

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2008**

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**JUNE 30, 2008**

TABLE OF CONTENTS

	<u>PAGE</u>
<b>INTRODUCTORY SECTION</b>	
Official Directory.....	1
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report .....	2 – 3
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Management's Discussion and Analysis.....	4 – 11
<b>BASIC FINANCIAL STATEMENTS</b>	
Statement of Net Assets .....	12
Statement of Activities .....	13
Balance Sheet – Governmental Funds .....	14
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	15
Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds .....	16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds .....	17
NOTES TO FINANCIAL STATEMENTS.....	18 – 30
<b>SUPPLEMENTAL INFORMATION SECTION</b>	
General Fund	
Comparative Balance Sheets .....	31
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual.....	32 – 34
Special Revenue Fund	
Food Service	
Comparative Balance Sheets .....	35
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual.....	36
<b>MANAGEMENT AND COMPLIANCE SECTION</b>	
Uniform Financial Accounting and Reporting Standards Compliance Table .....	37
Schedule of Findings and Recommendations .....	38
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> and Minnesota Legal Compliance .....	39 - 40

## **INTRODUCTORY SECTION**

CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
OFFICIAL DIRECTORY  
JUNE 30, 2008

**BOARD OF DIRECTORS**

<b>POSITION</b>	<b>TERMS EXPIRE</b>	<b>NAME</b>
Board Chair	December 31, 2008	Harlan Young
Secretary	December 31, 2009	Judy LaTour
Treasurer	December 31, 2008	Melissa Anderson
Member	December 31, 2009	Dawn Michel
Member	December 31, 2009	Angela Schultz
Member	December 31, 2009	Lance Swanson
Member	December 31, 2008	Rhonda Veit
Director		Tami Martin

## **FINANCIAL SECTION**

**MATHIAS C. JUSTIN, LTD.**  
*Certified Public Accountants*

Mick Justin, CPA  
Judith Moravec, CPA

P.O. Box 90  
Pequot Lakes, Minnesota 56472  
(218) 568-5242  
Fax: 568-8680

Member:

American Institute of  
Certified Public Accountants  
Minnesota Society of  
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Directors  
Crosslake Community School, Inc.  
Charter School No. 4059-7  
Crosslake, Minnesota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Crosslake Community School, Inc. as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School'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 presentation of the financial statements. 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 the Crosslake Community School, Inc., as of June 30, 2008, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United State of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2008, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over 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.

Management's Discussion and Analysis (MD&A) and budgetary comparison information on pages 32, 33, 34, and 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Crosslake Community School's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards Compliance Table as required by the Minnesota Department of Education, as listed in the Table of Contents as supplemental information, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

A handwritten signature in cursive script that reads "Mathias C. Justin, Ltd." The signature is written in black ink on a light-colored background.

Mathias C. Justin, Ltd.  
Certified Public Accountants

Pequot Lakes, Minnesota  
September 22, 2008

## REQUIRED SUPPLEMENTARY INFORMATION

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2008**

This section of the annual financial report of Crosslake Community School – Charter School No. 4059-7, presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2008. This discussion should be read in conjunction with the School's financial statements which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2007-2008 fiscal years include the following:

- ◆ Net assets, in the Statement of Net Assets, increased by \$28,305 or 9% from June 30, 2007.
- ◆ Overall revenues in the Statement of Activities were \$1,067,720 as compared to \$1,039,415 of expenses.
- ◆ The General Fund's fund balance in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds, increased by \$42,966 from the prior year as compared to a fund balance decrease of \$28,666 in the prior year. While total revenue decreased by \$64,589 or 6%, total expenditures decreased by \$190,918 or 17%.
- ◆ The School has two remaining capital lease obligations for buses purchased, with a remaining liability of \$21,381.
- ◆ On June 30, 2008, a transfer of \$6,573 was made from the General Fund to the Food Service Fund to cover the deficit for the year.

**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 management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School.

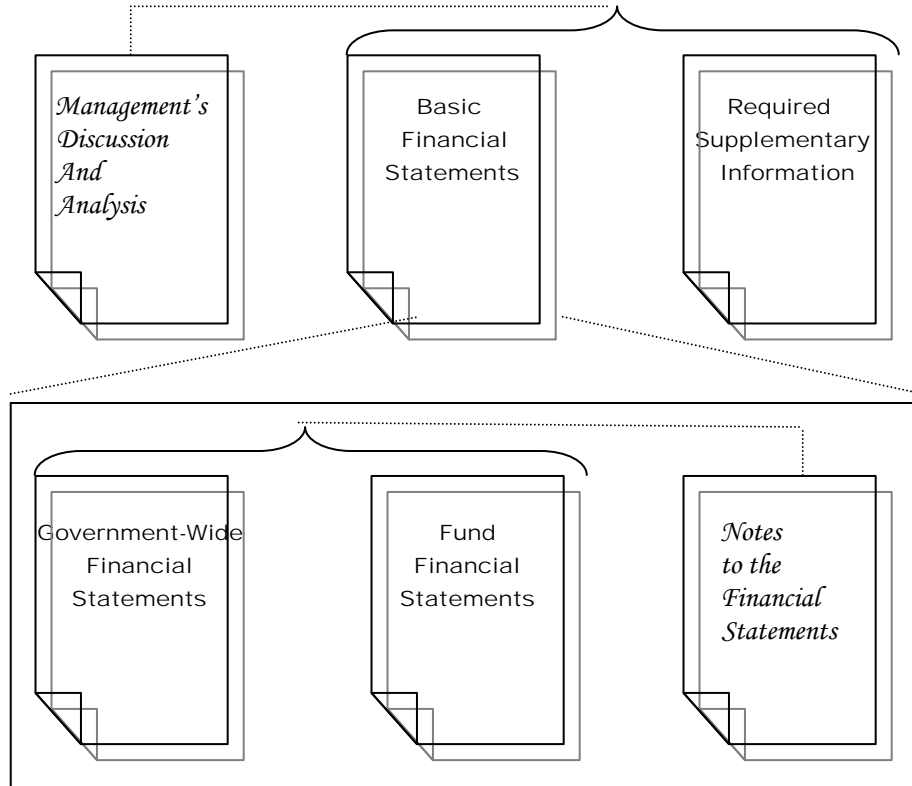
- ◆ The first two statements are the Statement of Net Assets and the Statement of Activities which are *school-wide financial statements* that provide both short-term and long-term information about the School's overall financial status.
- ◆ The remaining statements are *fund financial statements* that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

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

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED JUNE 30, 2008**

The following shows how the various parts of this annual report are arranged and related to one another.

