

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2012

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA

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SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA

OFFICIAL DIRECTORY
(Unaudited)

	July 1, 2011 to April 30, 2012	May 1, 2012 to June 30, 2012
<u>School Board Members and Officers</u>		
Chairperson	Jeff Ueland	Jeff Ueland
Records Officer	Sara Breeze	Sara Breeze
Board Member	Stacy Bender-Fayette	Stacy Bender-Fayette
Board Member	Jim Conway	Jim Conway
Board Member	Lois Pearson	Lois Pearson
Board Member	Kathleen Preece	Kathleen Preece
Board Member		Sarah Wilson
<u>Administration</u>		
Director	Scott Anderson	Scott Anderson
Business Manager/Treasurer	Rita Poulton	Rita Poulton



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Bemidji, MN 56619
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INDEPENDENT AUDITORS' REPORT

**The Board of Education
Schoolcraft Learning Community
Minnesota Charter School No. 4058
Bemidji, Minnesota**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Schoolcraft Learning Community, Minnesota Charter School No. 4058 (School), as of and for the year ended June 30, 2012, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Schoolcraft Learning Community, Minnesota Charter School No. 4058's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Schoolcraft Learning Community, Minnesota Charter School No. 4058, as of June 30, 2012, and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2012, on our consideration of the Schoolcraft Learning Community, Minnesota Charter School No. 4058's internal control over financial reporting and 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 the internal control or financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Schoolcraft Learning Community
Minnesota Charter School No. 4058

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 14 and 33 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Schoolcraft Learning Community, Minnesota Charter School No. 4058's financial statements as a whole. The official directory and fiscal compliance report are presented for purposes of additional analysis and are not a required part of the financial statements. The fiscal compliance report is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The official directory 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.

Miller McDonald, Inc.

November 15, 2012
Bemidji, Minnesota

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

This section of Minnesota Charter School No. 4058 – Schoolcraft Learning Community’s, annual financial report presents our discussion and analysis of the School’s financial performance during the fiscal year that ended on June 30, 2012. Please read it in conjunction with the School’s financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended June 30, 2012 include the following:

- Net assets increased 18.94% from the prior year.
- Overall revenues were \$2,152,147 and overall expenses were \$2,022,404.
- The general fund balance increased by \$159,995 and food service fund balance decreased by \$2,460.

OVERVIEW OF THE FINANCIAL STATEMENTS

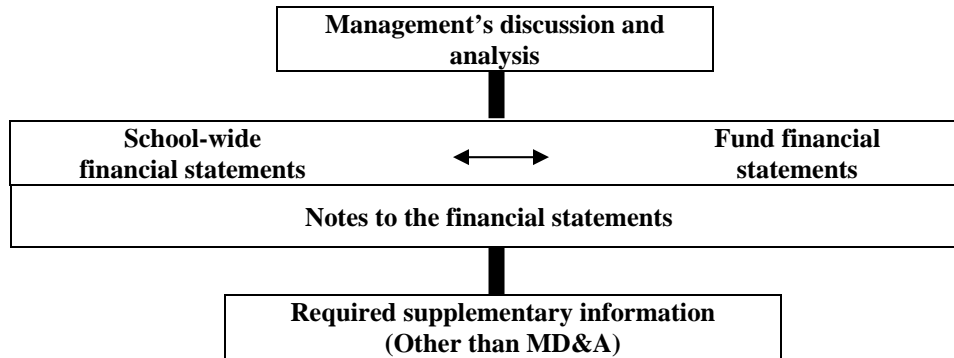
The financial section of the annual report consists of four parts – Independent Auditors’ Report, required supplementary information, which includes the management’s discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *school-wide financial statements* that provide both *short-term* and *long-term* information about the School’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the School, reporting on the School’s operations in more detail than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular, vocational 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. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School’s general and special revenue funds budgets for the year. The following diagram explains how the various parts of this annual report are arranged and related to one another.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)



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, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

	School-wide Statements	Fund Financial Statements Governmental Funds
Scope	Entire school except fiduciary funds	The activities of the school that are not proprietary or fiduciary, such as special education and building maintenance
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Type of assets/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during 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 the related liability is due and payable

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

School-wide Statements

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

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

Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.

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

Governmental Activities – The majority of the School's basic services are included within these activities; such as regular and special education, administration, and food services. State aids finance the majority 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.

The School has one type of fund:

Governmental Funds – The majority 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 district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE
(SCHOOL-WIDE FINANCIAL STATEMENTS)

Net Assets

The School's net assets were \$814,827 at June 30, 2012 (see the following table). At June 30, 2011 the net assets were \$685,084, with an increase of \$129,743 from operating activities for the year ended June 30, 2012.

	<u>2012</u>	<u>2011</u>	<u>Net Change</u>	
			<u>Amount</u>	<u>Percent</u>
Current and other assets	\$ 788,712	\$ 633,354	\$ 155,358	24.53%
Capital assets, net of depreciation	130,517	158,309	(27,792)	-17.56%
Total assets	<u>919,229</u>	<u>791,663</u>	<u>127,566</u>	<u>16.11%</u>
Current liabilities	<u>104,402</u>	<u>106,579</u>	<u>(2,177)</u>	<u>-2.04%</u>
Net assets:				
Net invested in capital assets	130,517	158,309	(27,792)	-17.56%
Restricted	2,913	5,373	(2,460)	-45.78%
Unrestricted	<u>681,397</u>	<u>521,402</u>	<u>159,995</u>	<u>30.69%</u>
Total net assets	<u>\$ 814,827</u>	<u>\$ 685,084</u>	<u>\$ 129,743</u>	<u>18.94%</u>

The change amounted to an 18.94% increase in net assets and was the result of excess revenues over expenditures from the general fund.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE
(SCHOOL-WIDE FINANCIAL STATEMENTS) (Continued)

Change in Net Assets

The increase in net assets occurs as a result of the School's revenues being more than its expenditures for the year ended June 30, 2012. A summary of the School's revenues and expenses for the years ended June 30, 2012 and 2011, along with the percentages for each category follows:

