BLUESKY CHARTER SCHOOL, INC.
WEST ST. PAUL, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
June 30, 2013

BLUESKY CHARTER SCHOOL, INC.

Table of Contents

INTRODUCTORY SECTION

Board and Administration
Year Ended June 30, 2013

BOARD

Jim Stocco	Chair
Leah Sickmann	Vice Chair
Emily McWaters	Treasurer
Julie Johnson	Secretary
Diane Ehnstrom	Director
Susan Evans	Director
Andrea Michels	Director

ADMINISTRATION

Amy Larsen	Executive Director
Renee Parcheta	Student Services Director
Daniel Ondich	Curriculum Coordinator

FINANCIAL SECTION

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board and Management of
BlueSky Charter School, Inc.
West St. Paul, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the governmental activities and the major fund of BlueSky Charter School, Inc. (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School'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 the 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 School'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 School'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.

(continued)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the School as of June 30, 2013, and the respective changes in financial position and budgetary comparison for the General 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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on it.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The introductory section is for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the School.

The UFARS Compliance Table 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Prior Year Comparative Information

We have previously audited the School's 2012 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the major fund, and the aggregate remaining fund information in our report dated December 19, 2012. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

(continued)

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013 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, 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 School's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 5, 2013

This section of BlueSky Charter School, Inc.'s (the School) financial statements presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2013. Please read it in conjunction with the other components of the School's financial statements.

FINANCIAL HIGHLIGHTS

The School's assets exceeded its liabilities at June 30, 2013 by $28,818 (net position). The School's total net position increased by $399,523 during the fiscal year ended June 30, 2013.

At June 30, 2013, the School's General Fund reported a total fund balance of $166,262, an increase of $359,882 from the prior year. The unassigned portion of the year-end fund balance was $115,239. The remaining fund balance was a nonspendable fund balance of $51,023 for prepaid items.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of the following parts:

- Independent Auditor's Report;
- Management's Discussion and Analysis; and
- Basic financial statements, including the entity-wide financial statements, fund financial statements, and the notes to basic financial statements.

The following explains the two types of statements included in the basic financial statements:

Entity-Wide Financial Statements

The entity-wide financial statements (Statement of Net Position and Statement of Activities) report information about the School as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the School's assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any). 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 entity-wide financial statements report the School's net position and how they have changed. Net position—the difference between the School's assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any)—is one way to measure the School's financial health or position. Over time, increases or decreases in the School's net position are indicators of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the School requires consideration of additional non-financial factors, such as changes in the School's student population and the condition of the School's buildings and other facilities.

In the entity-wide financial statements, the School's activities are all shown in one category titled "governmental activities." These activities, providing elementary and secondary regular instruction services to students of the School, are primarily financed with state aids.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's *funds*, focusing on its most significant or "major" funds, rather than the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs. Minnesota charter schools must establish funds within the guidelines of the state's Uniform Financial Accounting and Reporting Standards.

The School maintains the following type of fund:

> **Governmental Funds** – The School's basic services are included in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps to determine whether there are more or less 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 entity-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Table 1 is a summarized view of the School's Statement of Net Position:

Table 1
Summary of Net Position
as of June 30, 2013 and 2012

	2013	2012
Assets		
Current and other assets	$ 1,296,640	$ 1,777,318
Capital assets, net of depreciation	25,927	31,255
Total assets	**$ 1,322,567**	**$ 1,808,573**
Liabilities		
Current and other liabilities	$ 1,130,378	$ 1,970,938
Long-term liabilities	163,371	208,340
Total liabilities	**$ 1,293,749**	**$ 2,179,278**
Net position		
Net investment in capital assets	$ 25,927	$ 31,255
Unrestricted	2,891	(401,960)
Total net position	**$ 28,818**	**$ (370,705)**

The School's financial position is the product of many factors. For example, the determination of the School's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, may produce a significant difference in the calculated amounts.

The School began the 2012–2013 year budgeting for 500 average daily membership (ADM), which was adjusted to 460 ADM in November 2012 due to lower enrollment than initially expected. The School finished the 2012–2013 school year with an estimated ADM of 462.

Table 2 presents a condensed version of the Change in Net Position of the School:

