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

Financial Statements and
Supplemental Information

Year Ended
June 30, 2014

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BLUESKY CHARTER SCHOOL, INC.

Table of Contents

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INTRODUCTORY SECTION

BLUESKY CHARTER SCHOOL, INC.

Board and Administration
Year Ended June 30, 2014

BOARD

Jim Stocco	Chair
Leah Sickmann	Vice Chair
Emily McWaters	Treasurer
Julie Johnson	Secretary
Andrea Michels	Director
Melina Seifert	Director

ADMINISTRATION

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

FINANCIAL SECTION

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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, 2014, 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 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.
5353 Wayzata Boulevard • Suite 410 • Minneapolis, MN 55416 • Telephone: 952-545-0424 • Telefax: 952-545-0569 • www.mmkr.com

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, 2014, 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.

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 2013 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 5, 2013. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2013 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 4, 2014 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 4, 2014

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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, 2014. 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, 2014 by $534,378 (net position). The School's total net position increased by $505,560 during the fiscal year ended June 30, 2014.

At June 30, 2014, the School's General Fund reported a total fund balance of $746,467, an increase of $580,205 from the prior year. The unassigned portion of the year-end fund balance was $655,925. The remaining fund balance was a nonspendable fund balance of $90,542 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 nonfinancial 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, 2014 and 2013

	2014	2013
Assets		
Current and other assets	$ 1,092,676	$ 1,296,640
Capital assets, net of depreciation	30,168	25,927
Total assets	**$ 1,122,844**	**$ 1,322,567**
Liabilities		
Current and other liabilities	$ 346,209	$ 1,130,378
Long-term liabilities, including due within one year	242,257	163,371
Total liabilities	**$ 588,466**	**$ 1,293,749**
Net position		
Net investment in capital assets	$ 30,168	$ 25,927
Unrestricted	504,210	2,891
Total net position	**$ 534,378**	**$ 28,818**

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 decrease in current and other liabilities is due to a $750,000 short-term loan the School had at June 30, 2013. Due to the School's improved cash flow, no short-term borrowing was necessary at June 30, 2014.

The School began the 2013–2014 year budgeting for 460 average daily membership (ADM), which was adjusted to 473 ADM in December 2013 due to higher enrollment than initially expected. The School finished the 2013–2014 school year with an estimated ADM of 470.

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, 2014 and 2013

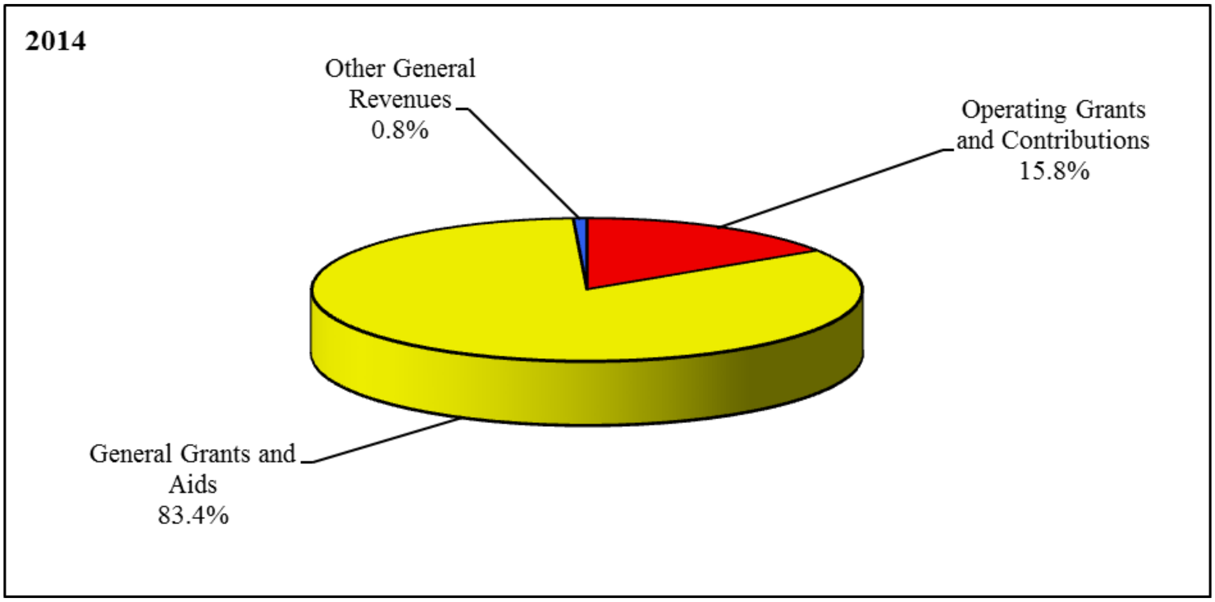
	2014	2013
Revenues		
Program revenues		
Charges for services	$ 612	$ 1,078
Operating grants and contributions	719,114	686,737
General revenues		
General grants and aids	3,793,041	3,437,274
Investment earnings	176	14
Other	37,651	87,697
Total revenues	4,550,594	4,212,800
Expenses		
Administration	103,518	123,084
District support services	412,728	445,050
Elementary and secondary regular instruction	1,235,775	1,188,050
Vocational education instruction	46,013	90,797
Special education instruction	600,744	523,372
Instructional support services	574,807	497,853
Pupil support services	737,720	589,779
Sites and buildings	305,270	320,586
Fiscal and other fixed cost programs	19,992	11,248
Interest and fiscal charges	8,467	23,458
Total expenses	4,045,034	3,813,277
Change in net position	**$ 505,560**	**$ 399,523**