**Annual Report Format**



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

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2008**

**Major Features of the School's Government-wide and Fund Financial Statements**

<i>Type of Statements</i>	<b>Fund Statements</b>	
	<b>Government-wide</b>	<b>Governmental Funds</b>
<i>Scope</i>	Entire government (except Fiduciary Funds) and the Component units	The activities of the School that are not Proprietary or Fiduciary
<i>Required financial Statements</i>	◆ Statement of Net Assets	◆ Balance sheet
	◆ Statement of Activities	◆ Statement of Revenues, Expenditures, and Changes in Fund Balances
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter

**School-Wide Statements**

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

The two school-wide statements report the School's *net assets* and how they have changed. Net assets – the difference between the School's assets and liabilities – are one way to measure the School's financial *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.
- ◆ To assess the overall health of the School, consider additional non-financial factors such as changes in the student body base and the maximization of its existing leased facilities.

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

- ◆ Governmental activities – Most of the School's basic services are included here, such as regular and special education, transportation, administration, and food services. State aid finances most of these activities.

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2008**

**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 about the School as a whole. Funds are accounting methods the School uses to keep track of specific sources of funding and spending for particular programs:

- ◆ Some funds are required by State law and by bond covenants.
- ◆ Some schools establish other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The School has one kind of fund:

- ◆ *Governmental Funds* – Most of the School's basic services are included in governmental funds, which generally focus on (1) cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, additional information is provided at the bottom of the governmental funds statements that explains the relationship (or differences) between them.

**FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

**Net Assets**

The School's combined net assets were \$311,584 on June 30, 2008. This was an increase of 9% from the prior year.

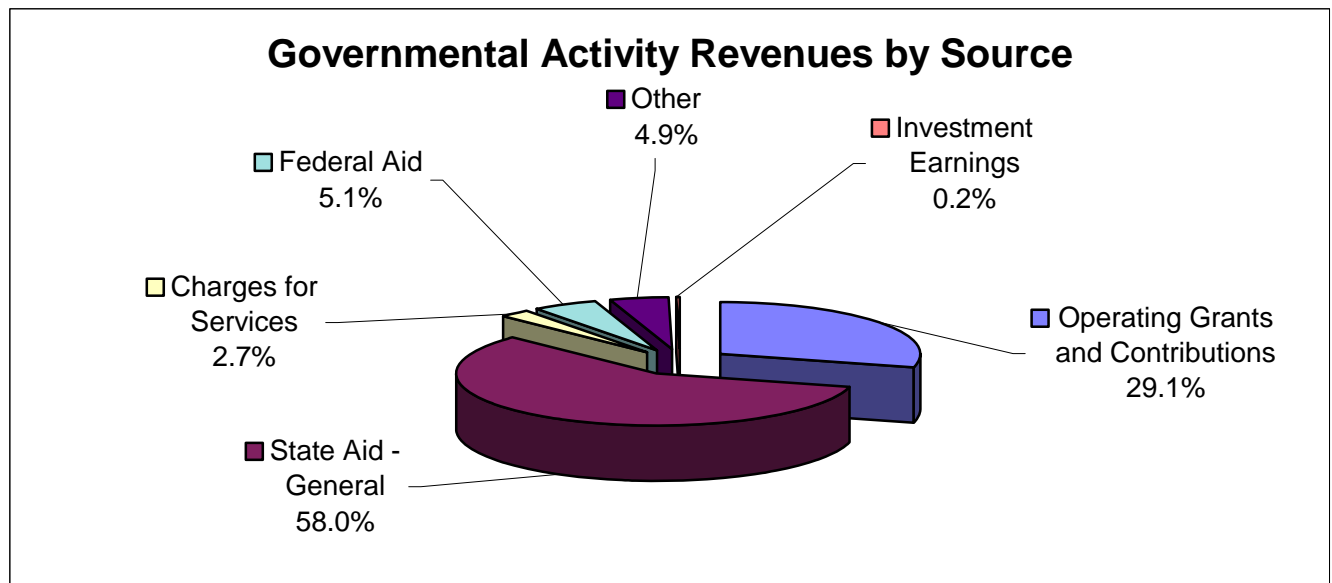
**STATEMENT OF NET ASSETS**

<u>GOVERNMENTAL ACTIVITIES</u>	<u>JUNE 30,</u>	
	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$ 260,975	\$ 236,747
Capital and Non-Current Assets	123,760	156,599
Total Assets	<u>384,735</u>	<u>393,346</u>
Current Liabilities	61,785	88,656
Long-Term Liabilities	11,366	21,411
Total Liabilities	<u>73,151</u>	<u>110,067</u>
Net Assets		
Invested in Capital Assets Net of Related Debt	99,856	115,136
Unrestricted	211,728	168,143
Total Net Assets	<u>\$ 311,584</u>	<u>\$ 283,279</u>