Table 2
Change in Net Position
for the Years Ended June 30, 2013 and 2012

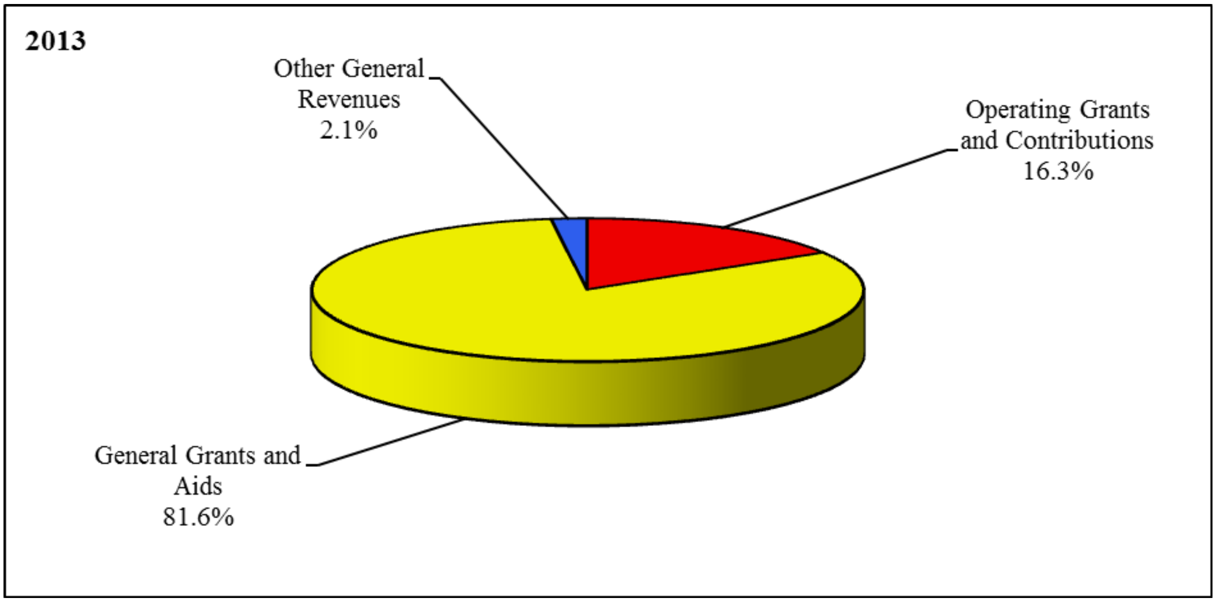
	2013	2012
Revenues		
Program revenues		
Charges for services	$ 1,078	$ 4,950
Operating grants and contributions	686,737	849,902
General revenues		
General grants and aids	3,437,274	3,373,175
Investment earnings	14	115
Other	87,697	119,484
Total revenues	4,212,800	4,347,626
Expenses		
Administration	123,084	228,839
District support services	445,050	873,624
Elementary and secondary regular instruction	1,188,050	1,914,188
Vocational education instruction	90,797	140,434
Special education instruction	523,372	682,458
Instructional support services	497,853	558,421
Pupil support services	589,779	735,515
Sites and buildings	320,586	379,861
Fiscal and other fixed cost programs	11,248	16,349
Interest and fiscal charges	23,458	30,763
Total expenses	3,813,277	5,560,452
Change in net position	**$ 399,523**	**$ (1,212,826)**

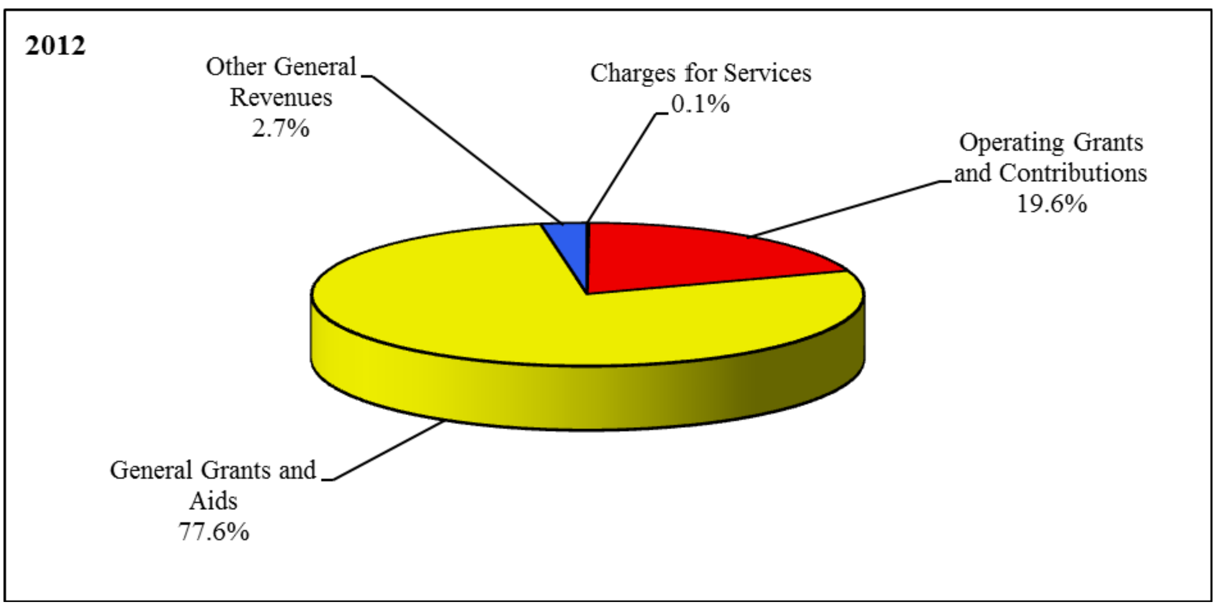
The Statement of Activities is presented on an accrual basis of accounting and includes all of the School's governmental activities. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal, if any.

While being an online provider of education allows the School to attract students from across the state and to keep operating costs controlled, it creates other challenges. These challenges include the geographical demands of complying with state testing requirements, keeping technological systems operating at optimal levels, and maintaining a consistent staff to achieve these goals.