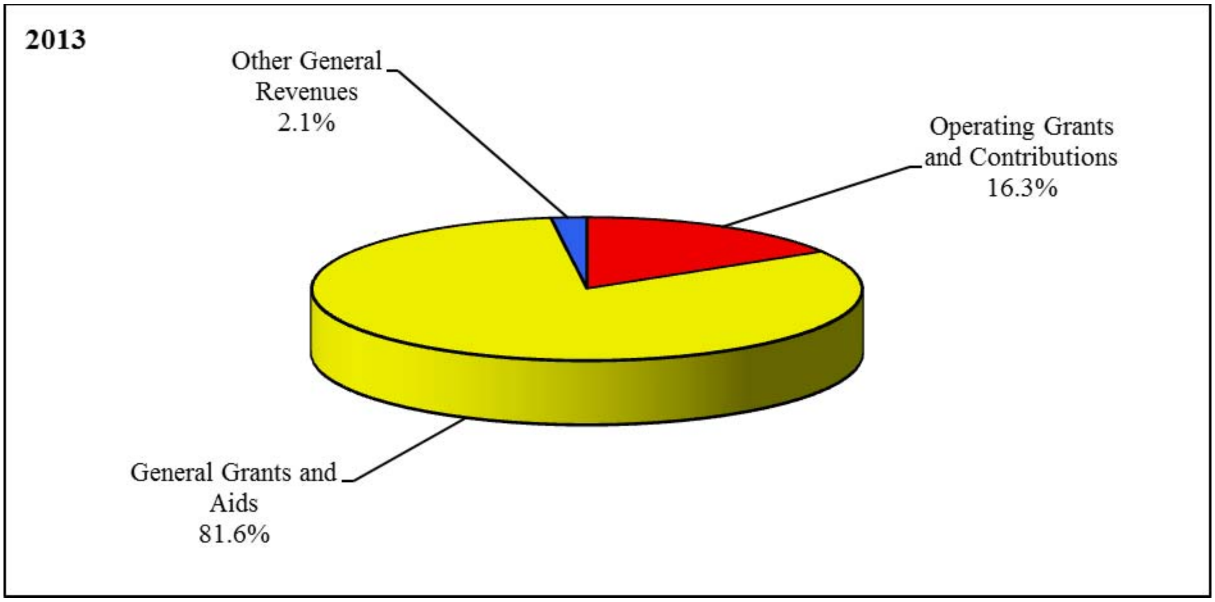
The Statement of Activities is presented on an accrual basis of accounting and includes all of the School's governmental activities. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal, if any.