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2008**

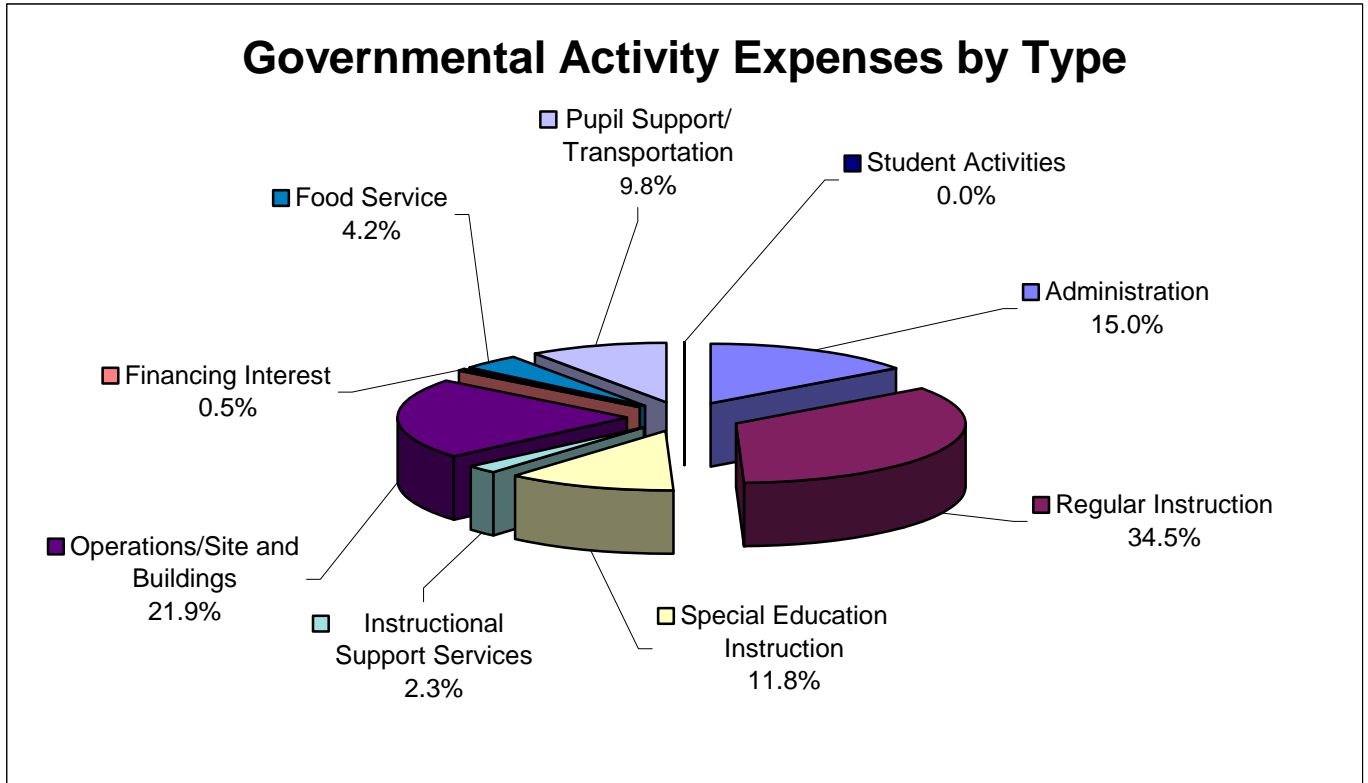
**CHANGE IN NET ASSETS**

	YEAR ENDED JUNE 30,	
	2008	2007
<b>REVENUES</b>		
Program		
Charges for Services	\$ 29,187	\$ 33,651
Operating Grants and Contributions	310,547	373,438
General		
Federal and State Aid	673,866	713,918
Earnings on Investments	1,842	428
Other	52,278	22,765
Total Revenue	<u>1,067,720</u>	<u>1,144,200</u>
<b>EXPENSES</b>		
Administration	156,177	212,718
Regular Instruction	358,574	384,938
Special Education Instruction	122,751	183,596
Instructional Support Services	23,779	6,034
Operations/Site and Buildings	227,830	255,489
Financing Interest	5,036	7,569
Food Service	43,435	52,128
Pupil Support/Transportation	101,833	86,476
Student Activities	-	2,465
Total Expenses	<u>1,039,415</u>	<u>1,191,413</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	28,305	(47,213)
Net Assets - Beginning	<u>283,279</u>	<u>330,492</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 311,584</u>	<u>\$ 283,279</u>



The largest share of the School's revenue for the year ended June 30, 2008, is received from the state, including the aid formula and most of the capital and operating grants.

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2008**



The School's expenditures for the year ended June 30, 2008, are predominately related to educating students.

The net cost of governmental activities is their total cost less grants and charges for services that the school used to offset the program's total cost applicable to each category.

**NET COST OF GOVERNMENTAL ACTIVITIES**

	YEAR ENDED JUNE 30, 2008		YEAR ENDED JUNE 30, 2007	
	TOTAL COST OF SERVICES	NET COST OF SERVICES	TOTAL COST OF SERVICES	NET COST OF SERVICES
Administration	\$ 156,177	\$ 156,177	\$ 212,718	\$ 212,718
Regular Instruction	358,574	313,801	384,938	346,547
Special Education Instruction	122,751	7,371	183,596	(355)
Instructional Support Services	23,779	23,779	6,034	2,450
Operations/Site and Building	227,830	88,753	255,489	118,110
Financing Interest	5,036	5,036	7,569	7,569
Food Service	43,435	6,573	52,128	11,852
Pupil Support/Transportation	101,833	101,833	86,476	86,476
Student Activities	-	(3,642)	2,465	(1,043)
	<u>\$ 1,039,415</u>	<u>\$ 699,681</u>	<u>\$ 1,191,413</u>	<u>\$ 784,324</u>

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2008**

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

The financial performance of the School as a whole is reflected in its governmental funds. As the School completed the year, its governmental funds reported a combined fund balance of \$211,728 or a \$42,966 increase from last year's ending fund balance of \$168,762.

**General Fund**

The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 8 including pupil transportation activities and capital outlay projects.

Approximately 80% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 50% of personnel expenditures. Other state formulas then determine what portion of the revenue will be provided by state aid and lease reimbursements.

**Enrollment**

Enrollment is an important factor in determining revenue with approximately 90% of General Fund revenue being determined by enrollment. The following chart shows that the number of students has fluctuated over the last six years. (ADM – Average Daily Membership)

<b>AVERAGE DAILY MEMBERSHIP (ADM)</b>						
<b>GRADE</b>	<b>JUNE 2003</b>	<b>JUNE 2004</b>	<b>JUNE 2005</b>	<b>JUNE 2006</b>	<b>JUNE 2007</b>	<b>JUNE 2008</b>
Kindergarten	13	9	25	24	12	18
1 - 3	32	38	47	46	47	35
4 - 6	22	29	36	36	36	35
7 - 8	0	11	19	19	16	17
Total K - 8	67	87	127	125	111	105
Total Budget ADM	66	90	92	-	117	101
ADM Change	14	20	40	(2)	(14)	(16)
Percent Change	27	30	46	(2)	(11)	(14)

**General Fund Budgetary Highlights**

Following approval of the budget prior to the beginning of the fiscal year, the School may 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, and budgeting for clearing.
- ◆ Legislation passed subsequent to budget adoption, changes necessitated by collective bargaining agreements, and increases in appropriations for significant unbudgeted costs.

Actual revenues, excluding transfers, were \$16,069 less than expected, due largely to lower than projected special education revenue and local school aid.

The actual expenditures, excluding transfers and principal payments were \$43,233 under budget.

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2008**

While the School's final budget for the General Fund anticipated that revenues would exceed expenditures by \$43,072, the actual results for the year show revenues exceeding expenditures by \$70,236.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of June 30, 2008, the School had invested approximately \$336,819 in a broad range of capital assets, including transportation equipment, computers, audio-visual, and administrative equipment. (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$52,708.

Minnesota State Statutes prohibit charter schools from owning their own school facilities. Therefore, the School must lease its land and buildings from a third party. As a result, the cost of occupying these facilities is recorded in the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balance as *Operations/Site and Buildings Expense*.

Prior to the beginning of the 2004-05 school year, a new school building was substantially completed for use in the 2004-5 school year. The cost of the project was incurred by a third party lessor. However, a significant annual rent increase was passed through to the School. Note 9 shows the amount of the annual rent obligation through 2013.

**Debt**

At year-end, the School had \$21,381 in Capital Lease Obligations Payable.

