

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION**

**YEAR ENDED JUNE 30, 2009**



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CHARTER SCHOOL NO. 4116  
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## **INTRODUCTORY SECTION**



**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
SCHOOL BOARD AND ADMINISTRATION  
JUNE 30, 2009**

**SCHOOL BOARD**

<b><u>NAME</u></b>	<b><u>TERM ENDS</u></b>	<b><u>BOARD POSITION</u></b>
Melissa Martyr-Wagner	6/30/09	Chair
Julene Donnay	6/30/10	Vice-Chair
Julie Lundgren	6/30/09	Treasurer
Kaari Rodriguez	6/30/10	Secretary
Gail Wilkey-Diez	6/30/09	Member
Shannon Peterson	6/30/11	Member
Chad Bloomberg	6/30/10	Member
Richie Kucinski	6/30/10	Member
Amy Thorp	6/30/09	Member
Cam Hedlund	Coincides with directorship	Member

**ADMINISTRATION**

Cam Hedlund	Director
Patricia Steichen	Administrative Assistant
Shannon Peterson	Curriculum Coordinator
Julie Lundgren	Budget Director
Kim Paugel	Finance Officer/Analyst
Frank Gallegos	Amigos Director and Dean of Students



**FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

Members of the Board of Education  
Charter School No. 4116  
Lakes International Language Academy  
Forest Lake, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of Lakes International Language Academy as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the School's 2008 financial statements and, in our report dated November 11, 2008, we expressed unqualified opinions on the respective financial statements of the governmental activities and the major funds.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Lakes International Language Academy as of June 30, 2009, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund and major Special Revenue Funds for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2009, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education  
Charter School No. 4116  
Lakes International Language Academy

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The individual fund statements and schedules as listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Uniform Financial Accounting and Reporting Standards Compliance Table is presented as supplemental information as required by the Minnesota Department of Education, are also not a required part of the basic financial statements of Lakes International Language Academy. The individual fund financial statements and schedules and the schedule of expenditures of federal awards, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The accompanying Uniform Financial Accounting and Reporting Standards Compliance Table (Unaudited) is presented as supplemental information and has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

  
LarsonAllen LLP

Minneapolis, Minnesota  
November 3, 2009

**REQUIRED SUPPLEMENTARY INFORMATION**

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

This section of Lakes International Language Academy's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the School's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2008-2009 fiscal year include the following:

- The School's assets exceeded its liabilities at June 30, 2009 by \$1,712,003 (net assets).
- Total General Fund revenues were \$4,386,066 as compared to \$3,976,618 of expenditures.
- Capital assets have been reported at \$7,547,639, net of depreciation.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

**School-Wide Statements**

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

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

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

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

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

- *Governmental Activities* – Most of the School's basic services will be included here, such as regular and special education, transportation, and administration. State aid and federal and foundation grants financed most of these activities.

**Fund Financial Statements**

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

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

The School has one fund type:

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

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

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

The School's *combined* net assets were \$1,712,003 on June 30, 2009. This is an increase of 106.3% over the prior year (see Table A-1).

**Table A-1  
The School's Net Assets**

	Governmental Activities		Percentage Change
	2009	2008	
Current and Other Assets	\$ 2,650,912	\$ 2,308,372	14.8%
Capital and Non-Current Assets	7,547,639	6,886,710	9.6%
<b>Total Assets</b>	<b>10,198,551</b>	<b>9,195,082</b>	<b>10.9%</b>
Current Liabilities	326,205	290,130	12.4%
Long-Term Liabilities	8,160,343	8,075,000	1.1%
<b>Total Liabilities</b>	<b>8,486,548</b>	<b>8,365,130</b>	<b>1.5%</b>
<b>Net Assets:</b>			
Invested in Capital Assets			
Net of Related Debt	369,543	(29,575)	-1349.5%
Restricted	203,632	157,804	29.0%
Unrestricted	1,138,828	701,723	62.3%
<b>Total Net Assets</b>	<b>\$ 1,712,003</b>	<b>\$ 829,952</b>	<b>106.3%</b>

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

**Changes in Net Assets**

The School's total revenues were \$5,193,441 for the year ended June 30, 2009. State formula aid accounted for 59% of total revenue for the year. Program revenues accounted for 30% and approximately 11% came from other general revenues combined with investment earnings (see Figure A-1).