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 2014 and 2013

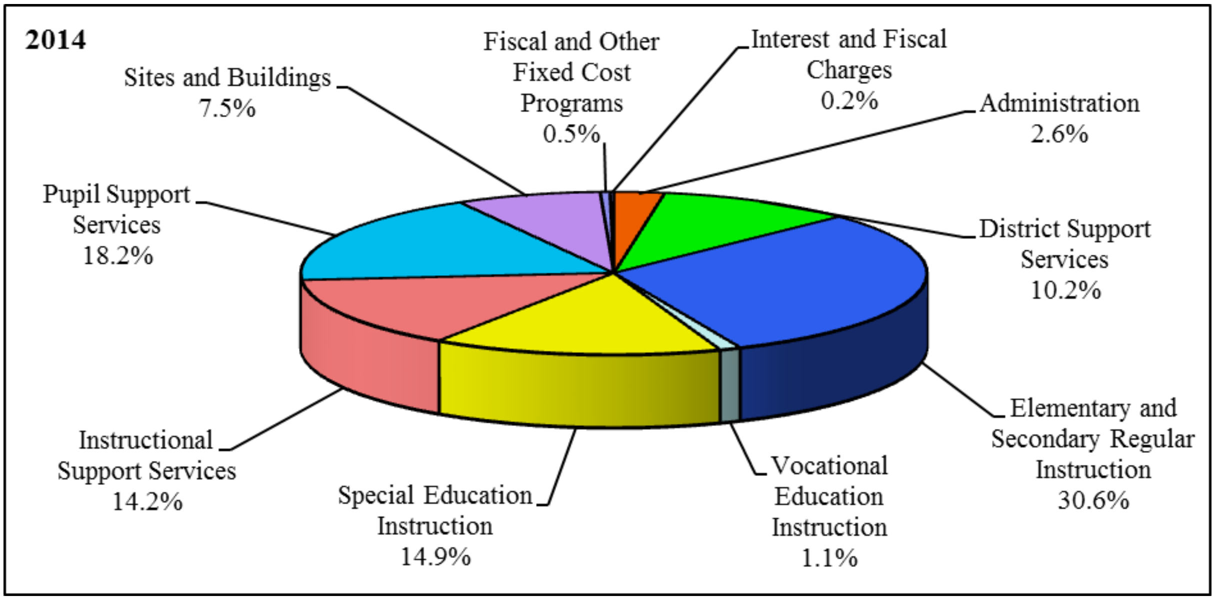


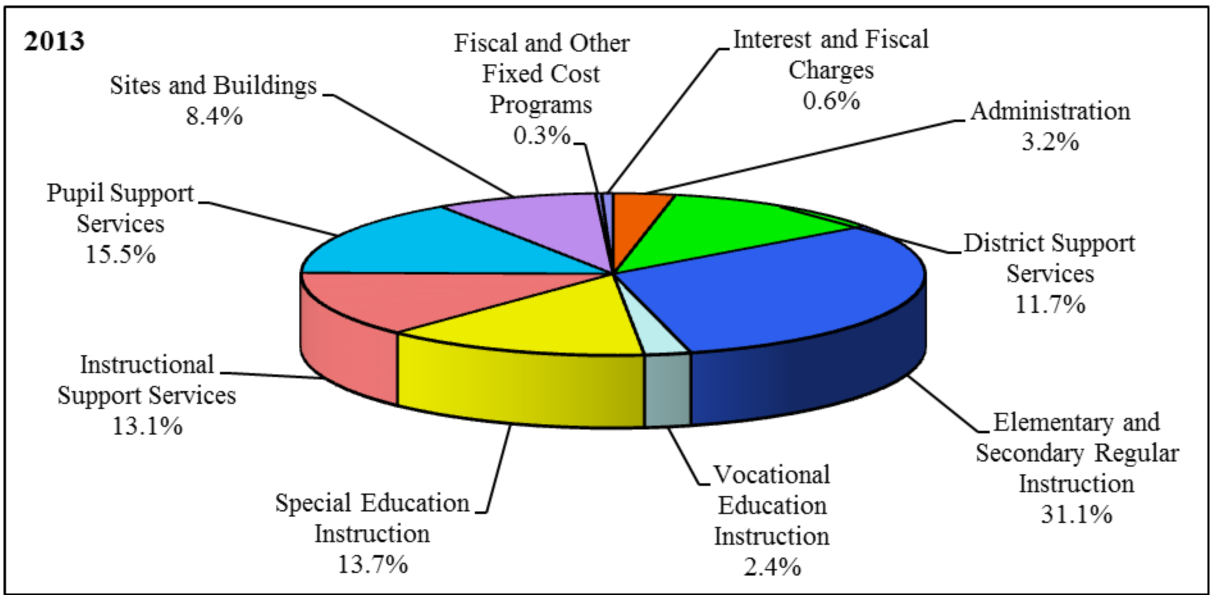


The largest share of the School's revenue is received from the state, including most of the operating and general grants. This significant reliance on the state for funding has placed tremendous pressures on local schools as a result of unpredictable and inconsistent funding from the state.