Figures A and B show further analysis of these revenue sources and expense functions:

Figure A – Sources of Revenue for Fiscal Years 2013 and 2012

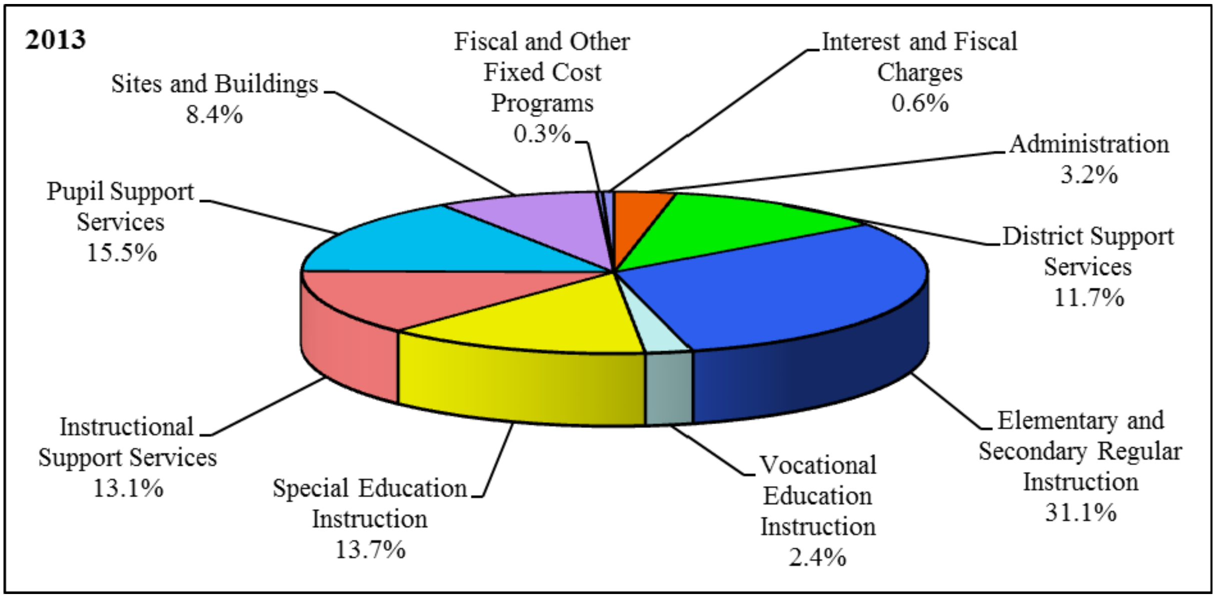


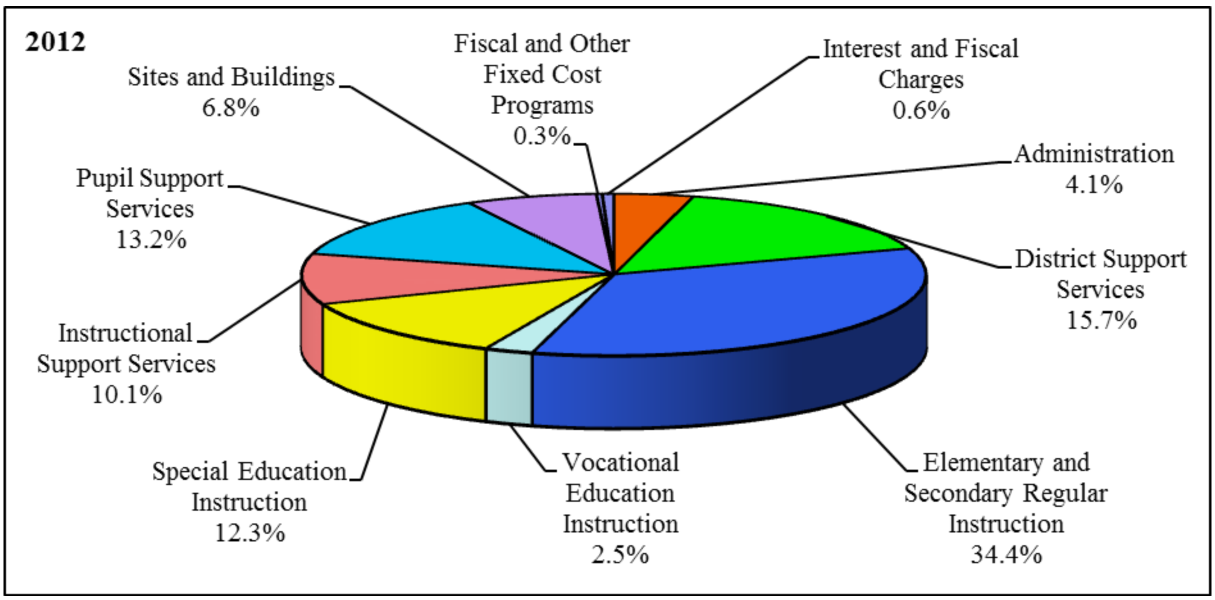


The largest share of the School's revenue is received from the state, including most of the operating and general grants. This significant reliance on the state for funding has placed tremendous pressures on local schools as a result of unpredictable and inconsistent funding from the state.

Enrollment continues to be the largest influence on the School's revenue. The School's enrollment—462 ADM at year-end—did not meet the initial budget projections of 500 ADM, and reflected an increase of 45 ADM from the prior year, and 2 above the revised budget of 460 ADM. The School's total governmental activity revenues were $4,212,800 for the year ended June 30, 2013, which is a decrease of $134,826 from the prior year. Operating grants and contributions decreased by $163,165 primarily due to decreased special education funding.

Figure B – Expenses for Fiscal Years 2013 and 2012





The School's expenses are predominately related to educating students. Programs (or functions) such as regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the School.