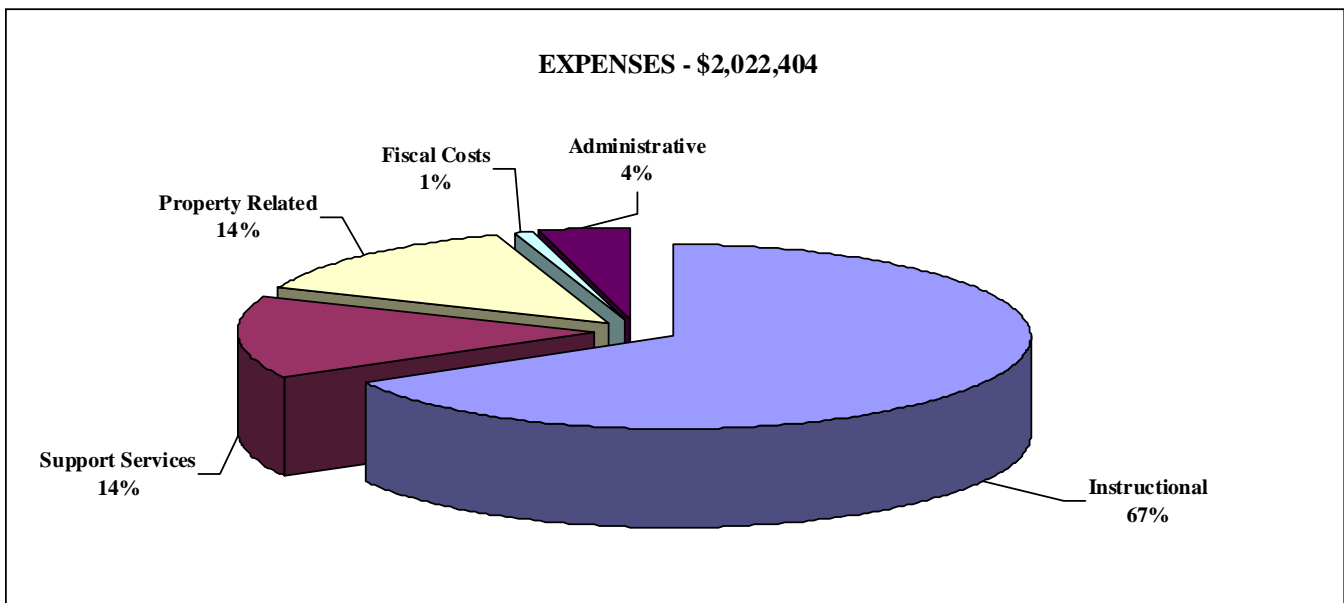
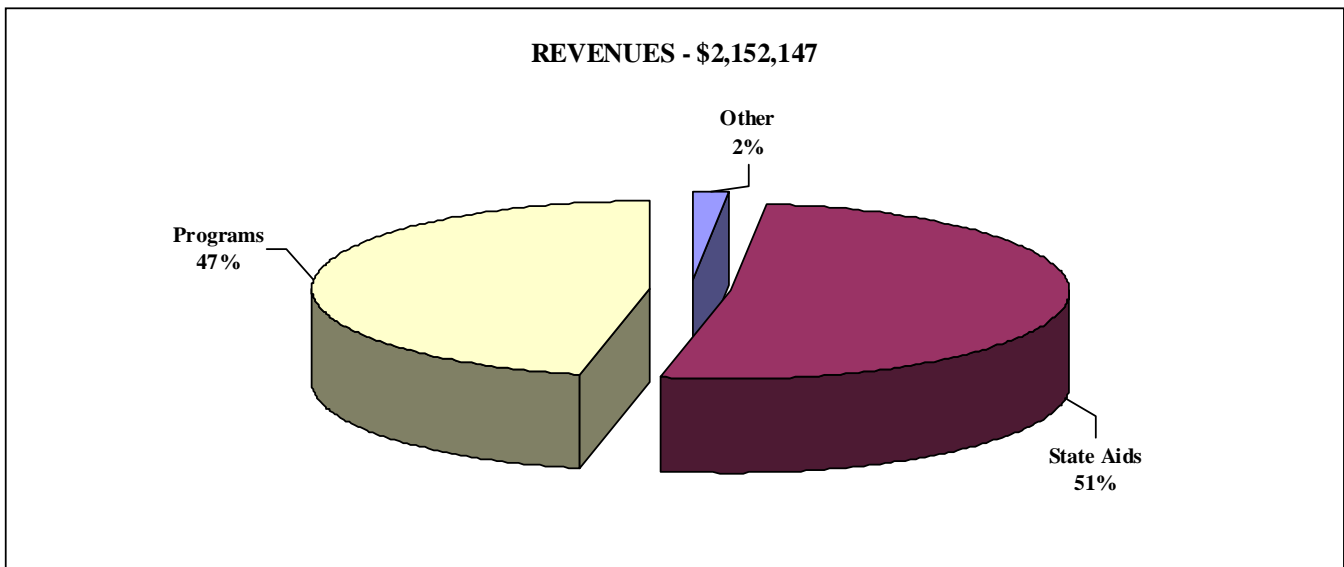
	2012		2011		Net Change	
	Amounts	Percent	Amounts	Percent	Amounts	Percent
Revenues:						
Program Revenues:						
Charges for Services	\$ 45,153	2.10%	\$ 37,996	1.89%	\$ 7,157	18.84%
Operating Grants and Contributions	961,822	44.69%	850,513	42.29%	111,309	13.09%
Total Program Revenues	1,006,975	46.79%	888,509	44.18%	118,466	13.33%
General Revenues:						
Aids and Payments from State Sources	1,109,030	51.53%	1,104,719	54.92%	4,311	0.39%
Other Sources	36,142	1.67%	17,745	0.88%	18,397	103.67%
Total General Revenues	1,145,172	53.21%	1,122,464	55.82%	22,708	2.02%
Total Revenues	2,152,147	100.00%	2,010,973	100.00%	141,174	7.02%
Expenses:						
Instructional:						
Regular Instruction	881,284	43.58%	915,925	46.85%	(34,641)	-3.78%
Exceptional Instruction	464,511	22.97%	400,961	20.51%	63,550	15.85%
Total Instructional	1,345,795	66.54%	1,316,886	67.36%	28,909	2.20%
Support Services:						
District Support Services	148,741	7.35%	137,934	7.05%	10,807	7.83%
Instructional Support Services	6,004	0.30%	9,081	0.46%	(3,077)	-33.88%
Pupil Support Services	141,569	7.00%	130,739	6.70%	10,830	8.28%
Total Support Services	296,314	14.65%	277,754	14.22%	18,560	6.68%
Administration	84,111	4.16%	74,237	3.80%	9,874	13.30%
Site, Buildings and Equipment	278,020	13.75%	271,217	13.87%	6,803	2.51%
Fiscal and Other Fixed Costs	18,164	0.90%	15,032	0.77%	3,132	20.84%
Total Expenses	2,022,404	100.00%	1,955,126	100.00%	67,278	3.44%
Changes in Net Assets	\$ 129,743		\$ 55,847		\$ 73,896	

