

**FRASER ACADEMY
Charter School No. 4113
Minneapolis, Minnesota**

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2014

**FRASER ACADEMY
Charter School No. 4113**

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FRASER ACADEMY
Charter School No. 4113

BOARD OF DIRECTORS AND ADMINISTRATION
For the Year Ended June 30, 2014

| <u>Board of Directors</u> | <u>Position</u> | <u>Term Expires</u> |
|---------------------------|---------------------|---------------------|
| Donna Piazza | Chair | 2014 |
| Kirk Wahlstrom | Vice Chairperson | 2015 |
| Janelle Erickson | Treasurer | 2015 |
| Meggie Martin | Co-Secretary | 2016 |
| Susan Scheller | Co-Secretary | 2016 |
| Wendy Ehlert | Member | 2016 |
| Shannon Dean | Member | 2014 |
| Terra Hyatt | Member | 2014 |
| Neil Nye | Member | 2016 |
| Tina Outlaw | Member | 2015 |
| Linda Silrum | Member (Nonvoting) | |
| <u>Administration</u> | | |
| Linda Silrum | Director of Academy | |



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fraser Academy
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Fraser Academy, Minneapolis, Minnesota, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the Academy's 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 Academy'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 Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Fraser Academy, Minneapolis, Minnesota, as of June 30, 2014, and the respective changes in financial position thereof, and the respective budgetary comparison for the General and Food Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, 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 (GASB), 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 the Academy's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying supplementary information identified in the Table of Contents is the responsibility of management and was derived from and relates 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 accompanying supplementary information is fairly stated, in all material respects in relation to the financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2014, on our consideration of the Academy'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 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 the Academy's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Kern DeWenter, Viero Ltd".

KERN, DEWENTER, VIERO, LTD.
Minneapolis, Minnesota
November 17, 2014

FRASER ACADEMY
Charter School No. 4113

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

This section of Fraser Academy's (the "Academy") annual financial report presents the discussion and analysis of the Academy's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the Academy's financial statements, which immediately follows this section. The Management's Discussion and Analysis (MD&A) is a required element of Required Supplementary Information specified in the GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2013-2014) and the prior year (2012-2013) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

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

- Total net position at June 30, 2014 was \$ 507,361.
- Overall General Fund revenues were \$ 3,179,780 as compared to \$ 3,053,765 of expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information, which includes the MD&A (this section), the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the government-wide statements.

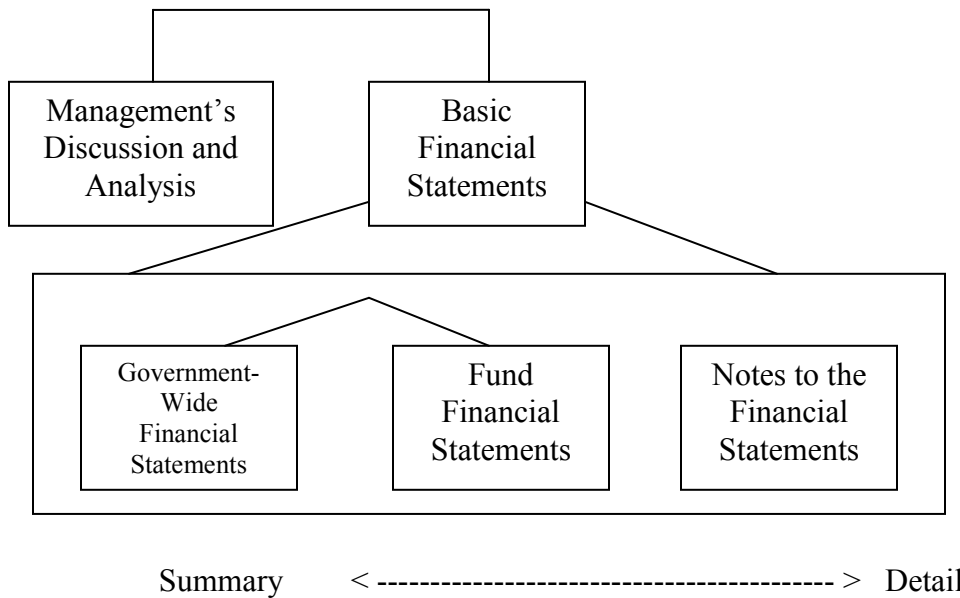
The governmental fund statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

**FRASER ACADEMY
Charter School No. 4113**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS

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 supplementary information that further explains and supports the financial statements. The diagram below shows how the various parts of this annual report are arranged and related to one another.



FRASER ACADEMY
Charter School No. 4113

MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

The major features of the Academy’s financial statements includes the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

| Fund Financial Statements | | | |
|--|--|--|---|
| | Government-Wide Statements | Governmental Funds | Fiduciary Funds |
| Scope | Entire school (except fiduciary funds) | The activities of the Academy that are not proprietary or fiduciary, such as special education and building maintenance. | Instances in which the Academy administers resources on behalf of someone else, such as scholarship programs and student activities monies. |
| Required Financial Statements | <ul style="list-style-type: none"> · Statement of Net Position · Statement of Activities | <ul style="list-style-type: none"> · Balance Sheet · Statement of Revenues, Expenditures and Changes in Fund Balances | <ul style="list-style-type: none"> · Statement of fiduciary Net Position · Statement of Changes in Fiduciary Net Position |
| Accounting Basis and Measurement Focus | Accrual accounting and economic resources focus. | Modified accrual accounting and current financial focus. | Accrual accounting and economic resources 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. | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can. |
| 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. | All additions and deductions during the year, regardless of when cash is received or paid. |

FRASER ACADEMY
Charter School No. 4113

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Statements

The government-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Academy'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 government-wide statements report the Academy's net position and how they have changed. Net position, the difference between the Academy's assets and liabilities, is one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy you need to consider additional nonfinancial factors such as changes in the Academy's credit worthiness and the condition of Academy's buildings and other facilities.

In the government-wide financial statements, the Academy's activities are shown in one category:

- Governmental Activities – All of the Academy's basic services will be included here, such as regular and special education, transportation and administration. State and federal aids, federal grants and donations financed these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Academy's funds, focusing on its most significant or "major" funds, not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs. The Academy has one kind of fund:

- Governmental Funds – All of the Academy'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 Academy's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional reconciliations to explain the relationship (or differences) between them.