**FACTORS BEARING ON THE SCHOOL'S FUTURE**

The School is dependent on the State of Minnesota for its revenue as well as limited amounts of federal funding. Therefore, future revenue increases are determined by the increase in pupil enrollment. Per pupil costs should continue to decrease as the capacity of the newly constructed facility is used to its potential.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, 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 questions about this report or need additional financial information, contact the Business Office at:

Crosslake Community School  
P.O. Box 1079  
36974 County Road 66  
Crosslake, MN 56442

## BASIC FINANCIAL STATEMENTS

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

GOVERNMENTAL  
ACTIVITIES

**ASSETS**

Cash and Temporary Investments	\$ 143,279
Receivables:	
Other Governments	82,302
Other	6,352
Prepaid Expenses	29,042
Capital Assets:	
Leasehold Improvements	40,855
Transportation Equipment	154,201
Furniture and Equipment	141,753
Less: Accumulated Depreciation	<u>(213,049)</u>
Total Assets	<u>384,735</u>

**LIABILITIES**

Accounts Payable	16,144
Accrued Payroll and Related Liabilities	33,103
Accrued Interest	2,523
Capital Leases Payable (Due Within One Year)	10,015
Capital Leases Payable (Due After One Year)	<u>11,366</u>
Total Liabilities	<u>73,151</u>

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	99,856
Unrestricted	<u>211,728</u>
Total Net Assets	<u><u>\$ 311,584</u></u>

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2008**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		NET (EXPENSE)
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	REVENUE AND CHANGES IN NET ASSETS
				TOTAL GOVERNMENTAL ACTIVITIES
<b>Governmental Activities:</b>				
Administration	\$ 156,177	\$ -	\$ -	\$ (156,177)
Regular Instruction	358,574	8,209	36,564	(313,801)
Special Education Instruction	122,751	-	115,380	(7,371)
Instructional Support Services	23,779	-	-	(23,779)
Operations/Site and Buildings	227,830	-	139,077	(88,753)
Financing Interest	5,036	-	-	(5,036)
Food Service	43,435	17,336	19,526	(6,573)
Pupil Support/Transportation	101,833	-	-	(101,833)
Student Activities	-	3,642	-	3,642
	<u>\$ 1,039,415</u>	<u>\$ 29,187</u>	<u>\$ 310,547</u>	<u>(699,681)</u>
Total Governmental Activities				
<b>General Revenues:</b>				
Federal, State, and Local Aid Not Restricted to Specific Purposes				673,866
Earnings on Investments				1,842
Donations and Reimbursements				<u>52,278</u>
Total General Revenues				<u>727,986</u>
INCREASE IN NET ASSETS				28,305
Net Assets - Beginning				<u>283,279</u>
NET ASSETS - ENDING				<u>\$ 311,584</u>

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2008**

	MAJOR FUND	NON-MAJOR FUND	TOTAL
	GENERAL	FOOD SERVICE	GOVERNMENTAL FUNDS
<b>ASSETS</b>			
Cash and Temporary Investments	\$ 143,279	\$ -	\$ 143,279
Receivables:			
Other Governments	82,302	-	82,302
Other	6,352	-	6,352
Prepaid Expenses	29,042	-	29,042
Total Assets	\$ 260,975	\$ -	\$ 260,975
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 16,144	\$ -	\$ 16,144
Accrued Payroll and Related Liabilities	33,103	-	33,103
Total Liabilities	49,247	-	49,247
Fund Balances:			
Unreserved and Undesignated General Fund	211,728	-	211,728
Total Fund Balances	211,728	-	211,728
Total Liabilities and Fund Balances	\$ 260,975	\$ -	\$ 260,975

**CROSSLAKE COMMUNITY SCHOOL, INC.  
 CHARTER SCHOOL NO. 4059-7  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 AS OF JUNE 30, 2008**

Total Fund Balances - Governmental Funds	\$ 211,728
Total Net Assets 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 Governmental Funds	
Cost of Capital Assets	336,810
Less: Accumulated Depreciation	(213,049)
Long-Term Liabilities and accrued interest thereon, 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:	
Capital Leases Payable	(21,381)
Accrued Interest	(2,524)
	(23,905)
<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES</b>	<b>\$ 311,584</b>

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2008**

	MAJOR FUND	NON-MAJOR FUND	TOTAL
		FOOD	GOVERNMENTAL
	GENERAL	SERVICE	FUNDS
<b>REVENUES</b>			
State Sources	\$ 928,324	\$ 1,688	\$ 930,012
Federal Sources	36,564	17,838	54,402
Local			
Donations/Fund-raising	47,996	-	47,996
Earnings on Investments	1,842	-	1,842
Student Activity	3,642	-	3,642
Other	12,490	17,336	29,826
Total Revenues	<u>1,030,858</u>	<u>36,862</u>	<u>1,067,720</u>
<b>EXPENDITURES</b>			
Administration	156,177	-	156,177
Regular Instruction	358,101	-	358,101
Special Education Instruction	122,751	-	122,751
Instructional Support Services	23,779	-	23,779
Operations/Sites and Buildings	225,105	-	225,105
Financing Interest	3,718	-	3,718
Pupil Support/Transportation	70,991	-	70,991
Food Service	-	43,435	43,435
Total Expenditures	<u>960,622</u>	<u>43,435</u>	<u>1,004,057</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>70,236</u>	<u>(6,573)</u>	<u>63,663</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer In (Out)	(6,573)	6,573	-
Payments on Capital Leases and Notes	(20,697)	-	(20,697)
Total Other Financing Sources (Uses)	<u>(27,270)</u>	<u>6,573</u>	<u>(20,697)</u>
<b>NET INCREASE IN FUND BALANCE</b>	42,966	-	42,966
Fund Balance - Beginning	<u>168,762</u>	<u>-</u>	<u>168,762</u>
<b>FUND BALANCE - ENDING</b>	<u>\$ 211,728</u>	<u>\$ -</u>	<u>\$ 211,728</u>

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2008**

Net Increase in Fund Balance - Total Governmental Funds \$ 42,966

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	19,870
Depreciation Expense	(52,708)

Some Capital Asset additions are financed through Capital Leases. In Governmental Funds, a Capital Lease arrangement is considered a source of financing, but in the Statement of Net Assets, the Lease Obligation is reported as a liability. Repayment of Capital Lease principal is an expenditure in the Governmental Funds, but repayment reduces the the Lease Obligation in the Statement of Net Assets. Also, accrued interest on long-term debt is only recognized when paid in the Governmental Funds.