The School's total revenues consisted of program revenues of \$1,006,975, unrestricted aids and payments from state sources of \$1,109,030 and miscellaneous revenues of \$36,142. Expenses totaling \$2,022,404 consisted of instructional service costs of \$1,345,795; support services costs of \$296,314; site, buildings and equipment related costs of \$278,020; fiscal and fixed-cost programs of \$18,164; and administrative costs of \$84,111.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE
(SCHOOL-WIDE FINANCIAL STATEMENTS) (Continued)

The following charts express revenues and expenses for the year in broad categories:



SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE
(SCHOOL-WIDE FINANCIAL STATEMENTS) (Continued)

The net cost of governmental activities is the total costs less program revenues applicable to each category. Total and net costs for the years ended June 30, 2012 and 2011 are as follows:

	<u>Cost of Services - 2012</u>		<u>Cost of Services - 2011</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
Expenses:				
Administration	\$ 84,111	\$ 84,111	\$ 74,237	\$ 74,237
District Support Services	148,741	148,741	137,934	137,934
Regular Instruction	881,284	659,652	915,925	647,738
Exceptional Instruction	464,511	(22,030)	400,961	62,772
Instructional Support Services	6,004	6,004	9,081	9,081
Pupil Support Services	141,569	17,826	130,739	20,335
Site, Buildings and Equipment	278,020	102,961	271,217	99,488
Fiscal and Other Fixed Costs	18,164	18,164	15,032	15,032
Total Expenses	<u>\$ 2,022,404</u>	<u>\$ 1,015,429</u>	<u>\$ 1,955,126</u>	<u>\$ 1,066,617</u>

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS
(FUND FINANCIAL STATEMENTS)

Fund Balances

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 \$684,310. This was an increase of \$157,535, from \$526,775 at the end of the prior year. The Food Service Fund reported an excess of expenditures over revenues before transfer in the amount of \$15,614. The General Fund reported excess revenues over expenditures before transfer of \$173,149.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

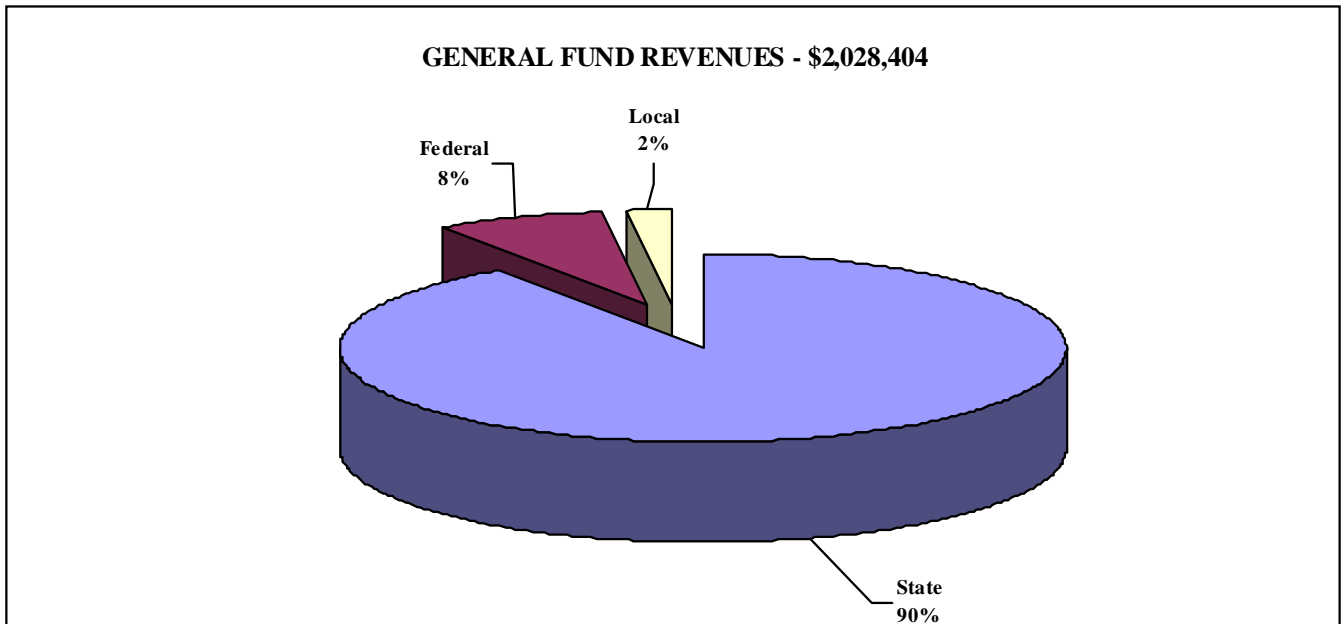
FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

Revenues and Expenditures

Revenues of the School's governmental funds totaled \$2,152,147 while total expenditures were \$1,994,612. A summary of the revenues and expenditures reported on the governmental fund financial statements are as follows:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$ 2,028,404	\$ 1,855,255	\$ (13,154)	\$ 159,995
Food Service Fund	123,743	139,357	13,154	(2,460)
Totals	\$ 2,152,147	\$ 1,994,612	\$ -	\$ 157,535

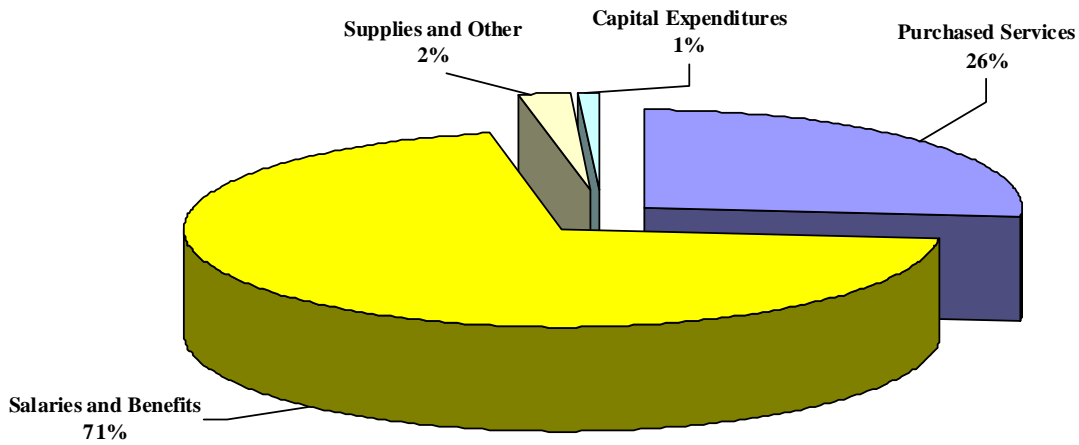
The following graphs are presented for the general fund revenues and expenditures:



