4.62 Assigned Fund Balance	478,841	478,841	-
Unassigned:			
4.22 Unassigned Fund Balance	178,678	178,678	-
02 FOOD SERVICE			
Total Revenue	$27,261	$27,262	($1)
Total Expenditures	58,281	58,282	(1)
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Restricted/Reserve:			
4.26 $25 Taconite	-	-	-
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	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.07 Capital Projects Levy	-	-	-
4.09 Alternative Fac. Program	-	-	-
4.13 Projects Funded By COP	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
07 DEBT SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.25 Bond Refundings	-	-	-
4.51 QZAB Payments	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
08 TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
20 INTERNAL SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
25 OPEB REVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
47 OPEB DEBT SERVICE FUND			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted:			
4.25 Bond Refundings	-	-	-
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
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, 2015, 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 October 12, 2015.

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 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, 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.

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 deficiency described as finding 2015-001 in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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' response to the finding identified in our audit is described in the accompanying schedule of findings and responses. High School for Recording Arts' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

October 12, 2015

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, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 12, 2015.

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

October 12, 2015

HIGH SCHOOL FOR RECORDING ARTS
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2015

INTERNAL CONTROL FINDINGS

Finding: 2015-001 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, three audit adjustments were identified affecting revenues, expenses, deferred revenue, account payables, and capitalized assets, and included a prior period adjustment. The most significant audit adjustment related to the school not recognizing approximately $91,000 of capitalized asset additions in its accounting records.

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. We will review our current review procedures and make process improvements that will help reduce the amount of adjustments and corrections needed at the end of the year.

Official responsible for ensuring CAP: The Business Manager.

Planned completion date for CAP: February 1, 2016.

Plan to monitor completion for CAP: The Treasurer or Vice-Chair of the Board of Directors.