The School's cost of all governmental activities for 2013 was $3,813,277 which is a decrease of $1,747,175 from the prior year. The main decreases were in district support services and elementary and secondary regular instruction, primarily due to an intentional effort to reduce staffing and related personnel costs.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

Analysis of the General Fund

Table 3 summarizes the amendments to the General Fund budget:

Table 3
General Fund
Budget

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue	$ 4,608,455	$ 4,296,337	$ (312,118)	(6.8%)
Expenditures	$ 4,594,557	$ 4,166,754	$ (427,803)	(9.3%)

The School is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. It is the School's practice to amend the General Fund budget during the year for known significant changes in circumstances such as: updated enrollment estimates, legislation changes, new or additional funding, staffing changes, employee contract settlements, adjustments to health insurance premiums, special education tuition changes, or utility rate changes.

Table 4 summarizes the operating results of the General Fund:

Table 4
General Fund
Operating Results

		Over (Under) Final Budget		Increase (Decrease) From Prior Year	
	2013 Actual	Amount	Percent	Amount	Percent
Revenue	$ 4,212,800	$ (83,537)	(1.9%)	$ (134,826)	(3.1%)
Expenditures	3,852,918	$ (313,836)	(7.5%)	$ (1,666,868)	(30.2%)
Net change in fund balances	$ 359,882				

General Fund revenues decreased due mostly to the decline in special education funding this year. Revenues were under budget due to less state aid than anticipated, particularly related to special education. Expenditures decreased from the prior year due to planned staffing reductions to keep pace with the decline in enrollment over the past three years. In addition, expenditures were both under budget and less than the prior year due to reductions in curriculum spending, legal fees, and contracted services.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 5 shows the School's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2013 and 2012:

Table 5
Capital Assets

	2013	2012	Increase (Decrease)
Furniture and equipment	$ 330,953	$ 316,014	$ 14,939
Less accumulated depreciation	(305,026)	(284,759)	(20,267)
Total	$ 25,927	$ 31,255	$ (5,328)
Depreciation expense	$ 20,267	$ 36,987	$ (16,720)

The School is not heavily dependent on capital assets for providing instructional services to students due to its delivery of online learning.

More detailed information on the School's capital assets activity can be found in the notes to basic financial statements.

Long-Term Liabilities

Table 6 illustrates the components of the School's long-term liabilities, together with the change from the prior year.

Table 6
Outstanding Long-Term Liabilities

	2013	2012	Increase (Decrease)
Compensated absences payable	$ 41,007	$ 41,836	$ (829)
Severance benefits payable	122,364	166,504	(44,140)
Total	$ 163,371	$ 208,340	$ (44,969)

More detailed information on the School's long-term liabilities activity can be found in the notes to basic financial statements.

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the state of Minnesota for its revenue. In recent years, legislated revenue increases have not been sufficient to meet the instructional program needs and increased costs due to inflation of Minnesota charter schools.

The basic general education revenue for all Minnesota charter schools was $5,224 per pupil unit for 2013. The Legislature has provided for a 1.5 percent increase in basic general education aid for fiscal 2014 and fiscal 2015.

In fiscal 2013, the payment schedule for state aids was increased to 86 percent of current year funding, which is 22 percent higher than amounts received in fiscal 2012. The payment schedule has subsequently been increased to 90 percent for fiscal year 2014, reducing the need for short-term borrowing in the future.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our citizens, sponsor, customers, investors, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact BlueSky Charter School, Inc., 33 Wentworth Avenue East, Suite 100, West St. Paul, Minnesota 55118.

BASIC FINANCIAL STATEMENTS

BLUESKY CHARTER SCHOOL, INC.

Statement of Net Position
as of June 30, 2013
(With Partial Comparative Information as of June 30, 2012)

	Governmental Activities 2013	Governmental Activities 2012
Assets		
Cash and temporary investments	$ 708,624	$ –
Receivables		
Accounts	703	118,281
Due from other governmental units	536,290	1,625,415
Prepaid items	51,023	33,622
Capital assets		
Depreciated, net of accumulated depreciation	25,927	31,255
Total assets	$ 1,322,567	$ 1,808,573
Liabilities		
Salaries and benefits payable	$ 348,200	$ 419,757
Accounts and contracts payable	32,178	127,391
Interest payable	–	9,333
Due to flexible benefits plan	–	14,457
Loan payable	750,000	1,400,000
Long-term liabilities		
Due within one year	85,722	141,836
Due in more than one year	77,649	66,504
Total long-term liabilities	163,371	208,340
Total liabilities	1,293,749	2,179,278
Net position		
Net investment in capital assets	25,927	31,255
Unrestricted	2,891	(401,960)
Total net position	28,818	(370,705)
Total liabilities and net position	$ 1,322,567	$ 1,808,573