FRASER ACADEMY
Charter School No. 4113

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Net Position

The Academy's combined net position was \$ 507,361 on June 30, 2014. (See Table A-1.)

Table A-1
Net Position

| | Governmental Activities | | Percent Change |
|--|-------------------------|------------|-------------------|
| | 2014 | 2013 | |
| ASSETS: | | | |
| Current and Other Assets | \$ 643,344 | \$ 516,445 | 25% |
| Capital Assets | 26,001 | 34,086 | -24% |
| Total Assets | \$ 669,345 | \$ 550,531 | 22% |
| LIABILITIES: | | | |
| Current Liabilities | \$ 151,131 | \$ 157,138 | -4% |
| Non-Current Liabilities - Compensated Absences Payable | 10,853 | 18,023 | 5% |
| Total Liabilities | 161,984 | 175,161 | -8% |
| NET POSITION: | | | |
| Net Investment in Capital Assets | 26,001 | 34,086 | -24% |
| Unassigned | 481,360 | 341,284 | 41% |
| Total Net Position | 507,361 | 375,370 | 35% |
| Total Liabilities and Net Position | \$ 669,345 | \$ 550,531 | 22% |

FRASER ACADEMY
Charter School No. 4113

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Changes in Net Position

The Academy's total revenues were \$ 3,180,192 for the period ended June 30, 2014. (See Figure A-2.)

Table A-2
Change in Net Position

| | Governmental Activities for the Fiscal Year Ended June 30, | | Total Percent Change |
|---|---|-------------------|----------------------------|
| | 2014 | 2013 | |
| REVENUES: | | | |
| Program Revenues: | | | |
| Charges for Services | \$ 46,328 | \$ 56,148 | -17% |
| Operating Grants and Contributions | 2,616,815 | 2,550,941 | 3% |
| General Revenues: | | | |
| Unrestricted State Aid | 498,917 | 503,953 | -1% |
| Other | 18,132 | 88,805 | -80% |
| Total Revenues | <u>3,180,192</u> | <u>3,199,847</u> | <u>-1%</u> |
| EXPENSES: | | | |
| Administration | 167,709 | 161,864 | 4% |
| District Support Services | 82,362 | 89,935 | -8% |
| Regular Instruction | 84,911 | 77,934 | 9% |
| Special Education Instruction | 2,032,238 | 2,092,966 | -3% |
| Instructional Support Services | 1,271 | 297 | 328% |
| Pupil Support Services | 382,681 | 403,829 | -5% |
| Sites, Buildings and Equipment | 283,500 | 259,666 | 9% |
| Fiscal and Other Fixed Cost Programs | 12,284 | 10,438 | 18% |
| Food Service | 1,245 | 1,640 | -24% |
| Interest and Fiscal Charges on Long-Term Debt | - | - | 0% |
| Total Expenses | <u>3,048,201</u> | <u>3,098,569</u> | <u>-2%</u> |
| Increase in Net Position | 131,991 | 101,278 | 30% |
| Beginning Net Position | <u>375,370</u> | <u>274,092</u> | <u>37%</u> |
| Ending Net Position | <u>\$ 507,361</u> | <u>\$ 375,370</u> | <u>35%</u> |

The total cost of all programs and services was \$ 3,048,201. Total revenues exceeded expenses by \$ 131,991.

FRASER ACADEMY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Figure A-3
Sources of Academy's Revenue for Fiscal Year 2014

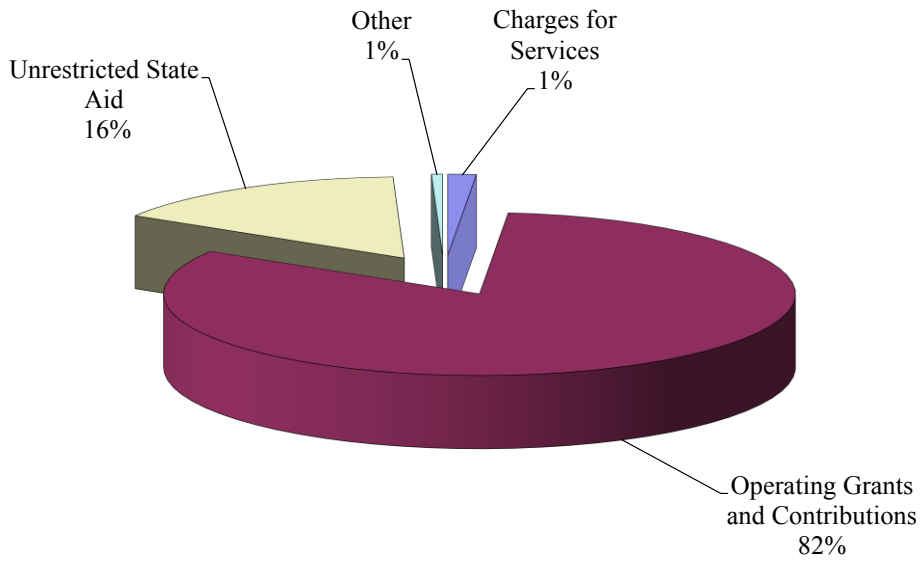
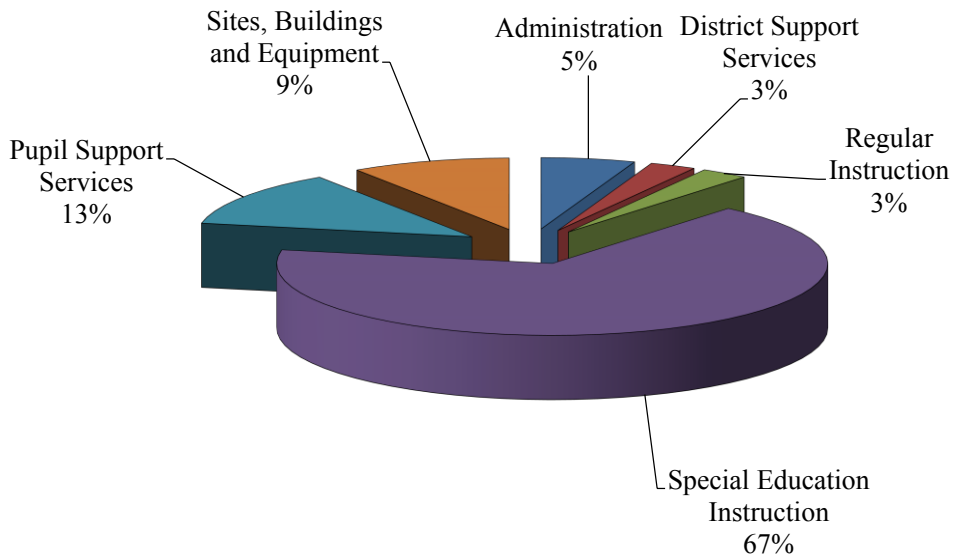