Payments on Capital Leases and Notes	20,697
Changes and Adjustments in Accrued Interest on Capital Leases	<u>(2,520)</u>

INCREASE IN NET ASSETS - GOVERNMENT ACTIVITIES \$ 28,305

## NOTES TO FINANCIAL STATEMENTS

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Charter School No. 4059-7, also known as Crosslake Community School, Inc. (the School), is a nonprofit corporation that was formed in January 2000. The Crosslake Community School is sponsored by the Minnesota Department of Education. The School operates under a three-year charter school contract which allows the School to serve students in grades kindergarten through eight. The current three-year contract will expire on June 30, 2009. The primary objective of the School is to create a small, personalized learning environment which teaches core academic and arts curriculum in a developmentally appropriate manner. The governing body consists of a board of directors composed of not less than three, but not to exceed ten, members to be elected no later than November of each year, by parents or guardians of students and employees of the School. The board terms are as follows: four teachers with two-year terms and three parents and community members with two-year terms.

The accounting policies of the School conform to U.S. generally accepted accounting principles. The following is a summary of the more significant policies:

**A. Basis of Presentation**

The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (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 pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments

The School operates as a “quasi-government” organization; it is subject to many of the local government and public school district statutes and requirements of the State of Minnesota. The School is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and comparable sections of the Minnesota income tax statutes and is not subject to income tax.

**B. Financial Reporting Entity**

U.S. Generally Accepted Accounting Principles (GAAP) requires that the School’s financial statements include all funds, account groups, departments, agencies, boards, commissions, and other organizations which are not legally separated from the School. In addition, the School’s financial statements are to include all component units – entities for which the School is financially accountable.

Financial accountability includes appointing a voting majority of the organization’s governing body, significantly influencing the programs, projects, activities or level of services performed or provide by the organization or receiving specific financial benefits from, or imposing specific financial burden on the organization. There are no other entities for which the School is financially accountable.

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

B. Financial Reporting Entity (Continued)

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside 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 State Statutes, the Board has elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are included in these financial statements.

Aside from its sponsorship, the Minnesota Department of Education has no authority, control, power, or administrative responsibilities over the School. Therefore, the School is not considered a component unit of the Minnesota Department of Education.

C. Basic Financial Statement Presentation

As required by state statute, the School operates as a nonprofit corporation under Minnesota Statutes Sec. 317A. However, state law also requires that the School comply with Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota School Districts which mandates the use of a governmental fund accounting structure.

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, except for the Fiduciary Funds. The Fiduciary Funds are only reported in the Statements of Fiduciary Net Assets at the Fund Financial Statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are 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.

The School applies restricted resources first when an expense is incurred for a purpose 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. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the School-wide financial statements.

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Governmental Fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. 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 U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A one-year availability period is generally used for other fund revenue.

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due date.

Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the School has a legal claim to the resources, the liability of deferred revenue is removed from the combined balance sheet and revenue is recognized.

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

The existence of the various School funds has been established by the State of Minnesota, Department of Education. The accounts of the School are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report is as follows:

*Major Governmental Funds*

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the School, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects. It also includes Student Activity Funds because they are under the control of the Board.

*Nonmajor Governmental Funds: Special Revenue Funds*

Food Service Fund

The Food Service Fund is used to account for food service revenues and expenditures.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the School Board adopts an annual budget for the following fiscal year for the General and Food Service Funds. The approved budget is published in summary form in the School's legal newspaper. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

The School administrator submits to the School Board, prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board. Individual amendments were not material in relation to the original appropriations.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels. Unencumbered expenditure appropriations lapse at year-end.

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

F. Cash and Temporary Investments

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

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Securities traded on national exchanges are valued at the last reported sales price.

G. Accounts Receivable

This includes amounts due from the Minnesota Department of Education for state and federal programs. These amounts are considered collectable, therefore, no allowance for uncollectable amounts is considered necessary.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense at the time of consumption.

I. Capital Assets

Capital 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the School-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Because 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. The School does not possess any material amounts of infrastructure capital assets.

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

J. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In the fund financial statements, governmental fund types recognized debt expenditures during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Accrued Employee Benefits

*Vacation/Sick Pay*

No unpaid sick leave or vacation pay has been accrued in any fund as these benefits do not vest to employees.

L. Restricted Assets

Restricted assets are reported only in the School-wide financial statements.

M. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

N. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School purchases commercial insurance coverage for such risks. The School participates in the Minnesota School Board Association Trust (MSBA Trust), a public entity risk pool for its workers compensation insurance. The MSBA Trust operates as a common risk management and insurance program for member districts. The School pays an annual premium to the MSBA Trust for its insurance coverage. The MSBA Trust agreement provides that the MSBA Trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of certain limits for each insured event. There has been no significant reduction in insurance coverage from the previous year in any of the School's policies.

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

O. 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 accumulation 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 statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**NOTE 2 STEWARDSHIP AND ACCOUNTABILITY**

Excess of Expenditures Over Budget

Expenditures did not exceed the budgeted amounts in the following funds.

General Fund  
Special Revenue Food Service Fund

**NOTE 3 DEPOSITS AND INVESTMENTS**

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School’s deposit may not be returned to it. The School’s deposit policy for custodial credit risk indicates that the School follows Minnesota Statutes for deposits.

The School maintains a cash and investment pool that is available for use by all funds. Each fund type’s portion of this pool is displayed on the combined balance sheet as “Cash and Temporary Investments.” In accordance with applicable Minnesota Statutes, the School maintains deposits at depository banks authorized by the School’s Board.

Minnesota Statutes require that all deposits must be protected by insurance, surety bond, or collateral. The market value of collateral pledged must be equal to 110% of the deposits not covered by insurance or corporate surety 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 must 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 that is not owned or controlled by the financial institution furnishing the collateral.

Deposit balances at June 30, 2008, are as follows:

	BANK BALANCE	FDIC INSURANCE	COLLATERAL	UN- SECURED
Lakes State Bank	\$ 186,211	\$ 100,000	\$ 350,000	\$ -

The School’s deposits did not exceed FDIC insurance or collateral as of June 30, 2008.