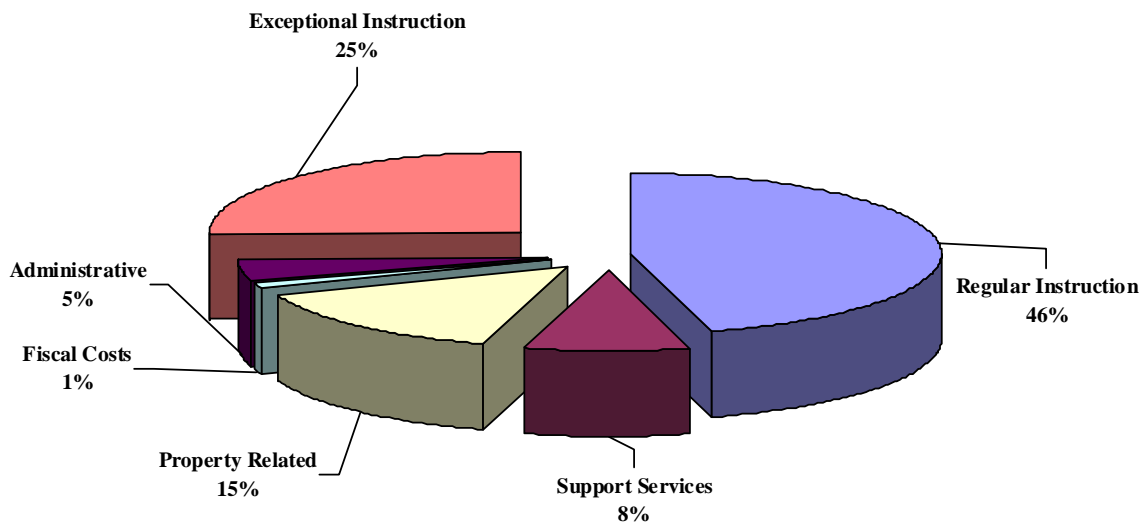
SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

GENERAL FUND EXPENDITURES BY OBJECT - \$1,855,255



GENERAL FUND EXPENDITURES BY PROGRAM - \$1,855,255



SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

General Fund Budgetary Highlights

During the year ended June 30, 2012, the School made revisions to its general fund operating budget. In accordance with Minnesota Statutes, an expenditure budget must be in place prior to the beginning of the fiscal year in order to spend funds. Prior to July 1, the school board approves the budget for next year. A revised budget was necessary to incorporate data that was not available at the time of the preliminary budget.

Schoolcraft's general fund final budgets anticipated that revenues would exceed expenditures and other financing uses by \$94,631. The actual results for the year reported an excess of revenues over expenditures and other financing uses in the amount of \$159,995. Actual revenues were more than budgeted by \$66,115, and actual expenditures were \$12,403 less than budgeted and an unbudgeted transfer of \$13,154 was made to the food service fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The School has maintained an inventory of capital assets since its inception. Additions during the year ended June 30, 2012 totaled \$5,694 and disposals totaled \$285 of equipment. Additions, made possible by "Enhancing Education through Technology ARRA Grant" secured in December 2009, consisted primarily of computer hardware and accessory equipment.

Long-Term Debt and Commitments

At June 30, 2012, the School had not incurred any long-term indebtedness. During the year ended June 30, 2012, the School renewed their lease agreement with Concordia College Corporation for the period beginning on July 15, 2012 and ending July 14, 2013 with an option to renew for up to three additional one year terms.

FACTORS BEARING ON THE SCHOOL'S FUTURE

Political Environment

The political environment at the State level will have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. Currently the general education basic allowance, from which the School receives the single largest state aid, is set at \$5,174 and will increase to \$5,224 in fiscal year 2012.

Labor Force

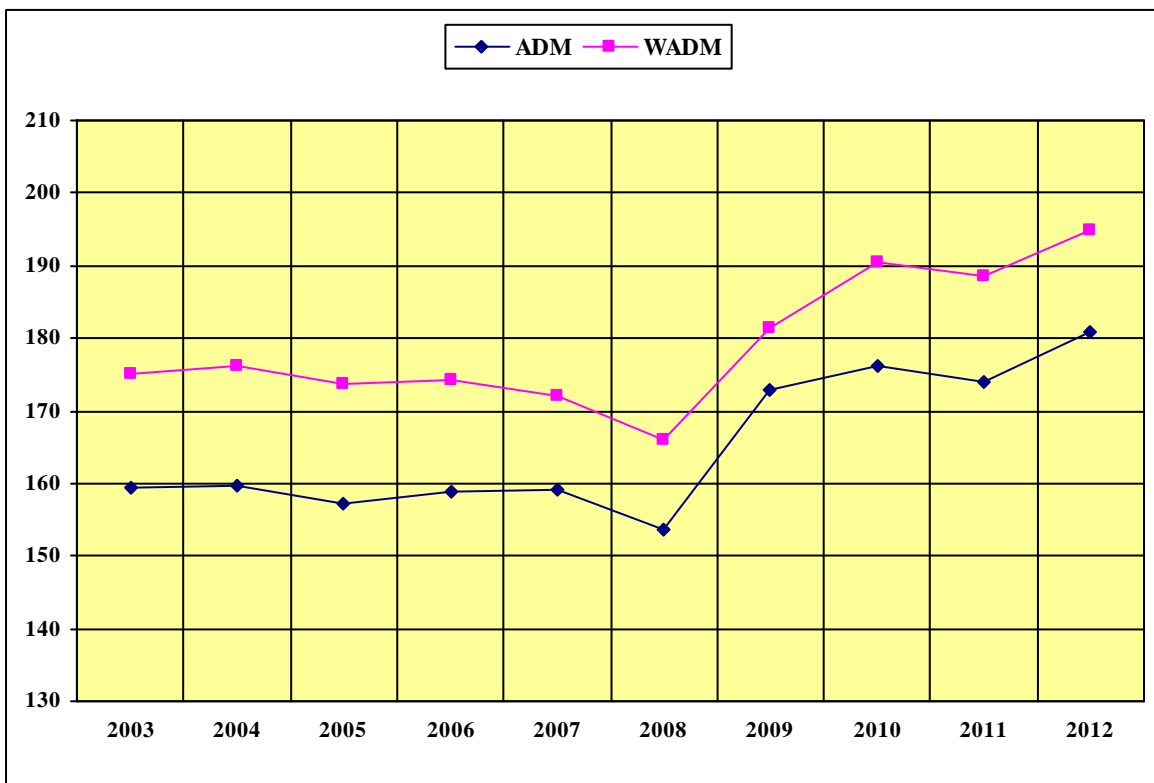
Schoolcraft Learning Community negotiates contracts on an annual basis. Salaries and benefits accounted for 71% of the School's general fund expenditures for fiscal year 2012.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