See notes to basic financial statements

Statement of Activities
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	2013				2012
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	$ 123,084	$ –	$ –	$ (123,084)	$ (228,839)
District support services	445,050	–	–	(445,050)	(873,624)
Elementary and secondary regular instruction	1,188,050	1,078	–	(1,186,972)	(1,909,238)
Vocational education instruction	90,797	–	–	(90,797)	(140,434)
Special education instruction	523,372	–	506,576	(16,796)	(40,259)
Instructional support services	497,853	–	–	(497,853)	(558,421)
Pupil support services	589,779	–	–	(589,779)	(735,515)
Sites and buildings	320,586	–	180,161	(140,425)	(172,158)
Fiscal and other fixed cost programs	11,248	–	–	(11,248)	(16,349)
Interest and fiscal charges	23,458	–	–	(23,458)	(30,763)
Total governmental activities	$ 3,813,277	$ 1,078	$ 686,737	(3,125,462)	(4,705,600)
	General revenues				
	General grants and aids			3,437,274	3,373,175
	Other general revenues			87,697	119,484
	Investment earnings			14	115
	Total general revenues			3,524,985	3,492,774
	Change in net position			399,523	(1,212,826)
	Net position – beginning			(370,705)	842,121
	Net position – ending			$ 28,818	$ (370,705)

See notes to basic financial statements

BLUESKY CHARTER SCHOOL, INC.

General Fund
Balance Sheet
as of June 30, 2013
(With Partial Comparative Information as of June 30, 2012)

	2013	2012
Assets		
Cash and temporary investments	$ 708,624	$ –
Receivables		
Accounts	703	118,281
Due from other governmental units	536,290	1,625,415
Prepaid items	51,023	33,622
Total assets	$ 1,296,640	$ 1,777,318
Liabilities		
Salaries and benefits payable	$ 348,200	$ 419,757
Accounts and contracts payable	32,178	127,391
Interest payable	–	9,333
Due to fiduciary fund	–	14,457
Loan payable	750,000	1,400,000
Total liabilities	1,130,378	547,148
Fund balances (deficit)		
Nonspendable for prepaid items	51,023	33,622
Unassigned	115,239	(227,242)
Total fund balances (deficit)	166,262	(193,620)
Total liabilities and fund balances	$ 1,296,640	$ 353,528

Amounts recorded for governmental activities in the Statement of Net Position differ because:

	2013	2012
Fund balances (deficit) as reported above	$ 166,262	$ (193,620)
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	330,953	316,014
Accumulated depreciation	(305,026)	(284,759)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Compensated absences payable	(41,007)	(41,836)
Severance benefits payable	(122,364)	(166,504)
Total net position – governmental activities	$ 28,818	$ (370,705)

See notes to basic financial statements

BLUESKY CHARTER SCHOOL, INC.

General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	2013				2012
	Original Budget	Final Budget	Actual	Over (Under) Budget	Actual
Revenue					
Federal sources	$ 108,338	$ 76,575	$ 93,943	$ 17,368	$ 107,621
State sources	4,496,517	4,170,482	4,030,068	(140,414)	4,115,456
Local sources					
Investment earnings	–	–	14	14	115
Other	3,600	49,280	88,775	39,495	124,434
Total revenue	4,608,455	4,296,337	4,212,800	(83,537)	4,347,626
Expenditures					
Current					
Administration					
Salaries	95,000	95,000	97,929	2,929	74,818
Employee benefits	20,600	20,600	17,899	(2,701)	16,766
Purchased services	102,900	18,777	4,343	(14,434)	133,778
Supplies and materials	–	–	–	–	106
Other expenditures	6,000	–	2,500	2,500	2,500
Total administration	224,500	134,377	122,671	(11,706)	227,968
District support services					
Salaries	119,000	119,000	139,025	20,025	280,018
Employee benefits	76,300	46,952	40,425	(6,527)	105,057
Purchased services	356,118	376,500	254,036	(122,464)	467,584
Supplies and materials	6,200	3,100	2,511	(589)	6,515
Capital expenditures	–	5,000	8,077	3,077	3,186
Other expenditures	15,500	–	7,460	7,460	11,141
Total district support services	573,118	550,552	451,534	(99,018)	873,501
Elementary and secondary regular instruction					
Salaries	906,000	786,482	799,879	13,397	1,042,374
Employee benefits	392,592	327,289	280,250	(47,039)	528,338
Purchased services	58,000	190,500	87,018	(103,482)	309,655
Supplies and materials	17,500	5,200	4,714	(486)	17,426
Other expenditures	2,000	11,800	30,585	18,785	2,034
Total elementary and secondary regular instruction	1,376,092	1,321,271	1,202,446	(118,825)	1,899,827

(continued)

General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	2013				2012
	Original Budget	Final Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)					
Current (continued)					
Vocational education instruction					
Salaries	83,341	75,000	78,317	3,317	100,892
Employee benefits	17,842	17,842	17,512	(330)	30,742
Purchased services	724	5,000	1,269	(3,731)	763
Supplies and materials	–	1,600	3,245	1,645	530
Capital expenditures	–	–	799	799	–
Other expenditures	8,500	–	1,821	1,821	6,078
Total vocational education instruction	110,407	99,442	102,963	3,521	139,005
Special education instruction					
Salaries	456,624	431,624	389,817	(41,807)	476,606
Employee benefits	141,141	141,141	107,888	(33,253)	162,193
Purchased services	72,000	2,000	38,014	36,014	35,133
Supplies and materials	500	–	1,769	1,769	–
Capital expenditures	500	–	–	–	–
Total special education instruction	670,765	574,765	537,488	(37,277)	673,932
Instructional support services					
Salaries	378,500	378,500	389,892	11,392	359,557
Employee benefits	113,215	95,256	88,545	(6,711)	78,127
Purchased services	56,726	30,000	20,114	(9,886)	84,111
Supplies and materials	2,000	–	1,114	1,114	1,232
Capital expenditures	41,000	5,000	7,020	2,020	–
Other expenditures	6,450	–	(5,875)	(5,875)	37,555
Total instructional support services	597,891	508,756	500,810	(7,946)	560,582
Pupil support services					
Salaries	460,000	445,000	466,486	21,486	570,380
Employee benefits	124,116	124,116	124,116	–	168,322
Supplies and materials	300	–	–	–	–
Total pupil support services	584,416	569,116	590,602	21,486	738,702
Sites and buildings					
Purchased services	383,368	333,975	309,698	(24,277)	359,152
Other expenditures	–	–	–	–	5
Capital expenditures	–	500	–	(500)	–
Total sites and buildings	383,368	334,475	309,698	(24,777)	359,157