Figure A-4
Sources of Academy's Expenses for Fiscal Year 2014



FRASER ACADEMY
Charter School No. 4113

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Table A-3
Program Expenses and Net Cost of Services

| | Total Cost of Services | | Percentage Change | Net Cost of Services | | Percentage Change |
|--------------------------------------|------------------------|---------------------|-------------------|----------------------|-------------------|-------------------|
| | 2014 | 2013 | | 2014 | 2013 | |
| Administration | \$ 167,709 | \$ 161,864 | 4% | \$ 121,381 | \$ 105,716 | 15% |
| District Support Services | 82,362 | 89,935 | -8% | 82,362 | 89,935 | -8% |
| Regular Instruction | 84,911 | 77,934 | 9% | 83,608 | 77,934 | 7% |
| Special Education Instruction | 2,032,238 | 2,092,966 | -3% | (491,746) | (358,813) | 37% |
| Instructional Support Services | 1,271 | 297 | 328% | 1,271 | 297 | 328% |
| Pupil Support Services | 382,681 | 403,829 | -5% | 382,681 | 403,829 | -5% |
| Sites, Buildings and Equipment | 283,500 | 259,666 | 9% | 192,384 | 161,074 | 19% |
| Fiscal and Other Fixed Cost Programs | 12,284 | 10,438 | 18% | 12,284 | 10,438 | 18% |
| Food Service | 1,245 | 1,640 | -24% | 833 | 1,070 | -22% |
| Total | \$ 3,048,201 | \$ 3,098,569 | -2% | \$ 385,058 | \$ 491,480 | -22% |

The following chart presents these enrollment numbers as Average Daily Membership (ADM) for state funding purposes.

| | <u>2014</u> |
|--------------------------|---------------------|
| Kindergarten Handicapped | 6.48 |
| Kindergarten | 1.01 |
| Elementary | <u>62.67</u> |
| Total Students for Aid | <u><u>70.16</u></u> |

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

The financial performance of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its governmental funds reported a combined fund balance of \$ 492,213.

Revenues for the Academy's governmental funds were \$ 3,180,192 while total expenditures were \$ 3,055,010.

FRASER ACADEMY
Charter School No. 4113

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

GENERAL FUND

The General Fund includes the primary operations of the Academy in providing educational services to students from kindergarten through grade 5 including pupil transportation activities and capital outlay projects.

In fiscal year 2014, the Academy generated state revenue along with tuition billing from other Minnesota districts, 97% of total revenue, through its education program. Federal grants and other local revenue made up most of the remaining 3%. Table A-5 presents a summary of General Fund revenues.

Table A-5
General Fund Revenues

| | Fiscal Year Ended | | Change | |
|-----------------------------------|---------------------|---------------------|--------------------|------------|
| | June 30, | | Increase | Percent |
| | 2014 | 2013 | (Decrease) | |
| Other Local and County Revenue | \$ 64,460 | \$ 144,953 | \$ (80,493) | -56% |
| State Sources | 3,069,220 | 3,006,885 | 62,335 | 2% |
| Federal Sources | 46,100 | 47,439 | (1,339) | -3% |
| Total General Fund Revenue | \$ 3,179,780 | \$ 3,199,277 | \$ (19,497) | -1% |

Of the total expenditures, about 51% were personnel salaries and benefits. Another 47% of total expenditures were purchased services to continue developing the educational program, provide facility and administrative services and direct services to students. Table A-6 presents a summary of General Fund expenditures.

Table A-6
General Fund Expenditures

| | Fiscal Year Ended | | Amount of Increase (Decrease) | Percent Increase (Decrease) |
|---------------------------|---------------------|---------------------|-------------------------------|-----------------------------|
| | June 30, | | | |
| | 2014 | 2013 | | |
| Salaries | \$ 1,248,933 | \$ 1,261,979 | \$ (13,046) | -1% |
| Employee Benefits | 301,218 | 341,781 | (40,563) | -12% |
| Purchased Services | 1,433,641 | 1,425,326 | 8,315 | 1% |
| Supplies and Materials | 35,220 | 25,060 | 10,160 | 41% |
| Capital Expenditures | 24,276 | 34,223 | (9,947) | -29% |
| Other Expenditures | 10,477 | 17,153 | (6,676) | -39% |
| Total Expenditures | \$ 3,053,765 | \$ 3,105,522 | \$ (51,757) | -2% |

In the 2013-2014 fiscal year, General Fund revenue exceeded expenditures and transfers out by \$ 125,182 increasing the fund balance to \$ 492,213.

FRASER ACADEMY
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MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2014

GENERAL FUND BUDGETARY HIGHLIGHTS

Following approval of the budget, the Academy can revise the annual operating budget in mid-year. These budget amendments 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 passes subsequent to budget adoption, changes necessitated by employment agreements and increases in appropriations for significant unbudgeted costs.

Actual revenues exceeded budgeted revenues by \$ 4,269. Actual expenditures were less than budgeted expenditures by \$ 10,411.

CAPITAL ASSETS

By the end of 2014, the Academy had invested \$ 120,549 in capital assets, including computers and furniture. (See Table A-7.) (More detailed information about capital assets can be found in Note 4 in the financial statements.) Total depreciation expense for the year was \$ 10,841.

Table A-7
Capital Assets

| | 2014 | 2013 | Percentage Change |
|-------------------------------|------------|------------|----------------------|
| Machinery and Equipment | \$ 120,549 | \$ 117,793 | 2% |
| Less Accumulated Depreciation | (94,548) | (83,707) | 13% |
| Total | \$ 26,001 | \$ 34,086 | -24% |

FACTORS BEARING ON THE ACADEMY’S FUTURE

The Academy is dependent on the State of Minnesota for its revenue authority. In the past, legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. There have been recent legislative changes to attempt to correct this in the short-term.