FACTORS BEARING ON THE SCHOOL'S FUTURE (Continued)

Student Enrollment

Attendance at all Minnesota school districts including charter schools is based upon Average Daily Membership (ADM), however, the School receives general education aid based upon a Weighted Average Daily Membership (WADM). The following chart summarizes ADM and WADM over the past ten years:



CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School's citizens, taxpayers, customers, 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 any questions about this report or would like additional information, contact Rita Poulton, Business Manager, at the school office at P.O. Box 1685, Bemidji, MN 56619.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
STATEMENT OF NET ASSETS
JUNE 30, 2012

ASSETS

Cash and Cash Equivalents	\$ 105,942
Due from Other Governmental Units	672,940
Other Accounts Receivable	3,950
Prepaid Expenditures	5,880
Capital Assets:	
Equipment	\$ 224,435
Less Accumulated Depreciation	<u>(93,918)</u>
Total Capital Assets, Net of Depreciation	<u>130,517</u>
 Total Assets	 <u>919,229</u>

LIABILITIES

Salaries Payable	61,246
Accounts Payable	13,989
Payroll Deductions and Employer Contributions	<u>29,167</u>
 Total Liabilities	 <u>104,402</u>

NET ASSETS

Net Invested in Capital Assets	130,517
Restricted	2,913
Unrestricted	<u>681,397</u>
 Total Net Assets	 <u>\$ 814,827</u>

See Accompanying Notes to Financial Statements.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Assets</u>
<u>Governmental Activities</u>				
District and School Administration	\$ 84,111	\$ -	\$ -	\$ (84,111)
District Support Services	148,741	-	-	(148,741)
Regular Instruction	881,284	4,238	217,394	(659,652)
Exceptional Instruction	464,511	-	486,541	22,030
Instructional Support Services	6,004	-	-	(6,004)
Pupil Support Services	141,569	40,915	82,828	(17,826)
Site, Buildings and Equipment	278,020	-	175,059	(102,961)
Fiscal and Other Fixed Costs	18,164	-	-	(18,164)
Total Governmental Activities	<u>\$ 2,022,404</u>	<u>\$ 45,153</u>	<u>\$ 961,822</u>	<u>(1,015,429)</u>
<u>General Revenues:</u>				
				1,109,030
				1,518
				<u>34,624</u>
				<u>1,145,172</u>
				129,743
				<u>685,084</u>
				<u>\$ 814,827</u>

See Accompanying Notes to Financial Statements.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General</u>	<u>Other Governmental Fund</u>	<u>Totals</u>
<u>ASSETS</u>			
Cash and Investments	\$ 105,942	\$ -	\$ 105,942
Due from Other Governmental Units	672,940	-	672,940
Accounts Receivable	1,037	2,913	3,950
Prepaid Expenditures	5,880	-	5,880
<u>Total Assets</u>	<u>\$ 785,799</u>	<u>\$ 2,913</u>	<u>\$ 788,712</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Salaries Payable	\$ 61,246	\$ -	\$ 61,246
Accounts Payable	13,989	-	13,989
Payroll Deductions and Employer Contributions	29,167	-	29,167
Total Liabilities	<u>104,402</u>	<u>-</u>	<u>104,402</u>
<u>Fund Equity</u>			
Nonspendable for Prepaid Items	5,880	-	5,880
Restricted Fund Balance for Food Service	-	2,913	2,913
Assigned for Technology Replacement	5,000	-	5,000
Unassigned Fund Balances	670,517	-	670,517
Total Fund Equity	<u>681,397</u>	<u>2,913</u>	<u>684,310</u>
<u>Total Liabilities and Fund Equity</u>	<u>\$ 785,799</u>	<u>\$ 2,913</u>	<u>\$ 788,712</u>

See Accompanying Notes to Financial Statements.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012

Total Fund Balances - Governmental Funds		\$ 684,310
 Amounts reported for governmental activities in the statement of net assets are different because:		
 Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Cost	\$ 224,435	
Accumulated Depreciation	<u>(93,918)</u>	
Net Depreciated Value of Capital Assets		<u>130,517</u>
 Total Net Assets - Governmental Activities		 <u><u>\$ 814,827</u></u>

See Accompanying Notes to Financial Statements.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	General Fund	Other Governmental Fund	Totals
<u>Revenues</u>			
Local Revenues	\$ 36,908	\$ -	\$ 36,908
Revenues from State Sources	1,831,427	10,414	1,841,841
Revenues from Federal Sources	156,597	72,414	229,011
Sales and Other Conversions of Assets	1,954	40,915	42,869
Investment Earnings	1,518	-	1,518
Total Revenues	<u>2,028,404</u>	<u>123,743</u>	<u>2,152,147</u>
<u>Expenditures</u>			
District and School Administration	84,045	-	84,045
District Support Services	148,117	-	148,117
Regular Instruction	851,368	-	851,368
Exceptional Instruction	467,325	-	467,325
Instructional Support Services	6,004	-	6,004
Pupil Support Services	2,212	139,357	141,569
Site, Buildings, and Equipment	278,020	-	278,020
Fiscal and Other Fixed Costs	18,164	-	18,164
Total Expenditures	<u>1,855,255</u>	<u>139,357</u>	<u>1,994,612</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	<u>173,149</u>	<u>(15,614)</u>	<u>157,535</u>
<u>Other Financing Source (Use)</u>			
Operating Transfers In	-	13,154	13,154
Operating Transfers Out	(13,154)	-	(13,154)
Total Other Financing Source (Use)	<u>(13,154)</u>	<u>13,154</u>	<u>-</u>
<u>Excess of Revenues and Other Financing Source Over (Under) Expenditures and Other Financing Use</u>	<u>159,995</u>	<u>(2,460)</u>	<u>157,535</u>
<u>Fund Balances, Beginning of Year</u>	<u>521,402</u>	<u>5,373</u>	<u>526,775</u>
<u>Fund Balances, End of Year</u>	<u>\$ 681,397</u>	<u>\$ 2,913</u>	<u>\$ 684,310</u>