**Table A-2  
Change in Net Assets**

	Governmental Activities for the Fiscal Year Ended June 30,		Total % Change
	2009	2008	
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 363,124	\$ 325,468	11.57%
Operating Grants and Contributions	1,211,442	532,497	127.50%
<u>General Revenues</u>			
Unrestricted State Aid	3,025,321	2,629,373	15.06%
Investment Earnings	20,772	37,091	-44.00%
Other	572,782	100,976	467.25%
Total Revenues	<u>5,193,441</u>	<u>3,625,405</u>	43.25%
<b>Expenses</b>			
Administration	128,319	160,478	-20.04%
District Support Services	282,368	265,224	6.46%
Regular Instruction	1,147,372	1,513,446	-24.19%
Special Education Instruction	126,785	40,312	214.51%
Instructional Support Services	475,089	276,401	71.88%
Pupil Support Services	42,375	46,700	-9.26%
Sites and Buildings	1,256,448	316,407	297.10%
Fiscal and Other Fixed Cost Programs	20,643	19,782	4.35%
Community Service	322,755	235,026	37.33%
Interest and Fiscal Charges on Long-Term Liabilities	509,236	513,970	-0.92%
Total Expenses	<u>4,311,390</u>	<u>3,387,746</u>	27.26%
<b>Change in Net Assets</b>	882,051	237,659	
Beginning Net Assets	829,952	592,293	
Ending Net Assets	<u>\$ 1,712,003</u>	<u>\$ 829,952</u>	

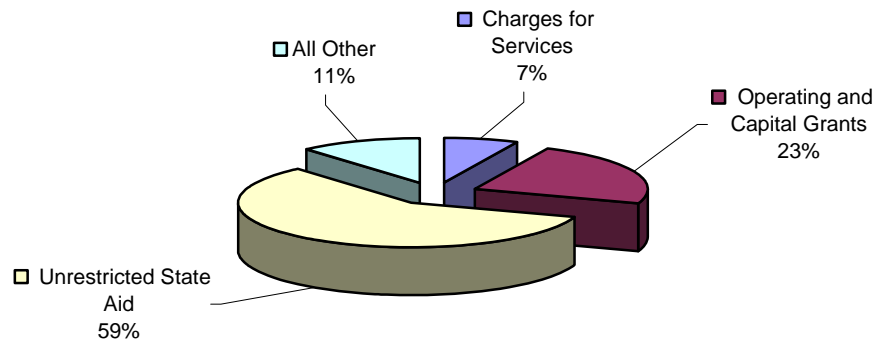
The total cost of all programs and services was \$4,311,390. Total revenues exceeded expenses, increasing net assets \$882,051 over the prior year.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

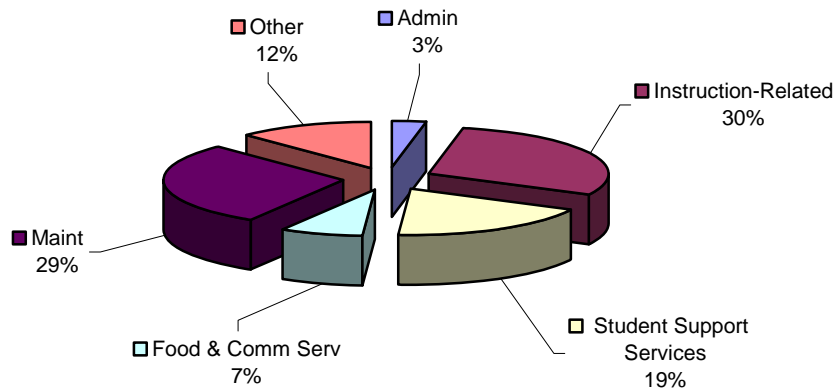
The cost of all governmental activities this year was \$4,311,390 (see Table A-2).

- Most of the School's costs were paid by unrestricted state aid (\$3,025,321).
- The federal and state governments subsidized certain programs with grants and contributions (\$1,211,442).
- The remaining portion of the governmental activities was paid for with private grant funds and other miscellaneous revenue.

**Figure A-1  
Sources of School's Revenues for Fiscal 2009**



**Figure A-2  
School Expenses for Fiscal 2009**



**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

The preceding graph, by pooling all revenues, implies that the School does have equal access to all funds to impact classroom instruction. Lakes International Language Academy cannot take funds from restricted areas and use the funds to hire teachers to enhance instruction. Therefore, a more accurate analysis of resources allocated to instruction should be limited to an analysis of resources received for the general operation of School minus lease aid entitlements and that analysis would show that 70% of those unrestricted resources are spent on instruction.