The stability of the state special education program is vital to the Academy’s future. Currently, the Academy is largely dependent on sufficient funding of the special education program. If funding were to be decreased in the future the continuation of the Academy may be in jeopardy. The Academy has been persistent when reviewing the allocations to ensure full coverage of the special education costs.

The Academy will strive to meet its commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

**FRASER ACADEMY
Charter School No. 4113**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our constituents, state oversight agencies, lenders, customers, legislative leaders and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Fraser Academy Charter School, 1534 6th Street NE, Minneapolis, Minnesota 55413.

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BASIC FINANCIAL STATEMENTS

FRASER ACADEMY
Charter School No. 4113

STATEMENT OF NET POSITION
June 30, 2014

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS | |
| Cash | \$ 417,545 |
| Due from Department of Education | 163,966 |
| Due from Federal Government through Department of Education | 66 |
| Prepaid Items | 61,767 |
| Capital Assets: | |
| Equipment | 120,549 |
| Less Accumulated Depreciation | <u>(94,548)</u> |
| Total Assets | <u><u>\$ 669,345</u></u> |
| LIABILITIES | |
| Accounts Payable | \$ 78,516 |
| Salaries and Benefits Payable | 48,276 |
| Due to Other Governmental Units | 24,339 |
| Compensated Absences Payable: | |
| Payable Within One Year | 3,256 |
| Payable After One Year | 7,597 |
| Total Liabilities | <u>161,984</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 26,001 |
| Unrestricted | <u>481,360</u> |
| Total Net Position | <u>507,361</u> |
| Total Liabilities and Net Position | <u><u>\$ 669,345</u></u> |

FRASER ACADEMY
Charter School No. 4113

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2014

| | General | Food Service | Total Governmental Funds |
|--|------------|--------------|--------------------------------|
| ASSETS | | | |
| Cash | \$ 417,427 | \$ 118 | \$ 417,545 |
| Due from Department of Education | 163,966 | - | 163,966 |
| Due from Federal Government through Department of Education | 33 | 33 | 66 |
| Prepaid Items | 61,767 | - | 61,767 |
| Total Assets | \$ 643,193 | \$ 151 | \$ 643,344 |
| LIABILITIES | | | |
| Accounts Payable | \$ 78,365 | \$ 151 | \$ 78,516 |
| Salaries and Benefits Payable | 48,276 | - | 48,276 |
| Due to Other Governmental Units | 24,339 | - | 24,339 |
| Total Liabilities | 150,980 | 151 | 151,131 |
| FUND BALANCES | | | |
| Nonspendable | 61,767 | - | 61,767 |
| Unassigned | 430,446 | - | 430,446 |
| Total Fund Balances | 492,213 | - | 492,213 |
| Total Liabilities and Fund Balances | \$ 643,193 | \$ 151 | \$ 643,344 |

FRASER ACADEMY
Charter School No. 4113

**RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS**
June 30, 2014

| | |
|--|------------|
| Total Fund Balances - Governmental Funds | \$ 492,213 |
|--|------------|

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

| | |
|-------------------------------|----------|
| Cost of Capital Assets | 120,549 |
| Less Accumulated Depreciation | (94,548) |

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

| | |
|------------------------------|-----------------|
| Compensated Absences Payable | <u>(10,853)</u> |
|------------------------------|-----------------|

| | |
|--|--------------------------|
| Total Net Position - Governmental Activities | <u><u>\$ 507,361</u></u> |
|--|--------------------------|

FRASER ACADEMY
Charter School No. 4113

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**
For the Year Ended June 30, 2014

| | General | Food Service | Total Governmental Funds |
|---|------------|--------------|--------------------------------|
| REVENUES | | | |
| Other Local Revenues | \$ 64,460 | \$ - | \$ 64,460 |
| Revenue from State Sources | 3,069,220 | - | 3,069,220 |
| Revenue from Federal Sources | 46,100 | 412 | 46,512 |
| Total Revenues | 3,179,780 | 412 | 3,180,192 |
| EXPENDITURES | | | |
| Current | | | |
| Administration | 170,390 | - | 170,390 |
| District Support Services | 82,223 | - | 82,223 |
| Elementary and Secondary Regular | | | |
| Instruction | 73,702 | - | 73,702 |
| Special Education Instruction | 2,026,553 | - | 2,026,553 |
| Instructional Support Services | 1,271 | - | 1,271 |
| Pupil Support Services | 382,599 | - | 382,599 |
| Sites and Buildings | 280,466 | - | 280,466 |
| Fiscal and Other Fixed Cost Programs | 12,284 | - | 12,284 |
| Food Service | - | 1,245 | 1,245 |
| Capital Outlay | | | |
| District Support Services | 139 | - | 139 |
| Elementary and Secondary Regular | | | |
| Instruction | 2,027 | - | 2,027 |
| Special Education Instruction | 21,861 | - | 21,861 |
| Pupil Support Services | 82 | - | 82 |
| Sites and Buildings | 168 | - | 168 |
| Total Expenditures | 3,053,765 | 1,245 | 3,055,010 |
| Excess of Revenues Over (Under) Expenditures | 126,015 | (833) | 125,182 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers In | - | 833 | 833 |
| Transfers Out | (833) | - | (833) |
| Total Other Financing Sources (Uses) | (833) | 833 | - |
| Net Change in Fund Balances | 125,182 | - | 125,182 |
| FUND BALANCES | | | |
| Beginning of Year | 367,031 | - | 367,031 |
| End of Year | \$ 492,213 | \$ - | \$ 492,213 |

The Notes to the Financial Statements are an integral part of this statement.