See Accompanying Notes to Financial Statements.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Net Change in Fund Balances - Total Governmental Funds \$ 157,535

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlay	\$ 5,694	
Depreciation	(33,486)	
Excess Depreciation Expense Over Capital Outlay		(27,792)

Change in Net Assets of Government Activities \$ 129,743

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies

The financial statements of Schoolcraft Learning Community, Minnesota Charter School No. 4058 have been prepared in conformity with U. S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2012. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

A. Organization

In accordance with Minnesota Statutes, Chapter 317A Schoolcraft Learning Community was organized on January 12, 2000 as a non-profit corporation. Schoolcraft Learning Community is organized for the specific purpose of establishing and operating a results-oriented Charter School pursuant to Minnesota Statutes Chapter 124D.10, (1997) as amended. On December 7, 1999, Schoolcraft Learning Community was approved for sponsorship by the Minnesota State Board of Education and on April 25, 2000, was declared Charter School No. 4058 by the Commissioner of Minnesota Department of Education. On June 30, 2011 Schoolcraft Learning Community has entered into a charter school/authorizer agreement with Volunteers of America-Minnesota to operate a result's orientated charter school.

B. Reporting Entity

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 (primary government) 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 are no organizations considered to be component units of the School.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. In accordance with Minnesota Statutes, the School Board has elected to control or exercise oversight responsibility with respect to underlying student activities.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies – Continued

C. Financial Statement Presentation

The school-wide financial statements (i.e. the statement of net assets and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the School.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The School does not allocate indirect expenses. Program revenues, include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or capital requirements of a particular function or segment. Operating grants include operating-specific and discretionary grants. Other items not properly included among program revenues are reported as general revenues.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

Except for operating transfers between funds, as a general rule the School does not engage in inter-fund activities. Operating transfers are eliminated from the school-wide financial statements.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the school-wide financial statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the School were determined to be of this nature, so no proprietary funds are present in the financial statements.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. 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 or related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting recognizes expenses when incurred, except principal and interest on general long-term debt which is recognized when due, and revenue under the following principles:

State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies – Continued

Other revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Description of Funds

The existence of the various School funds has been established by the Minnesota Department of Education, and is accounted for as an independent entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures.

GASB Statement No. 34 specifies that the accounts and activities of each of the School’s most significant governmental funds (termed “major funds”) be reported in separate columns on the fund financial statements. Other non-major funds can be reported in total. Although only the general fund is a major fund by definition, the School has elected to present all funds in separate columns.

Descriptions of the funds in this report are as follows:

Governmental Funds

General Fund – Accounts for all financial resources and transactions relating to the administration, instruction, pupil transportation, and maintenance of the School, which are not accounted for in other school funds.

Additionally, the School reports the following non-major fund:

Special Revenue Fund – Accounts for the proceeds of specific revenue sources (other than expendable trust and major capital projects) that are legally restricted to expenditures for specified purposes. The School’s special revenue fund and its purpose are as follows:

Food Service Special Revenue Fund – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

E. Assets, Liabilities, Net Assets and Fund Balances

Cash and Investments – Cash balances, including cash equivalents, for all funds are maintained on a combined basis and invested, to the extent possible, in allowable investments. Pooled and fund investments are reported at their fair value at June 30, 2012, based on market prices.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies – Continued

Due From Other Governmental Units – Amounts due from other governmental units consist of amounts primarily due from the Minnesota Department of Education and from the Federal Government for aids and grants under various specific programs. Such amounts are reported at estimated amounts based on available information at the date of the report. Adjustments and pro-rations may be made by the applicable agencies based on the amount of funds available for distribution and may result in differing amounts actually being received. The differences between the receivable recorded and the actual amount received will be recognized as a revenue adjustment in the subsequent year. Federal and state revenues are recorded as revenue at the time of receipt or when they are both measurable and available.

Prepaid Expenditures – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures. Prepaid expenditures are recorded as expenditures at the time of consumption.

Capital Assets – Capital assets are capitalized at historical cost. Donated assets are recorded as capital assets at estimated fair market value at the date of donation. The School maintains a threshold level of \$500 or more for capitalizing assets.

Capital assets are recorded in the school-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any.

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

Fund Equity –The School classifies fund balances in the governmental funds as follows:

- **Nonspendable fund balance**—amounts that are not in spendable form (such as inventory or prepaid items) or are required to be maintained intact.
- **Restricted fund balance**—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed fund balance**—amounts constrained to specific purposes by the School itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any purpose unless the School takes the same highest level of action to remove or change the constraint.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 1 – Summary of Significant Accounting Policies – Continued

- Assigned fund balance—amounts the School intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Committed, assigned and restricted funds are used first when an expense is incurred for purposes for which committed, assigned or restricted and unrestricted funds are available. As of June 30, 2012 the School has no committed fund balances.

In the general fund, the School strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 30% of the actual GAAP basis expenditures and other financing sources and uses.

F. Compensated Absences

Employees are allowed ten days of paid leave per year, administrative employees are allowed an additional two days. Employees are paid for the amount of leave days remaining at year-end. All employees received payment for unused leave before June 30, 2012.

G. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – Deposits and Investments

The School's total cash and investments are as follows:

Pooled Depository Accounts:	
Checking Accounts	\$ 32,208
Money Market Account	3,558
Certificates of Deposit	70,176
Total Cash and Investments	<u><u>\$ 105,942</u></u>

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 2 – Deposits and Investments – Continued

A. Deposits

Authority – In accordance with Minnesota Statutes, the School maintains deposits at those depository banks authorized by the Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all School 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 bonds. Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government agencies; general obligations rated “A” or better, revenue obligations rated “AA” or better; irrevocable

standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk – The custodial credit risk for deposits is the risk that in the event of a bank failure, the School’s deposits may not be recovered. The School’s policy for custodial credit risk is to maintain compliance with Minnesota statutes that require all the School’s deposits to be protected by insurance, surety bond, or pledged collateral. The School has no custodial credit risk at June 30, 2012.