(continued)

BLUESKY CHARTER SCHOOL, INC.

General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2013
(With Partial Comparative Information for the Year Ended June 30, 2012)

	2013				2012
	Original Budget	Final Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)					
Debt service					
Fiscal and other fixed cost programs					
Purchased services	18,000	18,000	11,248	(6,752)	16,349
Interest and fiscal charges	56,000	56,000	23,458	(32,542)	30,763
Total expenditures	4,594,557	4,166,754	3,852,918	(313,836)	5,519,786
Net change in fund balance	$ 13,898	$ 129,583	359,882	$ 230,299	(1,172,160)
Fund balances (deficit)					
Beginning of year			(193,620)		978,540
End of year			$ 166,262		$ (193,620)

Amounts reported for governmental activities in the Statement of Activities differ because:

	2013	2012
Net change in fund balances reported above	$ 359,882	$(1,172,160)
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	14,939	4,030
Depreciation expense	(20,267)	(36,987)
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Compensated absences payable	829	(6,348)
Severance benefits payable	44,140	(1,361)
Change in net position of governmental activities	$ 399,523	$(1,212,826)

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

BlueSky Charter School, Inc. (the School) is an outcome-based charter school established March 9, 2000 in accordance with Minnesota Statute § 124D.10. The School is required to operate under a charter agreement with an entity that has been approved by the Minnesota Department of Education (MDE) to be a charter school "authorizer." The authorizer monitors and evaluates the School's performance, and periodically determines whether to renew the School's charter. The School's authorizer is Novation Education Opportunities (NEO), a nonprofit organization. Aside from its responsibilities as authorizer, NEO has no authority or control over the School, and is not financially accountable for it. Therefore, the School is not considered to be a component unit of NEO.

The School's financial statements include all funds, departments, agencies, boards, commissions, and other organizations for which the School is considered to be financially accountable.

Component units are legally separate entities for which the School (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the School.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult, and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the School's Board can elect to either control or not control student activities. The School's Board has elected to control student activities; therefore, any such activities are accounted for in the General Fund.

B. Basis of Statement Presentation

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

C. Entity-Wide Financial Statement Presentation

The entity-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the School. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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. Other internally directed revenues are reported instead as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The entity-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.

The School applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The existence of the various school funds has been established by the MDE. Each fund is accounted for as an independent entity. The School maintains a single General Fund to account for all of its activity.

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. For this purpose, the School generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes.

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for compensated absences and severance benefits, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

E. Budgeting

The School's Board adopts an annual budget for the General Fund, which is prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end.

F. 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 disclosures of contingent amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Income Taxes

The School is exempt from income taxes under Internal Revenue Code § 501(c)(3). The School is subject to tax on income from any unrelated business.

The School is subject to the recognition requirements for uncertain income tax positions as required by the Financial Accounting Standards Board (FASB) Accounting Standards Codification 740-10 (formerly known as FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The School has analyzed tax positions taken for filing with the Internal Revenue Service and state jurisdiction where it operates. The School believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the School's financial condition, results of operations, or cash flows. Accordingly, the School has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2013.

The School is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods. The School's open audit periods are the years ended June 30, 2010, 2011, and 2012.

H. Receivables

When necessary, the School utilizes an allowance for uncollectible accounts to value its receivables. However, the School considers all of its current receivables to be collectible.

I. 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 when consumed.

J. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The School defines capital assets as those with an initial, individual cost of $500 or more, which benefit more than one fiscal year. 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 entity-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives for furniture and equipment are 3–10 years.

K. Compensated Absences

Substantially all school employees are entitled to personal and sick leave at various rates, portions of which may be carried over to future years. Compensated absences are accrued in the governmental fund statements only to the extent they have been used or otherwise matured prior to year-end. Employees are reimbursed for unused personal leave upon termination, which is accrued in the entity-wide financial statements as it is earned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Severance Benefits

After four years of service, certain employees are eligible to be compensated for 50 percent of unused sick leave, up to a maximum of 400 hours, upon termination of employment.

Severance benefits are recorded as a liability in the governmental fund financial statements as they mature due to termination. Severance benefits based on convertible sick leave are recorded as a liability in the entity-wide financial statements as they are earned and it becomes probable they will vest at some point in the future.

M. 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; and natural disasters. The School carries commercial insurance purchased from independent third parties to cover these risks. Settled claims have not exceeded coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in fiscal year 2013.

N. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

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

- **Committed** – Consists of internally imposed constraints that are established by resolution of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the School for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself.

- **Unassigned** – The residual classification for the General Fund.