Enrollment continues to be the largest influence on the School's revenue. The School's enrollment—470 ADM at year-end—exceeded the initial budget projections of 460 ADM, and reflected an increase of 8 ADM from the prior year, and 3 below the revised budget of 473 ADM. The School's total governmental activity revenues were $4,550,594 for the year ended June 30, 2014, which is an increase of $337,794 from the prior year. General grants increased by $355,767 primarily due to increased general education funding.

Figure B – Expenses for Fiscal Years 2014 and 2013





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 2014 was $4,045,034 which is an increase of $231,757 from the prior year. The main increases were in pupil support services and special education instruction, primarily due to providing more curriculum and hiring additional staff to accommodate increased enrollment.

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	$ 4,299,188	$ 4,579,797	$ 280,609	6.5%
Expenditures	$ 4,200,224	$ 4,489,547	$ 289,323	6.9%

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	
	2014 Actual	Amount	Percent	Amount	Percent
Revenue	$ 4,550,594	$ (29,203)	(0.6%)	$ 337,794	8.0%
Expenditures	3,970,389	$ (519,158)	(11.6%)	$ 117,471	3.0%
Net change in fund balances	$ 580,205				

General Fund revenues increased due mostly to the School serving more students this year, which generated more state aid. Revenues were under budget due to less state aid than anticipated, particularly related to special education. Expenditures were higher than the prior year, due to planned staffing additions to keep pace with the increased enrollment. 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, 2014 and 2013:

Table 5
Capital Assets

	2014	2013	Increase (Decrease)
Furniture and equipment	$ 346,562	$ 330,953	$ 15,609
Less accumulated depreciation	(316,394)	(305,026)	(11,368)
Total	$ 30,168	$ 25,927	$ 4,241
Depreciation expense	$ 11,368	$ 20,267	$ (8,899)

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

	2014	2013	Increase (Decrease)
Compensated absences payable	$ 45,600	$ 41,007	$ 4,593
Severance benefits payable	196,657	122,364	74,293
Total	$ 242,257	$ 163,371	$ 78,886

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 much of its revenue. In recent years, legislated revenue increases have made it difficult to meet the instructional program needs and increased costs due to inflation for Minnesota charter schools.

The basic general education revenue for all Minnesota charter schools was $5,302 per pupil unit for 2014. The Legislature has provided for the equivalent of a 2.0 percent increase in basic general education aid for the 2015 fiscal year. The School's ability to attract and retain students will determine the amount of state aid it earns.

The state's financial condition, and the need to utilize accounting shifts such as increasing the holdback on charter school state aid payments to balance the state budget, has a significant impact on the School's cash flow. In fiscal 2014, the state was able to restore the payment schedule for state aids to 90 percent of current year funding, which was 3.6 percent higher than amounts received in fiscal 2013, which improved the School's cash flow.

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.

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BASIC FINANCIAL STATEMENTS

BLUESKY CHARTER SCHOOL, INC.

Statement of Net Position
as of June 30, 2014
(With Partial Comparative Information as of June 30, 2013)

	Governmental Activities	
	2014	2013
Assets		
Cash and temporary investments	$ 475,441	$ 708,624
Receivables		
Accounts	23,931	703
Due from other governmental units	502,762	536,290
Prepaid items	90,542	51,023
Capital assets		
Depreciated, net of accumulated depreciation	30,168	25,927
Total assets	$ 1,122,844	$ 1,322,567
Liabilities		
Salaries and benefits payable	$ 314,333	$ 348,200
Accounts and contracts payable	31,876	32,178
Loan payable	–	750,000
Long-term liabilities		
Due within one year	77,468	85,722
Due in more than one year	164,789	77,649
Total long-term liabilities	242,257	163,371
Total liabilities	588,466	1,293,749
Net position		
Net investment in capital assets	30,168	25,927
Unrestricted	504,210	2,891
Total net position	534,378	28,818
Total liabilities and net position	$ 1,122,844	$ 1,322,567

See notes to basic financial statements

BLUESKY CHARTER SCHOOL, INC.