B. Investments

Authority - Minnesota Statutes authorize the School to invest in the following types of investments:

1. securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minnesota Statutes;
2. mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
3. general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
4. bankers’ acceptances of United States banks;
5. commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
6. with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The School has not adopted a formal investment policy. At June 30, 2012 the School did not have any investments.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 3 – Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2012 are as follows:

	<u>General Fund</u>
Minnesota Department of Education:	
State Aids and Grants	<u>\$ 672,940</u>

NOTE 4 – Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Sales and Retirements</u>	<u>Ending Balance</u>
Equipment	\$ 219,026	\$ 5,694	\$ 285	\$ 224,435
Less Accumulated Depreciation	<u>60,717</u>	<u>33,486</u>	<u>285</u>	<u>93,918</u>
Capital Assets, Net of Depreciation	<u>\$ 158,309</u>	<u>\$ (27,792)</u>	<u>\$ -</u>	<u>\$ 130,517</u>

Depreciation expense was charged to the following program services:

Administration	\$ 66
District Support Services	624
Regular Instruction	32,550
Exceptional Instruction	246
Total Depreciation Expense	<u>\$ 33,486</u>

NOTE 5 – Pension Plans

A. Teachers Retirement Association

Plan Description

All teachers employed by the School are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All Basic members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. The Plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 5 – Pension Plans – Continued

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 as described:

Tier I:	Step Rate Formula	Coordinated	Basic
	1st ten years if service years are prior to July 1, 2006	1.2% per year	2.2% per year
	1st ten years if service years are July 1, 2006 or after	1.4% per year	2.2% per year
	All other years of service if service years are prior to July 1, 2006	1.7% per year	2.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year	2.7% 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 factors 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).

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. 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. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.4 percent per year.

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.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) is a lifetime annuity that ceases upon death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is also eligible for a refund of their employee contributions plus interest.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 5 – Pension Plans – Continued

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 provisions in effect at the time they last terminated their public service.

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefit provisions. The report may be accessed at the TRA website www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive Suite 400
St Paul MN 55103-4000
651-296-2409
800-657-3669

Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 6.0 percent and 9.5 percent, respectively, of their annual covered salary during fiscal year 2012 as employee contributions. The TRA employer contribution rates are 6.0 percent for Coordinated members and 10.0 percent for Basic members during fiscal year 2012. Total covered payroll salaries for all TRA members statewide during the fiscal year ended June 30, 2011 was approximately \$3.84 billion. TRA covered payroll for all members statewide for the fiscal years ended June 30, 2010 and June 30, 2009 were \$3.79 billion and \$3.76 billion, respectively.

The School's contributions for the years ending June 30, 2012, 2011, and 2010 were \$40,844, \$38,433, and \$35,025, respectively, equal to the required contributions for each year as set by state statute.

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

B. Public Employees Retirement Association

Plan Description

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

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 5 – Pension Plans – Continued

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at age 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at www.mnpera.org, by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 5 – Pension Plans – Continued

Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The School makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary. The School is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan PERC members, 7.25% for Coordinated Plan PERC members. The School's contributions to the Public Employees Retirement Fund for the years ending June 30, 2012, 2011, and 2010 were \$21,649, \$21,684, and \$20,080, respectively. The School's contributions were equal to the contractually required contributions for each year as set by state statute.

NOTE 6 – Inter-fund Transfer

The School transferred \$13,154 from the general fund to the food service fund to eliminate a deficit fund balance.

NOTE 7 – Operating Lease

During the year ended June 30, 2012, the School renewed a lease agreement with Concordia College Corporation for the lease of the school facilities. The remaining significant terms of the lease are as follows:

2012-2013 School Year	August 31, 2012 – May 24, 2013	278,000
2013-2014 School Year	August 30, 2013 – May 23, 2014	286,300

Actual lease expenditures for the Concordia College Corporation lease for the year ended June 30, 2012 were \$270,000.

NOTE 8 - Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disaster. The School carries various commercial insurance policies covering personal property, commercial liability, and workers' compensation liability. The School has a \$1,000 deductible for commercial and property insurance. There were no significant reductions in insurance from the previous year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2012

NOTE 9 - Commitments and Contingencies

The School participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the School has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2012 may be impaired. In the opinion of the School, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<u>Revenues</u>				
Local Revenues	\$ 16,395	\$ 28,669	\$ 36,908	\$ 8,239
Revenues from State Sources	1,730,603	1,776,024	1,831,427	55,403
Revenues from Federal Sources	139,171	156,596	156,597	1
Sales and Other Conversions of Assets	-	-	1,954	1,954
Investment Earnings	100	1,000	1,518	518
<u>Total Revenues</u>	<u>1,886,269</u>	<u>1,962,289</u>	<u>2,028,404</u>	<u>66,115</u>
<u>Expenditures</u>				
District and School Administration	88,610	85,610	84,045	1,565
District Support Services	154,721	152,321	148,117	4,204
Regular Instruction	840,425	862,802	851,368	11,434
Exceptional Instruction	387,809	462,939	467,325	(4,386)
Instructional Support Services	8,000	6,000	6,004	(4)
Pupil Support Services	3,000	3,000	2,212	788
Site, Buildings and Equipment	279,000	279,000	278,020	980
Fiscal and Other Fixed Costs	14,290	15,986	18,164	(2,178)
<u>Total Expenditures</u>	<u>1,775,855</u>	<u>1,867,658</u>	<u>1,855,255</u>	<u>12,403</u>
<u>Excess of Revenues Over Expenditures</u>	<u>110,414</u>	<u>94,631</u>	<u>173,149</u>	<u>78,518</u>
<u>Other Financing Use</u>				
Operating Transfers Out	-	-	(13,154)	(13,154)
<u>Excess of Revenues Over Expenditures</u> <u>and Other Financing Use</u>	<u>110,414</u>	<u>94,631</u>	<u>159,995</u>	<u>65,364</u>
<u>Fund Balances, Beginning of Year</u>	<u>521,402</u>	<u>521,402</u>	<u>521,402</u>	<u>-</u>
<u>Fund Balances, End of Year</u>	<u>\$ 631,816</u>	<u>\$ 616,033</u>	<u>\$ 681,397</u>	<u>\$ 65,364</u>

See Accompanying Notes to the Required Supplementary Information.