When both restricted and unrestricted resources are available for use, the School uses restricted resources first, and then uses unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, the School uses resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Net Position

In the entity-wide financial statements, net position represents the difference between assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any). Net position is displayed in three components:

- **Net Investment in Capital Assets –** Consists of capital assets, net of accumulated depreciation, reduced by outstanding debt, if any, attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Unrestricted Net Position** – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

P. Prior Period Comparative Financial Information/Reclassification

The financial statements include partial prior year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2012, from which such partial information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Q. Change in Accounting Principles

During the year ended June 30, 2013, the School implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 63 created two new financial statement elements, *deferred outflows of resources* (a consumption of net position that is applicable to a future reporting period) and *deferred inflows of resources* (an acquisition of net position that is applicable to a future reporting period), which are distinct from assets and liabilities. It also defined *net position* as the residual of all other elements presented in a statement of net position (assets + deferred outflows of resources – liabilities – deferred inflows of resources = net position).

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

In accordance with applicable Minnesota Statutes, the School maintains deposits at depository banks authorized by the Board. The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit 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 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. The School's deposit policies do not further limit depository choices.

At year-end, the carrying amount and bank balance of the School's deposits was $708,624, while the balance on the bank records was $782,842. At June 30, 2013, $532,842 of the School's deposits was exposed to custodial credit risk.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Furniture and equipment	$ 316,014	$ 14,939	$ –	$ 330,953
Less accumulated depreciation	(284,759)	(20,267)	–	(305,026)
Capital assets, net of accumulated depreciation	$ 31,255	$ (5,328)	$ –	$ 25,927

Depreciation expense was charged to the following governmental functions:

District support services	$ 4,134
Elementary and secondary regular instruction	4,463
Vocational instruction	702
Instructional support services	80
Sites and buildings	10,888
Total depreciation expense	$ 20,267

NOTE 4 – LONG-TERM LIABILITIES

Long-term liabilities consist of compensated absences and severance benefits payable, along with the related benefit costs. Annual payments to retire these benefit liabilities will be dependent on actual employee turnover. The General Fund is used to liquidate these liabilities. The change in compensated absences and severance benefits during the year are as follows:

	Balance – Beginning of Year	Additions	Retirements	Balance – End of Year	Due Within One Year
Compensated absences payable	$ 41,836	$ 3,034	$ 3,863	$ 41,007	$ 41,007
Severance benefits payable	166,504	16,704	60,844	122,364	44,715
	$ 208,340	$ 19,738	$ 64,707	$ 163,371	$ 85,722

NOTE 5 – LOAN PAYABLE

On March 9, 2012, the School obtained a $1,400,000 loan, which is available for cash flow purposes, from the individual that leases the School its building space. The loan matured on November 15, 2012, had an interest rate of 8.0 percent, and was secured by the School's future collections of state aids.

On January 30, 2013, the School obtained a $750,000 loan, which is available for cash flow purposes, from the individual that leases the School its building space. The loan matured on November 15, 2013, had an interest rate of 8.0 percent, and was secured by the School's future collections of state aids.

Interest on the loan during the year ended June 30, 2013 of $23,458 was charged to the General Fund. Activity on the loan for the year was as follows:

	Balance	Additions	Deletions	Ending Balance
Loan	$ 1,400,000	$ 750,000	$ 1,400,000	$ 750,000

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Substantially all employees of the School are required by state law to belong to defined benefit, multi-employer, cost-sharing 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 are as follows:

Teachers' Retirement Association (TRA)

A. Plan Description

All teachers employed by the School 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. The plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

The 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 the TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989 receive the greater of the Tier I or Tier II as described below:

Tier I

	Step Rate Formula	Percentage per Year
Basic Plan		
	First 10 years	2.2 percent
	All years after	2.7 percent
Coordinated Plan		
	First 10 years if service years are prior to July 1, 2006	1.2 percent
	First 10 years if service years are July 1, 2006 or after	1.4 percent
	All other years of service if service years are prior to July 1, 2006	1.7 percent
	All other years of service if service years are July 1, 2006 or after	1.9 percent

With these provisions:

- Normal retirement age is 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 factor 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

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent 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 4–5.4 percent per year.

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan 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 that 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.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

The TRA publicly issues a comprehensive annual financial report presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing the TRA at Teachers' Retirement Association, 60 Empire Drive, Suite 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 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 percent and 10.0 percent, respectively, of their annual covered salary during fiscal year 2013 as employee contributions. The TRA employer contribution rates are 6.5 percent for Coordinated Plan members and 10.5 percent for Basic Plan members during fiscal year 2013. Total covered payroll salaries for all TRA members state-wide during the fiscal years June 30, 2012, 2011, and 2010 were approximately \$3.87 billion, \$3.84 billion, and \$3.79 billion, respectively.

The School's contributions for the years ended June 30, 2013, 2012, and 2011 were \$138,124, \$139,306, and \$206,028, respectively, equal to the contractually required contributions for each year as set by state statutes.

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

Public Employees' Retirement Association (PERA)

A. Plan Description

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

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

The 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 statutes, 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 the PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For 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 members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

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

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 School makes annual contributions to the pension plans equal to the amount required by state statutes. The GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.25 percent, respectively, of their annual covered salary in fiscal 2013. In fiscal 2013, the School was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.25 percent for Coordinated Plan members.