Statement of Activities
Year Ended June 30, 2014
(With Partial Comparative Information for the Year Ended June 30, 2013)

	2014				2013
		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	$ 103,518	$ –	$ –	$ (103,518)	$ (123,084)
District support services	412,728	–	–	(412,728)	(445,050)
Elementary and secondary regular instruction	1,235,775	612	–	(1,235,163)	(1,186,972)
Vocational education instruction	46,013	–	–	(46,013)	(90,797)
Special education instruction	600,744	–	540,553	(60,191)	(16,796)
Instructional support services	574,807	–	–	(574,807)	(497,853)
Pupil support services	737,720	–	–	(737,720)	(589,779)
Sites and buildings	305,270	–	178,561	(126,709)	(140,425)
Fiscal and other fixed cost programs	19,992	–	–	(19,992)	(11,248)
Interest and fiscal charges	8,467	–	–	(8,467)	(23,458)
Total governmental activities	$ 4,045,034	$ 612	$ 719,114	(3,325,308)	(3,125,462)
	General revenues				
	General grants and aids			3,793,041	3,437,274
	Other general revenues			37,651	87,697
	Investment earnings			176	14
	Total general revenues			3,830,868	3,524,985
	Change in net position			505,560	399,523
	Net position – beginning			28,818	(370,705)
	Net position – ending			$ 534,378	$ 28,818

See notes to basic financial statements

BLUESKY CHARTER SCHOOL, INC.

General Fund
Balance Sheet
as of June 30, 2014
(With Partial Comparative Information as of June 30, 2013)

	2014	2013
Assets		
Cash and temporary investments	$ 475,441	$ 708,624
Receivables		
Accounts	23,931	703
Due from other governmental units	502,762	536,290
Prepaid items	90,542	51,023
Total assets	$ 1,092,676	$ 1,296,640
Liabilities		
Salaries and benefits payable	$ 314,333	$ 348,200
Accounts and contracts payable	31,876	32,178
Loan payable	–	750,000
Total liabilities	346,209	1,130,378
Fund balances		
Nonspendable for prepaid items	90,542	51,023
Unassigned	655,925	115,239
Total fund balances	746,467	166,262
Total liabilities and fund balances	$ 1,092,676	$ 1,296,640

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

	2014	2013
Fund balances as reported above	$ 746,467	$ 166,262
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	346,562	330,953
Accumulated depreciation	(316,394)	(305,026)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Compensated absences payable	(45,600)	(41,007)
Severance benefits payable	(196,657)	(122,364)
Total net position – governmental activities	$ 534,378	$ 28,818

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, 2014
(With Partial Comparative Information for the Year Ended June 30, 2013)

	2014				2013
	Original Budget	Final Budget	Actual	Over (Under) Budget	Actual
Revenue					
Federal sources	$ 65,089	$ 65,089	$ 49,279	$ (15,810)	$ 93,943
State sources	4,214,099	4,494,708	4,462,876	(31,832)	4,030,068
Local sources					
Investment earnings	–	–	176	176	14
Other	20,000	20,000	38,263	18,263	88,775
Total revenue	4,299,188	4,579,797	4,550,594	(29,203)	4,212,800
Expenditures					
Current					
Administration					
Salaries	90,000	97,800	85,635	(12,165)	97,929
Employee benefits	12,050	14,500	13,735	(765)	18,163
Purchased services	3,000	3,000	1,560	(1,440)	4,079
Other expenditures	5,000	5,000	2,500	(2,500)	2,500
Total administration	110,050	120,300	103,430	(16,870)	122,671
District support services					
Salaries	126,136	150,807	120,316	(30,491)	139,025
Employee benefits	21,200	27,200	24,331	(2,869)	40,425
Purchased services	416,857	417,357	213,238	(204,119)	254,036
Supplies and materials	7,500	7,500	37,596	30,096	2,511
Capital expenditures	3,000	3,000	3,416	416	8,077
Other expenditures	13,000	13,000	8,829	(4,171)	7,460
Total district support services	587,693	618,864	407,726	(211,138)	451,534
Elementary and secondary regular instruction					
Salaries	894,800	974,212	892,034	(82,178)	799,879
Employee benefits	210,995	257,480	229,683	(27,797)	280,250
Purchased services	90,000	91,000	47,798	(43,202)	87,018
Supplies and materials	12,000	18,100	25,966	7,866	4,714
Capital expenditures	19,500	19,500	20,445	945	–
Other expenditures	8,650	8,650	5,659	(2,991)	30,585
Total elementary and secondary regular instruction	1,235,945	1,368,942	1,221,585	(147,357)	1,202,446