FRASER ACADEMY
Charter School No. 4113

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**
For the Year Ended June 30, 2014

| | |
|---|--------------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 125,182 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. | |
| Capital Outlays | 2,756 |
| Depreciation Expense | (10,841) |
| Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. | <u>14,894</u> |
| Change in Net Position - Governmental Activities | <u><u>\$ 131,991</u></u> |

FRASER ACADEMY
Charter School No. 4113

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2014**

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Over (Under) |
|---|------------------|-------------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Other Local Revenues | \$ 95,839 | \$ 58,071 | \$ 64,460 | \$ 6,389 |
| Revenue from State Sources | 3,211,147 | 3,069,213 | 3,069,220 | 7 |
| Revenue from Federal Sources | 49,427 | 48,227 | 46,100 | (2,127) |
| Total Revenues | 3,356,413 | 3,175,511 | 3,179,780 | 4,269 |
| EXPENDITURES | | | | |
| Current | | | | |
| Administration | 171,669 | 162,405 | 170,390 | 7,985 |
| District Support Services | 122,586 | 81,591 | 82,223 | 632 |
| Regular Instruction | 93,238 | 71,335 | 73,702 | 2,367 |
| Special Education Instruction | 2,192,982 | 2,039,817 | 2,026,553 | (13,264) |
| Instructional Support Services | 2,040 | 506 | 1,271 | 765 |
| Pupil Support Services | 455,898 | 383,161 | 382,599 | (562) |
| Sites and Buildings | 259,826 | 267,374 | 280,466 | 13,092 |
| Fiscal and Other Fixed Cost Programs | 16,918 | 12,284 | 12,284 | - |
| Capital Outlay | | | | |
| District Support Services | - | 400 | 139 | (261) |
| Regular Instruction | 2,998 | 2,121 | 2,027 | (94) |
| Special Education Instruction | 27,957 | 21,860 | 21,861 | 1 |
| Pupil Support Services | - | 150 | 82 | (68) |
| Sites and Buildings | 8,670 | 350 | 168 | (182) |
| Total Expenditures | 3,354,782 | 3,043,354 | 3,053,765 | 10,411 |
| Excess of Revenues Over (Under) Expenditures | 1,631 | 132,157 | 126,015 | (6,142) |
| OTHER FINANCING USE | | | | |
| Transfers Out | - | (796) | (833) | (37) |
| Net Change in Fund Balance | \$ 1,631 | \$ 131,361 | 125,182 | \$ (6,179) |
| FUND BALANCE | | | | |
| Beginning of Year | | | 367,031 | |
| End of Year | | | \$ 492,213 | |

FRASER ACADEMY
Charter School No. 4113

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - FOOD SERVICE FUND
For the Year Ended June 30, 2014**

| | Budgeted Amounts | | Actual | Variance with |
|-------------------------------|------------------|--------|---------|--------------------------------|
| | Original | Final | Amounts | Final Budget - Over (Under) |
| REVENUES | | | | |
| Revenue from Federal Sources | \$ 612 | \$ 425 | \$ 412 | \$ (13) |
| EXPENDITURES | | | | |
| Current | | | | |
| Food Service | 2,244 | 1,221 | 1,245 | 24 |
| Excess of Revenues | | | | |
| Expenditures | (1,632) | (796) | (833) | (37) |
| OTHER FINANCING SOURCE | | | | |
| Transfers In | - | 796 | 833 | 37 |
| Net Change in Fund Balance | \$ (1,632) | \$ - | - | \$ - |
| FUND BALANCE | | | | |
| Beginning of Year | | | - | |
| End of Year | | | \$ - | |

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FRASER ACADEMY
Charter School No. 4113

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Academy is a nonprofit corporation that was formed and began operating on October 3, 2003, in accordance with *Minnesota Statutes* 317A. The Academy is authorized by Fraser and operates under a five year contract commencing on June 1, 2011, and extending through June 30, 2016. The primary objectives of the Academy are to increase learning opportunities for pupils and encourage the use of different and innovative teaching methods. The governing body consists of a Board of Directors composed of up to 11 members elected by votes of the general membership of the Academy to serve a three-year term.

A. Reporting Entity

The financial statements present the Academy and its component units. The Academy includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the appointed officials of the Academy are financially accountable and are included within the financial statements of the Academy because of the significance of their operational or financial relationships with the Academy.

The Academy is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the Academy.

As a result of applying the component unit definition criteria above, it has been determined the Academy has no component units.

Aside from its role as authorizer, Fraser has no authority, control, power or administrative responsibilities over the Academy. Therefore, the Academy is not considered a component unit of Fraser.

The Academy does not have any student activity accounts.

B. Basic Financial Statement Information

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These Statements include all the financial activities of the Academy.

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. 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 segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

FRASER ACADEMY
Charter School No. 4113

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

The Academy applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted Net Position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

1. Revenue Recognition

Revenue is recognized when it becomes 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. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaids for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

Description of Funds

As required by state statute, the Academy operates as a nonprofit corporation under *Minnesota Statutes* 317A. However, state law also requires the Academy comply with Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota school districts which mandates the use of a governmental fund accounting structure. 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. Descriptions of the funds included in this report are as follows:

Major Funds:

General Fund – This Fund is the basic operating fund of the Academy and is used to account for all financial resources except those required to be accounted for in another fund.

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures.

FRASER ACADEMY
Charter School No. 4113

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments

Cash and investments include balances from both funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the cash are allocated to the General Fund.

Minnesota Statutes require all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. According to the Academy's deposit and investment policy, deposit type securities shall be collateralized as required by *Minnesota Statutes* 118A.03 for any amount exceeding FDIC, SAIF, BIF, FICU or other federal deposit coverage.

Interest Rate Risk: This is the risk that market values of a security in a portfolio would decrease due to changes in market interest rates. The Academy's investment policy states its investment maturities shall be scheduled to coincide with projected Academy cash flow needs, taking into account large routine or scheduled expenditures as well as anticipated receipt dates of anticipated revenues. Maturities for short-term and long-term investments shall be timed according to anticipated need.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Statutes limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The Academy's investment policy indicates the Academy may invest in those instruments specified in *Minnesota Statutes* 118A.04 and 118A.05.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. According to the Academy's investment policy, the Academy shall diversify its investments to avoid incurring unreasonable risks inherent to over investing in specific instruments, individual financial institutions or maturities.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy's investment policy states all investment securities purchased by the Academy shall be held in third party safekeeping by an institution designated as a custodial agent. The custodial agent may be any Federal Reserve Bank, any bank authorized under the laws of the United States or any state to exercise corporate trust powers, a primary reporting dealer in United States government securities to the Federal Reserve Bank of New York or a securities broker-dealer defined in *Minnesota Statutes* 118A.06. The institution or dealer shall issue a safekeeping receipt to the Academy listing the specific instruments, the name of the issuer, the name in which the security is held, the rate, the maturity, serial number, other distinguishing marks and other pertinent information.