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

Reconciliation of Deposits and Temporary Investments to the Balance Sheet:

Deposits	\$ 92,068
Certificate of Deposit	51,011
Petty Cash	200
Total Cash and Temporary Investments	<u>\$ 143,279</u>

**NOTE 4 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008, was as follows:

	<u>JUNE 30, 2007 BALANCE</u>	<u>INCREASE (DECREASE)</u>	<u>(DECREASE) AND ADJUSTMENTS</u>	<u>JUNE 30, 2008 BALANCE</u>
<b>Governmental Activities:</b>				
Capital Assets, Being Depreciated				
Leasehold Improvements	\$ 40,855	\$ -	\$ -	\$ 40,855
Transportation Equipment	154,201	-	-	154,201
Furniture and Equipment	121,884	19,869	-	141,753
Total Capital Assets, Being Depreciated	<u>316,940</u>	<u>19,869</u>	<u>-</u>	<u>336,809</u>
Less: Accumulated Depreciation				
Leasehold Improvements	13,229	2,725	-	15,954
Transportation Equipment	77,944	30,841	33	108,818
Furniture and Equipment	69,168	19,142	(33)	88,277
Total Accumulated Depreciation	<u>160,341</u>	<u>52,708</u>	<u>-</u>	<u>213,049</u>
Governmental Activities Capital Assets, Net	<u>\$ 156,599</u>	<u>\$ (32,839)</u>	<u>\$ -</u>	<u>\$ 123,760</u>

Depreciation expense was charged to functions of the School in the Statement of Activities as follows:

<b>Governmental Activities:</b>	
Regular Instruction	\$ 19,142
Operations/Site and Buildings	2,725
Pupil Support/Transportation	30,841
Total Depreciation Expense, Governmental Activities	<u>\$ 52,708</u>

**NOTE 5 DEBT**

**A. Capital Lease Payable**

During fiscal years June 30, 2004 and 2007, the School entered into lease purchase agreements with National Cooperative Leasing Program to purchase three school buses from Hognlund Bus Co., Inc. Repayment of the principal is made through rental payments which are structured to correspond to the related debt service requirements. Payments are due annually.

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 5 DEBT (CONTINUED)**

A. Capital Lease Payable (Continued)

The minimum annual principal and interest payments to retire long-term debt are as follows:

**CAPITAL LEASE PAYABLE**

YEAR ENDING JUNE 30,	PRINCIPAL	INTEREST
2009	\$ 10,015	\$ 2,886
2010	11,366	1,534
	\$ 21,381	\$ 4,420

B. Changes in Long-Term Debt

	JUNE 30, 2007	ADDITIONS	RETIREMENTS	JUNE 30, 2008
<u>Lease Purchase Obligations</u>	\$ 38,363	\$ -	\$ 16,982	\$ 21,381

Note Payable - Bank

On July 11, 2006, the School negotiated a \$50,000 line-of-credit with Lakes State Bank. During the fiscal year ending June 30, 2007, the School borrowed \$5,440 and repaid \$2,340 leaving a balance payable of \$3,100 at June 30, 2007. The remaining \$3,100 was paid during fiscal year-end June 30, 2008.

**NOTE 6 RESERVED FUND BALANCES**

Fund Equity

Certain portions of fund balances are reserved based on state requirements to track special programs funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. Any such "reserves" which have an accumulated deficit rather than a positive balance at June 30 are included in unreserved fund balance in the financial statements in accordance with accounting principles generally accepted in the United States of America.

Reserved and unreserved designated fund balances at June 30, 2008, are as follows:

	RESERVED	UNRESERVED/ DESIGNATED
General Fund	\$ -	\$ 211,728

**NOTE 7 TRANSFERS**

The District transferred \$6,573 from the General Fund to the Food Service Fund during fiscal year-end June 30, 2008.

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 8 RETIREMENT PLANS**

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

A. Teacher's Retirement Association (TRA)

**1. 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.

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.

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.tra.state.mn.us](http://www.tra.state.mn.us). 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 55103-1855  
(651) 296-6449 or 800-657-3853

**2. Funding Policy**

Minnesota Statutes Section 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. As of July 1, 2006, Coordinated and Basic Plan members are required to contribute 5.5 percent and 9.0 percent, respectively, of their annual covered salary as employee contributions. Prior to July 1, 2007, the employer contribution rates are 5.0 percent for Coordinated members and 9.0 percent for Basic members. Effective July 1, 2007, the employer contribution rate for Coordinated members rose to 5.5 percent and 9.5 percent for Basic members. The contribution requirements of plan members and the School are established and may be amended by State Statute. The School's contributions for the years ending June 30, 2008, 2007, and 2006, were \$17,011, \$18,421, and \$17,219, respectively, which was equal to the required contributions, set by State Statute.

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 8 RETIREMENT PLANS (CONTINUED)**

B. Public Employees' Retirement Association (PERA)

**1. Plan Description**

All full-time and certain part-time employees of the School (other than teachers) are covered by defined benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF), which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The School has no participants in the PERF Basic Plan.

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

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

**2. 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. Coordinated Plan members are required to contribute 5.75% of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.0%.

The School is required to contribute the following percentage of annual covered payroll: 6.25% for Coordinated Plan PERF members. Employer contribution rates for the Coordinated Plan increased to 6.5% effective January 1, 2008. The School's contributions for the years ending June 30, 2008, 2007, and 2006 were \$11,594, \$11,961, and \$10,294, respectively. The School's contributions were equal to the contractually required contributions for each year as set by state statute.

**CROSSLAKE COMMUNITY SCHOOL, INC.  
 CHARTER SCHOOL NO. 4059-7  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2008**

**NOTE 9 COMMITMENTS AND CONTINGENCIES**

A. Federal and State Programs

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

B. Contingencies

The School is subject to legal proceedings and claims which arise in the ordinary course of business. Management believes the resolution of these matters will not have a material effect on the School.

C. Lease Commitment

The School leases its classroom and office space in Crosslake, Minnesota. The lease commenced on October 1, 2003, and ends on May 31, 2013. The lease agreement was amended effective July 1, 2007, to reflect an increase in annual base rent. Rental payments are due monthly and are based on annual base rent as follows:

<u>TERM - 12 MONTHS</u> <u>ENDING SEPTEMBER 30</u>	<u>AMOUNT</u>
2008	\$ 160,136
2009	160,286
2010	172,408
2011	172,568
2012	172,708
May 31, 2013	130,956

The lease agreement also requires the School to make payments for utilities, maintenance, and repairs as additional rent as follows:

**1. Utilities**

The School is to reimburse the Landlord during the months of September through May, 75% of the utility costs incurred for the Firehall and 100% of the utility cost incurred for the New Building including and without limitation light, heat, water, gas, garbage or waste removal and sewer charges, and the School is to reimburse the Landlord during the months of June through August, 25% of such utility costs incurred for the Firehall and 100% of the costs incurred for the New Building. In addition, the School is to reimburse the Landlord, 50% of any increase in property taxes incurred that exceeds a 2.5% projected annual increase.

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 9      COMMITMENTS AND CONTINGENCIES (CONTINUED)**

C. Lease Commitment (Continued)

**2. Maintenance and Repairs**

The School is to reimburse the Landlord, 75% as to the Firehall and 100% as to the New Building, of the expenses incurred by the Landlord in performing maintenance, repairs and replacements, including and without limitation to the Buildings, the Real Property, and for snow removal, lawn care, and janitorial work during the months of September through May, and the School is to reimburse the Landlord 25% as to the Firehall and 100% as to the New Building of the expenses incurred during the months of June, July, and August.