(continued)

General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2014
(With Partial Comparative Information for the Year Ended June 30, 2013)

	2014				2013
	Original Budget	Final Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)					
Current (continued)					
Vocational education instruction					
Salaries	33,850	33,850	31,613	(2,237)	78,317
Employee benefits	6,970	6,970	7,791	821	17,512
Purchased services	2,250	2,250	2,125	(125)	1,269
Supplies and materials	–	1,300	1,378	78	3,245
Capital expenditures	1,000	1,000	1,702	702	799
Other expenditures	–	–	–	–	1,821
Total vocational education instruction	44,070	45,370	44,609	(761)	102,963
Special education instruction					
Salaries	423,630	444,000	450,808	6,808	389,817
Employee benefits	77,000	90,775	88,781	(1,994)	107,888
Purchased services	34,100	39,100	38,119	(981)	38,014
Supplies and materials	5,050	6,250	5,799	(451)	1,769
Total special education instruction	539,780	580,125	583,507	3,382	537,488
Instructional support services					
Salaries	459,500	482,500	440,977	(41,523)	389,892
Employee benefits	90,650	100,050	87,621	(12,429)	88,545
Purchased services	56,150	63,150	37,379	(25,771)	20,114
Supplies and materials	500	5,500	6,205	705	1,114
Capital expenditures	500	500	375	(125)	7,020
Other expenditures	1,000	1,000	500	(500)	(5,875)
Total instructional support services	608,300	652,700	573,057	(79,643)	500,810
Pupil support services					
Salaries	607,000	617,500	582,395	(35,105)	466,486
Employee benefits	124,800	139,250	122,015	(17,235)	124,116
Total pupil support services	731,800	756,750	704,410	(52,340)	590,602
Sites and buildings					
Purchased services	293,886	297,796	303,335	5,539	309,698
Supplies and materials	–	–	271	271	–
Capital expenditures	500	500	–	(500)	–
Total sites and buildings	294,386	298,296	303,606	5,310	309,698

(continued)

BLUESKY CHARTER SCHOOL, INC.

General Fund
Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2014
(With Partial Comparative Information for the Year Ended June 30, 2013)

	2014				2013
	Original Budget	Final Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)					
Current (continued)					
Fiscal and other fixed cost programs					
Purchased services	18,200	18,200	19,992	1,792	11,248
Debt service					
Interest and fiscal charges	30,000	30,000	8,467	(21,533)	23,458
Total expenditures	4,200,224	4,489,547	3,970,389	(519,158)	3,852,918
Net change in fund balance	$ 98,964	$ 90,250	580,205	$ 489,955	359,882
Fund balances					
Beginning of year			166,262		(193,620)
End of year			$ 746,467		$ 166,262

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

	2014	2013
Net change in fund balances reported above	$ 580,205	$ 359,882
Capital outlays are recorded as net position and the cost is allocated over 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	15,609	14,939
Depreciation expense	(11,368)	(20,267)
Certain expenses are included in the change in net position, but do not the use of current funds, and are not included in the change in fund balances.		
Compensated absences payable	(4,593)	829
Severance benefits payable	(74,293)	44,140
Change in net position of governmental activities	$ 505,560	$ 399,523

See notes to basic financial statements

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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.

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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures/expenses 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 Service 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 they operate. The School believes that income tax filing positions will be sustained upon examination and do not anticipate any adjustments that would result in a material adverse effect on their respective 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, 2014.

The School is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods. Open audit periods for the School are the years ended June 30, 2011, 2012, and 2013.