**Table A-3  
Total Cost of Services and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2009	2008		2009	2008	
Administration	\$ 128,319	\$ 160,478	-20.0%	\$ 128,319	\$ 160,478	-20.0%
District Support Services	282,368	265,224	6.5%	282,368	265,224	6.5%
Regular Instruction	1,147,372	1,513,446	-24.2%	568,421	1,461,478	-61.1%
Special Education Instruction	126,785	40,312	214.5%	50,756	-	N/A
Instructional Support Services	475,089	276,401	71.9%	475,089	276,401	71.9%
Pupil Support Services	42,375	46,700	-9.3%	42,375	46,700	-9.3%
Sites and Buildings	1,256,448	316,407	297.1%	1,256,448	316,407	297.1%
Fiscal and Other Fixed Cost Programs	20,643	19,782	4.4%	20,643	19,782	4.4%
Community Service	322,755	235,026	37.3%	(14,535)	(57,259)	-74.6%
Interest and Fiscal Charges on Long-Term Liabilities	509,236	513,970	-0.9%	(73,060)	40,570	-280.1%
<b>Total</b>	<b>\$ 4,311,390</b>	<b>\$ 3,387,746</b>	<b>27.3%</b>	<b>\$ 2,736,824</b>	<b>\$ 2,529,781</b>	<b>8.2%</b>

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

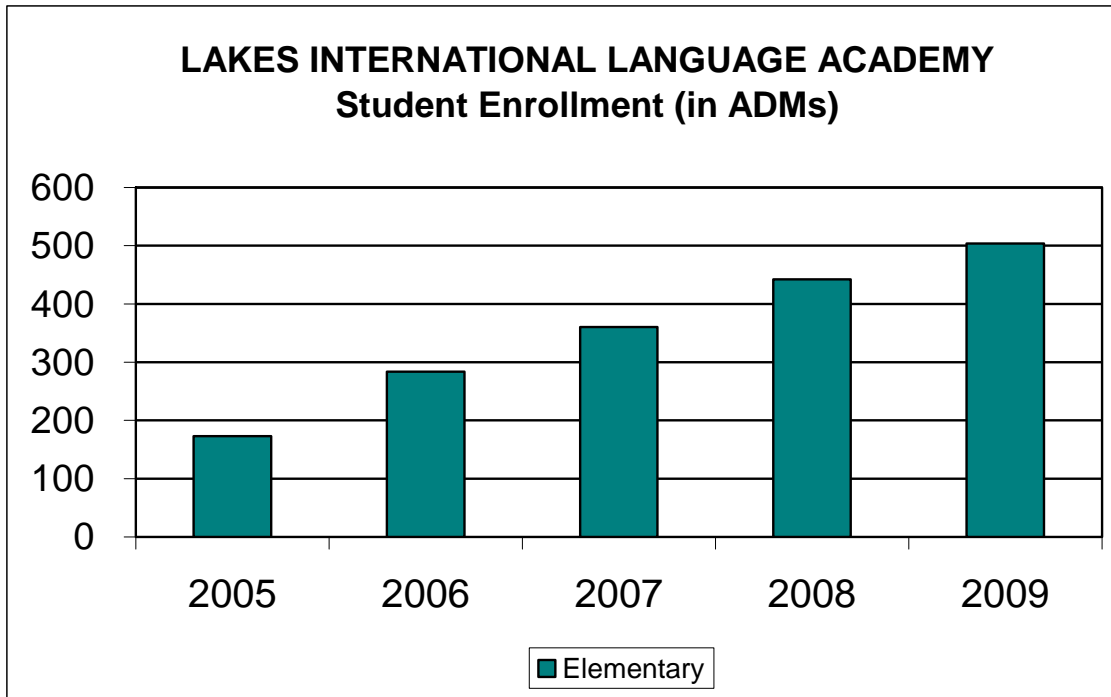
The financial performance of the School as a whole is reflected in its governmental funds as well. As the School completed its fifth year of serving students, its governmental funds reported a *combined* fund balance of \$2,092,510 which includes the Building Company fund balance of \$750,050.

Revenues for the School's governmental funds were \$5,391,784 while total expenditures were \$5,276,093.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

**ENROLLMENT**

The following table shows that the number of students enrolled for fiscal year 2007-08 was 442.29 average daily membership (ADM). During fiscal year 2008-09, the fifth year of serving students, the enrollment increased to 503.53 average daily membership. This represents a 14% increase for the School's fifth year of operations with students.



**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

**GENERAL FUND**

In 2008-09, the General Fund included the primary operations of the School in providing educational services to students from kindergarten through grade 6, including capital outlay projects.

Approximately 78% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This revenue resource includes general education aid of 83% and lease aid of 17%.

The following schedule presents a summary of General Fund Revenues.