SCHOOLCRAFT LEARNING COMMUNITY
MINNESOTA CHARTER SCHOOL NO. 4058
BEMIDJI, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2012

NOTE 1 – Budgetary Data

Budgets are prepared for School funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. The budgets are presented in this report for comparison to actual amounts in accordance with accounting principles generally accepted in the United States of America.

Legal Compliance – Budgets

- The Director submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for all funds of the School. The General and Food Service Special Revenue Funds are legally adopted through the budgetary process.
- The budget is legally enacted through passage of a School Board resolution by July 1.
- The School Board may authorize transfer of budgeted amounts between funds.
- Formal budgetary integration is employed as a management control device during the year for the Schools two established funds, the General and Food Service Special Revenue Funds.
- General and Special Revenue Funds expenditures may not legally exceed budgeted appropriations at the total fund level without School Board approval. Monitoring of budgets is maintained at the expenditure category level.

FISCAL COMPLIANCE REPORT - 6/30/2012
 District: SCHOOLCRAFT LEARNING COMMUNITY (4058-07)

	<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>		<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 2,028,404	\$2,028,405	(\$1)	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$ 1,855,255	\$1,855,255	\$0	Total Expenditures	\$0	\$0	\$0
Non Spendable:				Non Spendable			
4.60 Non Spendable Fund Balance	\$5,880	\$5,880	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
Restricted/Reserved:				Restricted/Reserved:			
4.03 Staff Development	\$0	\$0	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.05 Deferred Maintenance	\$0	\$0	\$0	4.09 Alternative Facility Program	\$0	\$0	\$0
4.06 Health and Safety	\$0	\$0	\$0	4.13 Projects Funded by COP	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	Restricted:			
4.08 Cooperative Revenue	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.14 Operating Debt	\$0	\$0	\$0	Unassigned:			
4.16 Levy Reduction	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.17 Taconite Building Maint	\$0	\$0	\$0				
4.23 Certain Teacher Programs	\$0	\$0	\$0	07 DEBT SERVICE			
4.24 Operating Capital	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.27 Disabled Accessibility	\$0	\$0	\$0	Non Spendable			
4.28 Learning & Development	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.34 Area Learning Center	\$0	\$0	\$0	Restricted/Reserved:			
4.35 Contracted Alt. Programs	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.36 State Approved Alt. Program	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.38 Gifted & Talented	\$0	\$0	\$0	Restricted:			
4.41 Basic Skills Program	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.45 Career Tech Programs	\$0	\$0	\$0	Unassigned:			
4.49 Safe School Crime	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.50 Pre-Kindergarten	\$0	\$0	\$0				
4.51 QZAB Payments	\$0	\$0	\$0	08 TRUST			
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Restricted:				4.22 Unassigned Net Assets	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$0	\$0	\$0				
Committed:				20 INTERNAL SERVICE			
4.18 Committed for Separation	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.61 Committed Fund Balance	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Assigned:				4.22 Unassigned Net Assets	\$0	\$0	\$0
4.62 Assigned Fund Balance	\$5,000	\$5,000	\$0				
Unassigned:				25 OPEB REVOCABLE TRUST			
4.22 Unassigned Fund Balance	\$670,517	\$670,517	\$0	Total Revenue	\$0	\$0	\$0
02 FOOD SERVICE				Total Expenditures	\$0	\$0	\$0
Total Revenue	\$123,743	\$123,743	\$0	4.22 Unassigned Net Assets	\$0	\$0	\$0
Total Expenditures	\$139,357	\$139,358	(\$1)				
Non Spendable:				45 OPEB IRREVOCABLE TRUST			
4.60 Non Spendable Fund Balance	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Restricted/Reserved:				Total Expenditures	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	4.22 Unassigned Net Assets	\$0	\$0	\$0
Restricted:							
4.64 Restricted Fund Balance	\$2,913	\$2,913	\$0	47 OPEB DEBT SERVICE			
Unassigned:				Total Revenue	\$0	\$0	\$0
4.63 Unassigned Fund Balance	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
04 COMMUNITY SERVICE				Non Spendable:			
Total Revenue	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
Total Expenditures	\$0	\$0	\$0	Restricted:			
Non Spendable:				4.25 Bond Refundings	\$0	\$0	\$0
4.60 Non Spendable Fund Balance	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
Restricted/Reserved:				Unassigned:			
4.26 \$25 Taconite	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.31 Community Education	\$0	\$0	\$0				
4.32 E.C.F.E.	\$0	\$0	\$0				
4.44 School Readiness	\$0	\$0	\$0				
4.47 Adult Basic Education	\$0	\$0	\$0				
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0				
Restricted:							
4.64 Restricted Fund Balance	\$0	\$0	\$0				
Unassigned:							
4.63 Unassigned Fund Balance	\$0	\$0	\$0				



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**REPORT ON COMPLIANCE BASED ON AN AUDIT OF THE
 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
 WITH THE MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE
 FOR POLITICAL SUBDIVISIONS**

**The Board of Education
 Schoolcraft Learning Community
 Minnesota Charter School No. 4058
 Bemidji, Minnesota**

We have audited the financial statements of the governmental activities and each major fund and the aggregate remaining fund information of Schoolcraft Learning Community, Minnesota Charter School No. 4058 as of and for the year ended June 30, 2012, which collectively comprise Schoolcraft Learning Community, Minnesota Charter School No. 4058's basic financial statements, and have issued our report thereon dated November 15, 2012.

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

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

The results of our test indicate that for the items tested, Schoolcraft Learning Community, Minnesota Charter School No. 4058 complied with the material terms and conditions of applicable legal provisions.

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

Miller McDonald, Inc.

November 15, 2012
 Bemidji, Minnesota



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

**The Board of Education
 Schoolcraft Learning Community
 Minnesota Charter School No. 4058
 Bemidji, Minnesota**

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Schoolcraft Learning Community, Minnesota Charter School No. 4058 as of and for the year ended June 30, 2012 which collectively comprise Schoolcraft Learning Community, Minnesota Charter School No. 4058's basic financial statements and have issued our report thereon dated November 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Schoolcraft Learning Community, Minnesota Charter School No. 4058 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Schoolcraft Learning Community, Minnesota Charter School No. 4058's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Schoolcraft Learning Community, Minnesota Charter School No. 4058's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Schoolcraft Learning Community, Minnesota Charter School No. 4058's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Schoolcraft Learning Community, Minnesota Charter School No. 4058's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, School Board, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Miller McDonald, Inc.

November 15, 2012
Bemidji, Minnesota