FRASER ACADEMY
Charter School No. 4113

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

E. Prepaid Items

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

F. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the Academy as assets with an initial individual cost of more than \$ 500. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the half-year convention 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 Academy, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from three to five years for equipment.

G. Compensated Absences

Certain Academy employees earn paid time off (PTO) based upon the employee's status (exempt, nonexempt and full-time versus school year). The Academy compensates employees for unused vacation upon termination of employment. PTO is recorded as an expenditure when it is used.

H. Risk Management

The Academy is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the Academy carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the Academy's insurance coverage during the year ending June 30, 2014.

I. Tax Status

The Academy is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Academy is also exempt from Minnesota Franchise or income tax.

The Academy is required to assess whether an uncertain tax position exists and if there should be recognition of a related benefit or liability in the financial statements. The Academy has determined there are not amounts to record as assets or liabilities related to uncertain tax positions. Generally, the Academy is no longer subject to examination by tax authorities for years before 2011.

FRASER ACADEMY
Charter School No. 4113

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. Fund Equity

1. Classification

In the fund financial statements, the governmental fund reports fund classifications that comprise a hierarchy based primarily on the extent to which the Academy is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. Nonspendable fund balances include amounts that cannot be spent because they are not in spendable form. Amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation are classified as restricted fund balances. Amounts that can only be used for specific purposes pursuant to constraints imposed by the Board of Directors (highest level of decision making authority) through resolution are classified as committed fund balances. Amounts that are constrained by the Academy's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to a specific purpose in the General Fund.

2. Minimum Fund Balance

At June 30, 2014, the Academy does not have a minimum fund balance goal.

K. Net Position

Net Position represents the difference between assets and deferred outflows and liabilities and deferred inflows in the government-wide financial statements. Net investment in capital assets 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 Position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. 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. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

FRASER ACADEMY
Charter School No. 4113

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the Executive Director submits to the Academy’s Board of Directors, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Executive Director is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Academy’s Board of Directors.
3. Formal budgetary integration is employed as a management control device during the year for the General and Food Service Funds.
4. Budgets for the General and Food Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the Academy’s Board of Directors. Budgeted expenditure appropriations lapse at year-end.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the Academy maintains deposits at depository banks authorized by the Academy’s Board of Directors.

Deposits are presented in the Statement of Net Position at June 30, 2014 as follows:

| | |
|------|-------------------|
| Cash | <u>\$ 417,545</u> |
|------|-------------------|

FRASER ACADEMY
Charter School No. 4113

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 4 – CAPITAL ASSETS

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|-------------------|------------------|---------------------------|
| Governmental Activities: | | | | |
| Capital Assets being Depreciated: | | | | |
| Equipment | \$ 117,793 | \$ 2,756 | \$ - | \$ 120,549 |
| Less Accumulated Depreciation for: | | | | |
| Equipment | <u>83,707</u> | <u>10,841</u> | <u>-</u> | <u>94,548</u> |
| Total Capital Assets being Depreciated, Net | <u>\$ 34,086</u> | <u>\$ (8,085)</u> | <u>\$ -</u> | <u>\$ 26,001</u> |

Depreciation expense for the year ended June 30, 2014 was charged to the following functions:

| | |
|--------------------------------|------------------|
| Regular Instruction | \$ 5,427 |
| Special Education Instruction | 2,548 |
| Sites, Buildings and Equipment | <u>2,866</u> |
| Total Depreciation Expense | <u>\$ 10,841</u> |

NOTE 5 – INTERFUND ACTIVITY

The General Fund transferred \$ 833 to the Food Service Fund to cover the operating deficit.

**FRASER ACADEMY
Charter School No. 4113**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6 – LONG-TERM DEBT

A. Changes in Long-Term Liabilities

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|------------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Long-Term Liabilities: | | | | | |
| Compensated Absences Payable | <u>\$ 25,747</u> | <u>\$ 48,442</u> | <u>\$ 63,336</u> | <u>\$ 10,853</u> | <u>\$ 3,256</u> |

The General Fund is used to liquidate compensated absences when they are due.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Substantially all employees of the Academy are required by state law to belong to pension plans administered by the Teachers’ Retirement Association (TRA) or Public Employees’ Retirement Association (PERA), all of which are administered on a state-wide basis. Disclosures relating to these Plans follow.

Teachers’ Retirement Association

A. Plan Description

All teachers employed by the Academy are covered by defined benefit plans administered by the TRA. TRA members belong to either the Coordinated or 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. These Plans are established and administered in accordance with *Minnesota Statutes* Chapters 354 and 356.

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 Statutes* 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 on the following page.

**FRASER ACADEMY
Charter School No. 4113**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers’ Retirement Association (Continued)

A. Plan Description (Continued)

Tier I Benefits:

| Tier I | Step Rate Formula | Percentage |
|-------------|---|---------------|
| Basic | First 10 years of service | 2.2% per year |
| | All years after | 2.7% per year |
| Coordinated | First 10 years if service years are prior to July 1, 2006 | 1.2% per year |
| | First 10 years if service years are July 1, 2006 or after | 1.4% per year |
| | All other years of service if service years are prior to July 1, 2006 | 1.7% per year |
| | All other years of service if service years are July 1, 2006 or after | 1.9% per year |

With these provisions:

- Normal retirement at age 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- Three percent per year early retirement reduction factors for all years under normal retirement age.
- 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% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% per year for Basic Plan 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 4.0% to 5.4% per year.

FRASER ACADEMY
Charter School No. 4113

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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 is a lifetime annuity that ceases upon the 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 eligible for a refund of their employee contributions plus interest.

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.

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance and further information on benefits provisions. The report may be accessed at the TRA web site www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing TRA at Teachers' Retirement Association, 60 Empire Drive, #400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-2409 or (800) 657-3669.