**Table A-4  
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2009	June 30, 2008	Increase (Decrease)	Percent
Local Sources:				
Earnings on Investments	\$ 16,937	\$ 12,153	\$ 4,784	39.4%
Other	132,366	76,802	55,564	72.3%
State Sources	3,415,218	2,864,309	550,909	19.2%
Federal Sources	821,545	297,561	523,984	176.1%
Total General Fund Revenue	<u>\$ 4,386,066</u>	<u>\$ 3,250,825</u>	<u>\$ 1,135,241</u>	34.9%

Total General Fund revenue increased by \$1,135,241 or 34.9% over the previous year. This increase is mostly due to the increase in student enrollment as well as a \$500,000 Federal Facility Incentive Grant.

The following schedule presents a summary of General Fund Expenditures.

**Table A-5  
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2009	June 30, 2008		
Salaries	\$ 1,977,142	\$ 1,559,981	\$ 417,161	26.7%
Employee Benefits	392,187	328,420	63,767	19.4%
Purchased Services	971,996	897,074	74,922	8.4%
Supplies and Materials	95,120	119,945	(24,825)	-20.7%
Capital Expenditures	533,798	100,324	433,474	432.1%
Other Expenditures	6,375	22,689	(16,314)	-71.9%
Total Expenditures	<u>\$ 3,976,618</u>	<u>\$ 3,028,433</u>	<u>\$ 948,185</u>	31.3%

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

Of the total expenditures, 60% of the School's expenses were salaries and employee benefits to deliver the School's instructional programs, administration and support. A total of 24% of the expenditures were purchased services for the school's operations, mostly in the area of facilities, while the remainder of the expenses was spent on materials including curriculum and educational supplies.

In 2008-09, General Fund revenue and other financing sources was more than expenditures by \$437,105. Therefore, the total fund balance increased to \$1,138,828 at June 30, 2009. An unreserved-undesignated fund balance is the single best measure of overall financial health. The unreserved-undesignated fund balance at June 30, 2009 represents 28.6% of annual expenditures.

The following schedule presents a summary of the Capital Asset activity during the year.

**Table A-6  
Capital Assets**

	<u>2009</u>	<u>2008</u>	<u>Percentage Change</u>
<b>LILA Building Company</b>			
Land	\$ 501,090	\$ 501,090	0.0%
Construction in Progress	-	73,650	-100.0%
Land Improvements	36,217	36,217	0.0%
Equipment	61,685	61,685	0.0%
Buildings and Improvements	6,693,476	6,288,441	6.4%
<b>Lakes International Language Academy</b>			
Equipment	235,953	220,604	7.0%
Leasehold Improvements	512,750	-	N/A
Less: Accumulated Depreciation	(493,532)	(294,977)	67.3%
<b>Total</b>	<u>\$ 7,547,639</u>	<u>\$ 6,886,710</u>	9.6%

By the end of fiscal year 2009, the School had invested nearly \$750,000 in a broad range of capital equipment and building improvements and the Building Company had invested nearly \$7,300,000 in land, facility improvements and equipment. Total accumulated depreciation of \$493,532 resulted in a combined net capital asset value of \$7,547,639.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

The following schedule summarized the long-term debt activity during the year.

**Table A-7  
Long-Term Debt**

	<u>2009</u>	<u>2008</u>	<u>Percentage Change</u>
Lease Revenue Bonds Payable	\$ 8,075,000	\$ 8,140,000	-0.8%
Bank Loan Payable	<u>263,887</u>	<u>-</u>	N/A
<b>Total</b>	<u><u>\$ 8,338,887</u></u>	<u><u>\$ 8,140,000</u></u>	2.4%
Long-Term Liabilities:			
Due Within One Year	\$ 178,544	\$ 65,000	
Due in More than One Year	<u>8,160,343</u>	<u>8,075,000</u>	
	<u><u>\$ 8,338,887</u></u>	<u><u>\$ 8,140,000</u></u>	

At year-end, the Building Company owed \$8.339 million for lease revenue bonds and a bank loan payable for the purchase of the School's educational site including land, the facility and facility improvements.

**General Fund Budgetary Highlights**

Following approval of the budget prior to the beginning of the fiscal year, the School expects to revise the annual operating budget in mid-year. These budget amendments typically fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants and reinstating unexpended funds being carried over from the prior fiscal year.
- Legislation passes subsequent to budget adoption, changes necessitated by employment agreements, and increases in appropriations for significant unbudgeted costs.

During fiscal 2009, both the revenue and expenditure budgets of the General Fund were amended to adjust the use of federal and local funding and for revenues/expenditures related to final expected enrollment.