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 expenses/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 2014.

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 does not meet the definition of “restricted” or “net investment in capital assets.”

P. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for 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, 2013, from which the summarized 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. Future Change in Accounting Standards

Governmental Accounting Standards Board (GASB) Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to employer governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This statement will be effective for fiscal years beginning after June 15, 2014. The School has not yet determined the financial statement impact of adopting this new standard.

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 $475,441, while the balance on the bank records was $550,570. At June 30, 2014, all deposits were fully covered by federal depository insurance.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Furniture and equipment	$ 330,953	$ 15,609	$ –	$ 346,562
Less accumulated depreciation	(305,026)	(11,368)	–	(316,394)
Capital assets, net of accumulated depreciation	$ 25,927	$ 4,241	$ –	$ 30,168

Depreciation expense was charged to the following governmental functions:

District support services	$ 3,997
Elementary and secondary regular instruction	4,143
Vocational instruction	1,404
Instructional support services	160
Sites and buildings	1,664
Total depreciation expense	$ 11,368

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	$ 41,007	$ 6,308	$ 1,715	$ 45,600	$ 45,600
Severance benefits payable	122,364	94,122	19,829	196,657	31,868
	$ 163,371	$ 100,430	$ 21,544	$ 242,257	$ 77,468

NOTE 5 – LOAN PAYABLE

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, 2014 of $8,467 was charged to the General Fund. Activity on the loan for the year was as follows:

	Balance	Additions	Deletions	Ending Balance
Loan	$ 750,000	$ –	$ 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.

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 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.

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

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 benefits as described:

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 4.0 to 5.4 percent per year.

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan 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 7.0 percent and 10.5 percent, respectively, of their annual covered salary during fiscal year 2014 as employee contributions. The TRA employer contribution rates are 7.0 percent for Coordinated Plan members and 11.0 percent for Basic Plan members during fiscal year 2014. Total covered payroll salaries for all TRA members state-wide during the fiscal years June 30, 2013, 2012, and 2011, were approximately \$3.92 billion, \$3.87 billion, and \$3.84 billion, respectively.

The School's contributions for the years ended June 30, 2014, 2013, and 2012 were \$165,524, \$138,124, and \$139,306, 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 increased by 0.5 percent on July 1 of each year of the four-year period, ending in 2014. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5 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 five 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.

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

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.

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 2014. In fiscal 2014, 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, 2014, 2013, and 2012 were $16,587, $16,774, and $28,974, respectively, equal to the contractually required contributions for each year as set by state statutes.

Beginning January 1, 2015, Coordinated Plan contribution rates will increase for employees and employers to 6.50 percent and 7.50 percent, respectively.

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, 2014, the School made monthly rental payments totaling $204,133 under this agreement. Future minimum lease payments under the amended agreement are as follows:

Year Ending June 30,	Amount
2015	$ 204,400
2016	206,833
2017	211,700
	$ 622,933

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.

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OTHER REQUIRED REPORTS

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
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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*, 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, 2014, 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 4, 2014.

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)

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COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 4, 2014

MMKR
CERTIFIED PUBLIC
ACCOUNTANTS

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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, 2014, 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 4, 2014.

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*. 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 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 4, 2014

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BLUESKY CHARTER SCHOOL, INC.

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2014

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		$ 4,550,594	$ 4,550,594	$ –
Total expenditures		$ 3,970,389	$ 3,970,390	$ (1)
Nonspendable				
460	Nonspendable fund balance	$ 90,542	$ 90,542	$ –
Restricted/reserve				
403	Staff development	$ –	$ –	$ –
405	Deferred maintenance	$ –	$ –	$ –
406	Health and safety	$ –	$ –	$ –
407	Capital projects levy	$ –	$ –	$ –
408	Cooperative revenue	$ –	$ –	$ –
409	Alternative facility program	$ –	$ –	$ –
413	Project 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	$ –	$ –	$ –
448	Achievement and integration	$ –	$ –	$ –
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	$ 655,925	$ 655,925	$ –
Food Service				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted/reserve				
452	OPEB liability not in trust	$ –	$ –	$ –
Restricted				
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	$ –	$ –	$ –

BLUESKY CHARTER SCHOOL, INC.

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2014

		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							
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.

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