B. 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 6.5% and 10.0%, respectively, of their annual covered salary during 2013 as employee contributions. The TRA employer contribution rates are 6.5% for Coordinated Plan members and 10.5% for Basic Plan members during 2013. Total covered payroll salaries for all TRA members state-wide during the year ended June 30, 2013 was approximately \$ 3.92 billion. TRA covered payroll for all members state-wide for the years ended June 30, 2012 and 2011 were \$ 3.87 billion and \$ 3.84 billion, respectively. The Academy's contributions for the years ended June 30, 2014, 2013 and 2012 were \$ 54,701, \$ 50,725 and \$ 40,820, respectively, equal to the required contributions for each year as set by state statute.

The 2010 State 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% each year of the four year period, ending in 2014. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5%.

FRASER ACADEMY
Charter School No. 4113

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association

A. Plan Description

All full-time and certain part-time employees (nonteacher) of the Academy are covered by defined benefit plans administered by PERA. PERA administers the General Employees’ Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This Plan is established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

GERF members belong to either the Coordinated or 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% of average salary for each of the first 10 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 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of the average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all 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 Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan 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.

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 PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

FRASER ACADEMY
Charter School No. 4113

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

B. 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 Academy 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 in 2013. In 2013, the Academy was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The Academy’s contributions for the years ended June 30, 2014, 2013 and 2012 were \$ 32,895, \$ 33,862 and \$ 30,936, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 8 – COMMITMENTS

A. Lease Commitments and Terms

In May 2010, the Academy signed a lease with NE Lutheran Ministry Center, Minneapolis, Minnesota, commencing July 1, 2010 and expiring on June 30, 2015. Rent on this space was \$ 132,593 for 2014 and paid in 12 equal installments. On July 1 of each of the following years, rent will increase by 2%.

For 2014, the Academy qualified for state charter school lease aid which equaled the lesser of 90% of the approved lease costs or \$ 1,200 per pupil unit served, or \$ 91,116. Greater enrollment is needed to maximize the aid available in support of the amount paid for the lease.

The Academy’s ability to make payments under the lease agreement is dependent on its revenues which are, in turn, largely dependent on sufficient enrollment being served at the Academy and sufficient state aids per student being authorized and received from the State of Minnesota. The Academy believes its enrollments and aid entitlements will be sufficient to meet the lease obligations as they become due.

B. Operating Lease Obligations

In May 2013, the Academy entered into an operating lease agreement with Apple[®], Inc. for the acquisition of computers, servers and networking equipment. The operating lease obligation totaled \$ 60,258, including annual principal and interest payments.

The future operating lease obligations were as follows:

| <u>June 30,</u> | |
|-----------------|------------------|
| 2014 | 20,086 |
| 2015 | 20,086 |
| | <u>\$ 40,172</u> |