Rent expense, including applicable utilities, repairs, and maintenance costs totaled \$185,585 for the year ended June 30, 2008.

## **SUPPLEMENTAL INFORMATION SECTION**

**CROSSLAKE COMMUNITY SCHOOL, INC.  
 CHARTER SCHOOL NO. 4059-7  
 COMPARATIVE BALANCE SHEETS  
 GENERAL FUND  
 JUNE 30, 2008 AND 2007**

	2008	2007
<b>ASSETS</b>		
Cash and Temporary Investments	\$ 143,279	\$ 158,944
Receivables:		
Other Governments	82,302	75,401
Other	6,352	-
Prepaid Expenses	29,042	2,402
Total Assets	\$ 260,975	\$ 236,747
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts Payable	\$ 16,144	\$ 30,315
Accrued Payroll and Related Liabilities	33,103	34,570
Note Payable	-	3,100
Total Liabilities	49,247	67,985
Fund Balances:		
Unreserved		
Undesignated	211,728	168,762
Total Fund Balances	211,728	168,762
Total Liabilities and Fund Balances	\$ 260,975	\$ 236,747

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2008**  
**(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007)**

	2008			OVER (UNDER) BUDGET	2007
	BUDGETED AMOUNTS		ACTUAL		ACTUAL
	ORIGINAL	FINAL			
<b>REVENUES</b>					
State Sources	\$ 1,013,232	\$ 950,977	\$ 928,324	\$ (22,653)	\$ 1,035,248
Federal Sources	8,042	33,312	36,564	3,252	33,111
Local					
Schools	-	-	-	-	5,280
Earnings on Investments	200	238	1,842	1,604	428
Other	1,200	14,900	12,490	(2,410)	21,380
Student Activity	-	-	3,642	3,642	-
Donations/Fund-raising	44,000	47,500	47,996	496	-
Total Revenues	<u>1,066,674</u>	<u>1,046,927</u>	<u>1,030,858</u>	<u>(16,069)</u>	<u>1,095,447</u>
<b>EXPENDITURES</b>					
<b>Administration</b>					
Salaries	74,488	77,682	67,615	(10,067)	99,995
Employee Benefits	12,058	16,276	15,069	(1,207)	14,209
Purchased Services	64,673	63,053	60,548	(2,505)	58,495
Supplies and Materials	10,200	10,200	8,111	(2,089)	6,443
Other	3,500	4,665	4,834	169	14,455
Capital Outlay	900	900	-	(900)	39
Total Administration	<u>165,819</u>	<u>172,776</u>	<u>156,177</u>	<u>(16,599)</u>	<u>193,636</u>
<b>Regular Instruction</b>					
Salaries	254,704	253,213	252,725	(488)	286,907
Employee Benefits	60,002	59,486	57,532	(1,954)	64,719
Purchased Services	-	-	10,206	10,206	1,983
Supplies and Materials	21,928	25,540	18,969	(6,571)	29,904
Capital Outlay	35,000	20,000	18,669	(1,331)	7,802
Total Regular Instruction	<u>371,634</u>	<u>358,239</u>	<u>358,101</u>	<u>(138)</u>	<u>391,315</u>
<b>Special Education Instruction</b>					
Salaries	135,913	116,403	105,484	(10,919)	144,230
Employee Benefits	18,513	15,802	16,828	1,026	19,178
Purchased Services	1,000	1,000	117	(883)	19,715
Supplies and Materials	1,200	1,200	322	(878)	473
Total Special Education Instruction	<u>156,626</u>	<u>134,405</u>	<u>122,751</u>	<u>(11,654)</u>	<u>183,596</u>

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)**  
**YEAR ENDED JUNE 30, 2008**  
**(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007)**

	2008			OVER (UNDER) BUDGET	2007
	BUDGETED AMOUNTS		ACTUAL		ACTUAL
	ORIGINAL	FINAL			
<b>EXPENDITURES (CONTINUED)</b>					
Instructional Support Services					
Salaries	1,765	18,805	13,370	(5,435)	1,549
Benefits	245	2,474	1,765	(709)	249
Purchased Services	6,000	12,976	4,785	(8,191)	4,096
Supplies and Materials	400	400	1,972	1,572	140
Other	-	1,887	1,887	-	-
Total Instructional Support Services	<u>8,410</u>	<u>36,542</u>	<u>23,779</u>	<u>(12,763)</u>	<u>6,034</u>
Operations/Site and Buildings					
Salaries	11,448	11,448	10,290	(1,158)	9,786
Employee Benefits	1,591	1,591	1,467	(124)	1,360
Purchased Services	51,550	46,550	49,312	2,762	75,602
Supplies and Materials	10,000	10,000	3,900	(6,100)	10,630
Lease	155,636	162,864	160,136	(2,728)	152,643
Capital Outlay	-	-	-	-	8,106
Total Operations/Site and Buildings	<u>230,225</u>	<u>232,453</u>	<u>225,105</u>	<u>(7,348)</u>	<u>258,127</u>
Financing Interest	<u>100</u>	<u>3,752</u>	<u>3,718</u>	<u>(34)</u>	<u>5,755</u>
Pupil Support/Transportation					
Salaries	33,846	33,846	34,666	820	29,902
Employee Benefits	4,706	4,706	4,768	62	4,040
Purchased Services	8,000	10,836	11,467	631	9,313
Supplies and Materials	40,650	16,300	20,090	3,790	17,378
Capital Outlay	-	-	-	-	49,979
Total Pupil Support/Transportation	<u>87,202</u>	<u>65,688</u>	<u>70,991</u>	<u>5,303</u>	<u>110,612</u>
Student Activities					
Purchased Services	-	-	-	-	1,461
Supplies and Materials	-	-	-	-	1,004
Total Student Activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,465</u>
Total Expenditures	<u>1,020,016</u>	<u>1,003,855</u>	<u>960,622</u>	<u>(43,233)</u>	<u>1,151,540</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>46,658</u>	<u>43,072</u>	<u>70,236</u>	<u>27,164</u>	<u>(56,093)</u>

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND (CONTINUED)**  
**YEAR ENDED JUNE 30, 2008**  
**(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007)**