The School's contributions to the GERF for the years ended June 30, 2013, 2012, and 2011 were $16,774, $28,974, and $26,374, respectively, equal to the contractually required contributions for each year as set by state statutes.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

A. Building Lease

The School has an agreement to lease space at 33 Wentworth Avenue East, West St. Paul, Minnesota 55118 for a 64-month period commencing March 1, 2012. During the year ended June 30, 2013, the School made monthly rental payments totaling $200,179 under this agreement. Future minimum lease payments under the amended agreement are as follows:

Year Ending June 30,	Amount
2014	$ 204,133
2015	204,400
2016	206,833
2017	211,700
	$ 827,066

B. Federal and State Revenues

Amounts 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.

C. Legal Contingencies

The School has the usual and customary legal claims pending at year-end, mostly of a minor nature and/or covered by insurance. Although the outcomes of these claims are not presently determinable, the School believes that the resolution of these matters will not have a material adverse effect on its financial position.

OTHER REQUIRED REPORTS

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

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

To the Board and Management of
BlueSky Charter School, Inc.
West St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, the financial statements of the governmental activities and the major fund of BlueSky Charter School, Inc. (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 5, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the School'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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 School's 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 internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

(continued)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School'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 School's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 5, 2013

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas M. Montague, CPA
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Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT ON

MINNESOTA LEGAL COMPLIANCE

To the Board and Management of
BlueSky Charter School, Inc.
West St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of BlueSky Charter School, Inc. (the School) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 5, 2013.

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

In connection with our audit, nothing came to our attention that caused us to believe that the School failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings as item 2013-001. 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 School's noncompliance with the above referenced provisions.

The School's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings. The School's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 5, 2013

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Schedule of Findings
Year Ended June 30, 2013

A. FINANCIAL STATEMENT AUDIT

None.

B. MINNESOTA LEGAL COMPLIANCE AUDIT

2013-001 Collateral on Deposits

Criteria – Minnesota Statute § 118A.03.

Condition – Minnesota Statute § 118A.03 requires that if a charter school's deposits exceed federal insurance coverage, excess deposits must be covered by corporate surety bonds, or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for the School's deposit accounts at times during the year ended June 30, 2013.

Questioned Costs – Not applicable.

Context – BlueSky Charter School, Inc. (the School) had $532,842 of deposits in excess of federal depository insurance that was not covered by surety bonds or pledged collateral as of June 30, 2013.

Cause – The School was not verifying that the depository is providing adequate coverage of deposits in excess of federal insurance coverage.

Effect – Deposits exceeding federal insurance coverage may be lost in the event of a bank failure.

Recommendation – We recommend that the School assure that all deposits are adequately covered by federal depository insurance, surety bonds, or pledged collateral.

Corrective Action Plan

Actions Planned – The School was in the process of securing collateral at year-end after changing banks. Subsequent to year-end, collateral has been secured.

Official Responsible – Executive Director.

Planned Completion Date – June 30, 2014.

Disagreement With or Explanation of Finding – There is no disagreement with the finding.

Plan to Monitor – The School's Executive Director will oversee the process to ensure the School's compliance with this requirement through the receipt of monthly collateral reports.

BLUESKY CHARTER SCHOOL, INC.

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2013

		Audit		UFARS		Audit – UFARS	
General Fund							
Total revenue		$	4,212,800	$	4,212,801	$	(1)
Total expenditures		$	3,852,918	$	3,852,918	$	–
Nonspendable							
460	Nonspendable fund balance	$	51,023	$	51,023	$	–
Restricted/reserve							
403	Staff development	$	–	$	–	$	–
405	Deferred maintenance	$	–	$	–	$	–
406	Health and safety	$	–	$	–	$	–
407	Capital projects levy	$	–	$	–	$	–
408	Cooperative revenue	$	–	$	–	$	–
411	Severance pay	$	–	$	–	$	–
413	Projects funded by COP	$	–	$	–	$	–
414	Operating debt	$	–	$	–	$	–
416	Levy reduction	$	–	$	–	$	–
417	Taconite building maintenance	$	–	$	–	$	–
423	Certain teacher programs	$	–	$	–	$	–
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 and technical programs	$	–	$	–	$	–
446	First grade preparedness	$	–	$	–	$	–
449	Safe schools levy	$	–	$	–	$	–
450	Pre-kindergarten	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
453	Unfunded severance and retirement levy	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	–	$	–	$	–
Committed							
418	Committed for separation	$	–	$	–	$	–
461	Committed fund balance	$	–	$	–	$	–
Assigned							
462	Assigned fund balance	$	–	$	–	$	–
Unassigned							
422	Unassigned fund balance	$	115,239	$	115,239	$	–
Food Service							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Community Service							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted/reserve							
426	$25 taconite	$	–	$	–	$	–
431	Community education	$	–	$	–	$	–
432	ECFE	$	–	$	–	$	–
444	School readiness	$	–	$	–	$	–
447	Adult basic education	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
Restricted							
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2013

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted/reserve				
407	Capital projects levy	$ –	$ –	$ –
409	Alternative facility program	$ –	$ –	$ –
413	Project funded by COP	$ –	$ –	$ –
Restricted				
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Debt Service				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted/reserve				
425	Bond refundings	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
Restricted				
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Trust				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
Internal Service				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Revocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Irrevocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Debt Service Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.