**FRASER ACADEMY
Charter School No. 4113**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

NOTE 9 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

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SUPPLEMENTARY INFORMATION

FRASER ACADEMY
Charter School No. 4113

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Year Ended June 30, 2014

| | Audit | UFARS | Audit-UFARS | | Audit | UFARS | Audit-UFARS |
|--|--------------|--------------|-------------|--|-------|-------|-------------|
| 01 GENERAL FUND | | | | | | | |
| Total Revenue | \$ 3,179,780 | \$ 3,179,782 | \$ (2) | | \$ - | \$ - | \$ - |
| Total Expenditures | 3,053,765 | 3,053,767 | 2 | | - | - | - |
| <i>Nonspendable:</i> | | | | | | | |
| 460 Nonspendable Fund Balance | 61,767 | 61,767 | - | | - | - | - |
| <i>Restricted/Reserved:</i> | | | | | | | |
| 403 Staff Development | - | - | - | | - | - | - |
| 405 Deferred Maintenance | - | - | - | | - | - | - |
| 407 Capital Projects Levy | - | - | - | | - | - | - |
| 408 Cooperative Programs | - | - | - | | - | - | - |
| 409 Alternative Facility Program | - | - | - | | - | - | - |
| 414 Operating Debt | - | - | - | | - | - | - |
| 416 Levy Reduction | - | - | - | | - | - | - |
| 417 Taconite Building Maintenance | - | - | - | | - | - | - |
| 424 Operating Capital | - | - | - | | - | - | - |
| 426 \$ 25 Taconite | - | - | - | | - | - | - |
| 427 Disabled Accessibility | - | - | - | | - | - | - |
| 428 Learning and Development | - | - | - | | - | - | - |
| 434 Area Learning Center | - | - | - | | - | - | - |
| 435 Contracted Alternative Programs | - | - | - | | - | - | - |
| 436 State Approved Alternative Program | - | - | - | | - | - | - |
| 438 Gifted and Talented | - | - | - | | - | - | - |
| 441 Basic Skills Programs | - | - | - | | - | - | - |
| 445 Career Technical Programs | - | - | - | | - | - | - |
| 448 Achievement and Integration Revenue | - | - | - | | - | - | - |
| 449 Safe School Crime | - | - | - | | - | - | - |
| 450 Transition for Pre-Kindergarten | - | - | - | | - | - | - |
| 451 QZAB and QSCB Payments | - | - | - | | - | - | - |
| 452 OPEB Liabilities not in Trust | - | - | - | | - | - | - |
| 453 Unfunded Severance and Retirement Levy | - | - | - | | - | - | - |
| <i>Restricted:</i> | | | | | | | |
| 464 Restricted Fund Balance | - | - | - | | - | - | - |
| <i>Committed:</i> | | | | | | | |
| 418 Committed for Separation | - | - | - | | - | - | - |
| 461 Committed | - | - | - | | - | - | - |
| <i>Assigned:</i> | | | | | | | |
| 462 Assigned Fund Balance | - | - | - | | - | - | - |
| <i>Unassigned:</i> | | | | | | | |
| 422 Unassigned Fund Balance | 430,446 | 430,446 | - | | - | - | - |
| 02 FOOD SERVICES FUND | | | | | | | |
| Total Revenue | \$ 412 | \$ 412 | \$ - | | \$ - | \$ - | \$ - |
| Total Expenditures | 1,245 | 1,245 | - | | - | - | - |
| <i>Nonspendable:</i> | | | | | | | |
| 460 Nonspendable Fund Balance | - | - | - | | - | - | - |
| <i>Restricted/Reserved:</i> | | | | | | | |
| 452 OPEB Liabilities not Held in Trust | - | - | - | | - | - | - |
| <i>Restricted:</i> | | | | | | | |
| 464 Restricted Fund Balance | - | - | - | | - | - | - |
| <i>Unassigned:</i> | | | | | | | |
| 463 Unassigned Fund Balance | - | - | - | | - | - | - |
| 04 COMMUNITY SERVICE FUND | | | | | | | |
| Total Revenue | \$ - | \$ - | \$ - | | \$ - | \$ - | \$ - |
| Total Expenditures | - | - | - | | - | - | - |
| Reserved: | | | | | | | |
| <i>Nonspendable:</i> | | | | | | | |
| 460 Nonspendable Fund Balance | - | - | - | | - | - | - |
| <i>Restricted/Reserved:</i> | | | | | | | |
| 426 \$ 25 Taconite | - | - | - | | - | - | - |
| 431 Community Education | - | - | - | | - | - | - |
| 432 ECFE | - | - | - | | - | - | - |
| 444 School Readiness | - | - | - | | - | - | - |
| 447 Adult Basic Education | - | - | - | | - | - | - |
| 452 OPEB Liabilities not in Trust | - | - | - | | - | - | - |
| <i>Restricted:</i> | | | | | | | |
| 464 Restricted Fund Balance | - | - | - | | - | - | - |
| <i>Unassigned:</i> | | | | | | | |
| 463 Unassigned Fund Balance | - | - | - | | - | - | - |
| 06 BUILDING CONSTRUCTION FUND | | | | | | | |
| Total Revenue | \$ - | \$ - | \$ - | | \$ - | \$ - | \$ - |
| Total Expenditures | - | - | - | | - | - | - |
| <i>Nonspendable:</i> | | | | | | | |
| 460 Nonspendable Fund Balance | - | - | - | | - | - | - |
| <i>Restricted/Reserved:</i> | | | | | | | |
| 407 Capital Projects Levy | - | - | - | | - | - | - |
| 409 Alternative Facility Program | - | - | - | | - | - | - |
| 413 Building Projects Funded by COP/LP | - | - | - | | - | - | - |
| <i>Restricted:</i> | | | | | | | |
| 464 Restricted Fund Balance | - | - | - | | - | - | - |
| <i>Unassigned:</i> | | | | | | | |
| 463 Unassigned Fund Balance | - | - | - | | - | - | - |
| 07 DEBT SERVICE FUND | | | | | | | |
| Total Revenue | \$ - | \$ - | \$ - | | \$ - | \$ - | \$ - |
| Total Expenditures | - | - | - | | - | - | - |
| <i>Nonspendable:</i> | | | | | | | |
| 460 Nonspendable Fund Balance | - | - | - | | - | - | - |
| <i>Restricted/Reserved:</i> | | | | | | | |
| 425 Bond Refunding | - | - | - | | - | - | - |
| 451 QZAB and QSCB Payments | - | - | - | | - | - | - |
| <i>Restricted:</i> | | | | | | | |
| 464 Restricted Fund Balance | - | - | - | | - | - | - |
| <i>Unassigned:</i> | | | | | | | |
| 463 Unassigned Fund Balance | - | - | - | | - | - | - |
| 08 TRUST FUND | | | | | | | |
| Total Revenue | \$ - | \$ - | \$ - | | \$ - | \$ - | \$ - |
| Total Expenditures | - | - | - | | - | - | - |
| <i>Unassigned:</i> | | | | | | | |
| 422 Unassigned Fund Balance (Net Position) | - | - | - | | - | - | - |
| 20 INTERNAL SERVICE FUND | | | | | | | |
| Total Revenue | \$ - | \$ - | \$ - | | \$ - | \$ - | \$ - |
| Total Expenditures | - | - | - | | - | - | - |
| <i>Unassigned:</i> | | | | | | | |
| 422 Unassigned Fund Balance (Net Position) | - | - | - | | - | - | - |
| 25 OPEB REVOCABLE TRUST | | | | | | | |
| Total Revenue | \$ - | \$ - | \$ - | | \$ - | \$ - | \$ - |
| Total Expenditures | - | - | - | | - | - | - |
| <i>Unassigned:</i> | | | | | | | |
| 422 Unassigned Fund Balance (Net Position) | - | - | - | | - | - | - |
| 45 OPEB IRREVOCABLE TRUST | | | | | | | |
| Total Revenue | \$ - | \$ - | \$ - | | \$ - | \$ - | \$ - |
| Total Expenditures | - | - | - | | - | - | - |
| <i>Unassigned:</i> | | | | | | | |
| 422 Unassigned Fund Balance (Net Position) | - | - | - | | - | - | - |
| 47 OPEB DEBT SERVICE | | | | | | | |
| Total Revenue | \$ - | \$ - | \$ - | | \$ - | \$ - | \$ - |
| Total Expenditures | - | - | - | | - | - | - |
| <i>Nonspendable:</i> | | | | | | | |
| 460 Nonspendable Fund Balance | - | - | - | | - | - | - |
| <i>Restricted:</i> | | | | | | | |
| 425 Bond Refunding | - | - | - | | - | - | - |
| 464 Restricted Fund Balance | - | - | - | | - | - | - |
| <i>Unassigned:</i> | | | | | | | |
| 422 Unassigned Fund Balance | - | - | - | | - | - | - |



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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fraser Academy
Minneapolis, 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 Fraser Academy, Minneapolis, Minnesota, as of and for the year ending June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated November 17, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's 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 the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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. 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.

Our consideration of the internal control 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 that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's 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 or other matters that are required to be reported under *Government Auditing Standards*.

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 result of that testing, and not to provide an opinion on the effectiveness of the Academy'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 Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Kern DeWenter, Viero Ltd".

KERN, DEWENTER, VIERO, LTD.
Minneapolis, Minnesota
November 17, 2014



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REPORT ON LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fraser Academy
Minneapolis, 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 Fraser Academy, Minneapolis, Minnesota, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, and have issued our report thereon dated November 17, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minnesota Statutes § 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 the Academy 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 the District's noncompliance with the above referenced provisions.

The purpose of this report is 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.

A handwritten signature in cursive script that reads "Kern, Dewenter, Viere, Ltd".

KERN, DEWENTER, VIERE, LTD.
Minneapolis, Minnesota
November 17, 2014