	2008			OVER (UNDER) BUDGET	2007
	BUDGETED AMOUNTS		ACTUAL		ACTUAL
	ORIGINAL	FINAL			
OTHER FINANCING SOURCES (USES)					
Transfers (Out)	-	-	(6,573)	(6,573)	(12,650)
Principal Payments on Capital Leases and Note	-	(20,697)	(20,697)	-	(18,682)
Finance Capital Lease	-	-	-	-	37,979
Sale of Capital Asset	-	-	-	-	12,000
Total Other Financing Sources (Uses)	-	(20,697)	(27,270)	(6,573)	18,647
 NET INCREASE (DECREASE) IN FUND BALANCE	 <u>\$ 46,658</u>	 <u>\$ 22,375</u>	 42,966	 <u>\$ 20,591</u>	 (37,446)
Fund Balance - Beginning			168,762		197,428
Prior Period Adjustment			-		8,780
FUND BALANCE - ENDING			<u>\$ 211,728</u>		<u>\$ 168,762</u>

**CROSSLAKE COMMUNITY SCHOOL, INC.  
 CHARTER SCHOOL NO. 4059-7  
 COMPARATIVE BALANCE SHEETS  
 SPECIAL REVENUE FUND - FOOD SERVICE  
 JUNE 30, 2008 AND 2007**

	2008	2007
<b>ASSETS</b>		
Cash and Temporary Investments	\$ -	\$ -
Total Assets	\$ -	\$ -
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities	\$ -	\$ -
Fund Equity		
Fund Balance		
Unreserved		
Undesignated	-	-
Total Fund Balances	-	-
Total Liabilities and Fund Equity	\$ -	\$ -

**CROSSLAKE COMMUNITY SCHOOL, INC.**  
**CHARTER SCHOOL NO. 4059-7**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - SPECIAL REVENUE FUND - FOOD SERVICE**  
**YEAR ENDED JUNE 30, 2008**  
**(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2007)**

	2008			OVER (UNDER) BUDGET	2007
	BUDGETED AMOUNTS		ACTUAL		ACTUAL
	ORIGINAL	FINAL			
<b>REVENUES</b>					
State Sources	\$ 1,550	\$ 1,692	\$ 1,688	\$ (4)	\$ 1,592
Federal Sources	18,101	18,101	17,838	(263)	17,405
Local Sources					
Meal Sales	<u>22,500</u>	<u>22,500</u>	<u>17,336</u>	<u>(5,164)</u>	<u>21,279</u>
Total Revenues	<u>42,151</u>	<u>42,293</u>	<u>36,862</u>	<u>(5,431)</u>	<u>40,276</u>
<b>EXPENDITURES</b>					
Salaries	13,621	6,560	5,900	(660)	8,990
Benefits	1,893	912	749	(163)	1,112
Purchased Services	650	650	535	(115)	635
Supplies	39,200	42,800	36,251	(6,549)	41,392
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>797</u>
Total Expenditures	<u>55,364</u>	<u>50,922</u>	<u>43,435</u>	<u>(7,487)</u>	<u>52,926</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(13,213)</u>	<u>(8,629)</u>	<u>(6,573)</u>	<u>2,056</u>	<u>(12,650)</u>
<b>OTHER FINANCING SOURCES</b>					
Transfer In	<u>-</u>	<u>-</u>	<u>6,573</u>	<u>6,573</u>	<u>12,650</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>6,573</u>	<u>6,573</u>	<u>12,650</u>
<b>NET INCREASE (DECREASE) IN FUND BALANCE</b>	<u>\$ (13,213)</u>	<u>\$ (8,629)</u>	<u>-</u>	<u>\$ 8,629</u>	<u>-</u>
Fund Balance - Beginning			<u>-</u>		<u>-</u>
<b>FUND BALANCE - ENDING</b>			<u>\$ -</u>		<u>\$ -</u>

## **MANAGEMENT AND COMPLIANCE SECTION**

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE  
JUNE 30, 2008**

General Fund

Total Revenue	\$ 1,030,858
Total Expenditures	981,319
Fund Balance	
Unreserved	
422 Unreserved/Undesignated	211,728

Food Service

Total Revenue	36,862
Total Expenditures	43,435
Fund Balance	
422 Unreserved Fund Balance	-

**CROSSLAKE COMMUNITY SCHOOL, INC.  
CHARTER SCHOOL NO. 4059-7  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
YEAR ENDED JUNE 30, 2008**

**FINDING: 2008-1**

- Condition:** Due to the limited size of the School's business office staff, the School has limited segregation of duties.
- Criteria:** Generally, a system of internal control contemplates segregation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.
- Questioned Costs:** None
- Context:** The School has informed us that the small size of its business office precludes proper segregation of duties at this time.
- Effect:** The School is unable to maintain segregation of incompatible duties.
- Cause:** Limited number of staff in the business office.
- Recommendation:** We recommend that the School continues to segregate duties as best it can within the limits which the School considers to be cost beneficial.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Finding:**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

Management is continually reviewing its processes to assure that they achieve maximum controls using the available resources. The director and treasurer will meet to discuss feasible corrections to the procedures for approval of expenditures and payment to its vendors. Service provider School Business Solutions will also analyze and seek corrections to further segregate duties within the depth of its staff.

**Official Responsible for Enduring CAP:**

Director, Tami Martin, is responsible for implementing internal controls. School Business Solutions monitors all payments and activities and reports directly to the director and the board on a monthly basis.

**Planned Completion Date for CAP:**

Any new processes deemed feasible will be put into place before the next fiscal audit, or before June 30, 2009. Implementing proper segregation of duties will remain a continuing and ongoing process.

**Plan to Monitor Completion of CAP:**

The director, treasurer, and School Business Solutions will regularly monitor the progress on implementation of any new procedures and will report directly to the board on a monthly basis. Monitoring segregation of duties will remain a continuous and ongoing process.

**MATHIAS C. JUSTIN, LTD.**  
***Certified Public Accountants***

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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* AND MINNESOTA LEGAL COMPLIANCE**

Members of the Board of Directors  
Crosslake Community School, Inc.  
Charter School No. 4059-7  
Crosslake, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Crosslake Community School, Inc. as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 22, 2008. 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**

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. We considered the deficiency described in the accompanying Schedule of Findings and Recommendations as item 2008-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 School'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*.

We have also issued a separate letter to management dated September 22, 2008, regarding business matters not deemed to be reportable conditions and nonmaterial compliance matters.

The School responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the School's responses and accordingly, we express no opinion on them.

Minnesota Legal Compliance

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 Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. §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 Local Government* 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 all of the listed categories.

The results of our tests indicate that for the items tested, the School complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the School's Board of Directors, management, the Minnesota Department of Education, the Office of the Minnesota State Auditor, and state and federal grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.



Mathias C. Justin, Ltd.  
Certified Public Accountants

Pequot Lakes, Minnesota  
September 22, 2008