Expenditures in the School's fifth operational year continued to focus on instruction, developing the school's education program, equipping the school with technology, curriculum and materials, and supporting an administrative and service structure to manage, support and monitor achievement of the School's education goals and mission.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2009**

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

The School is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

Fiscal 2008-09 state funding formulas provided increased revenue. No state funding increases are expected in 2009-10.

The School will strive to maintain its commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility. The School received the Minnesota Department of Education's State Finance Award in 2007, 2008, and 2009. While state funding formulas will provide some increased revenue, the increase in planned enrollment is also expected to provide sufficient resources to balance future budgets. It is anticipated that enrollment will continue to grow with the added capacity of the remodeled facility.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our constituents, state oversight agencies, lenders, customers, legislative leaders and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director, Lakes International Language Academy, 246 11th Ave. SE, Forest Lake, MN 55025-1823.

## **BASIC FINANCIAL STATEMENTS**

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2009  
 (WITH COMPARATIVE DATA AS OF JUNE 30, 2008)**

	Governmental Activities	
	2009	2008
<b>ASSETS</b>		
Cash and Investments	\$ 933,334	\$ 506,466
Cash and Investments Held by Trustee	771,607	841,903
Receivables:		
Other Governments	369,258	405,346
Other	26,689	16,931
Prepaid Items	55,725	20,088
Bond Issuance Costs, Net	494,299	517,638
Capital Assets:		
Land and Construction in Progress	501,090	574,740
Capital Assets, Net of Depreciation	7,046,549	6,311,970
Total Assets	10,198,551	9,195,082
<b>LIABILITIES</b>		
Salaries Payable	21,327	6,727
Accounts and Contracts Payable	21,297	112,364
Accrued Interest	83,558	83,558
Deferred Revenue	21,479	22,481
Long-Term Liabilities:		
Portion Due Within One Year	178,544	65,000
Portion Due in More Than One Year	8,160,343	8,075,000
Total Liabilities	8,486,548	8,365,130
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	369,543	(29,575)
Restricted for:		
Community Service	203,632	157,804
Unrestricted	1,138,828	701,723
Total Net Assets	\$ 1,712,003	\$ 829,952

See accompanying Notes to Basic Financial Statements.



**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009  
(WITH COMPARATIVE DATA AS OF JUNE 30, 2008)**

	Major Funds			Total Governmental Funds	
	General	Community Service	Building Company	2009	2008
<b>ASSETS</b>					
Cash and Investments	\$ 722,533	\$ 205,953	\$ 4,848	\$ 933,334	\$ 506,466
Cash and Investments Held by Trustee	-	-	771,607	771,607	841,903
Receivables:					
Due from Minnesota Department of Education	337,152	-	-	337,152	319,565
Due from Federal through Minnesota Department of Education	32,106	-	-	32,106	85,781
Other Receivables	11,107	15,462	120	26,689	16,931
Due from Other Funds	23,241	-	-	23,241	38,131
Prepaid Items	55,328	397	-	55,725	20,088
<b>Total Assets</b>	<b>\$ 1,181,467</b>	<b>\$ 221,812</b>	<b>\$ 776,575</b>	<b>\$ 2,179,854</b>	<b>\$ 1,828,865</b>
<b>LIABILITIES AND FUND BALANCE</b>					
Liabilities:					
Salaries and Compensated Absences Payable	\$ 5,357	\$ -	\$ -	\$ 5,357	\$ 4,916
Payroll Deductions Payable	14,377	1,593	-	15,970	1,811
Accounts and Contracts Payable	19,805	1,492	-	21,297	112,364
Due to Other Funds	-	-	23,241	23,241	38,131
Deferred Revenue	3,100	15,095	3,284	21,479	22,481
<b>Total Liabilities</b>	<b>42,639</b>	<b>18,180</b>	<b>26,525</b>	<b>87,344</b>	<b>179,703</b>
Fund Balance:					
Reserved for Debt Service	-	-	767,934	767,934	764,919
Unreserved:					
Undesignated, Reported In:					
General Fund	1,138,828	-	-	1,138,828	701,723
Building Company Fund	-	-	(17,884)	(17,884)	24,716
Special Revenue Fund	-	203,632	-	203,632	157,804
<b>Total Fund Balance</b>	<b>1,138,828</b>	<b>203,632</b>	<b>750,050</b>	<b>2,092,510</b>	<b>1,649,162</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,181,467</b>	<b>\$ 221,812</b>	<b>\$ 776,575</b>	<b>\$ 2,179,854</b>	<b>\$ 1,828,865</b>

See accompanying Notes to Basic Financial Statements.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 RECONCILIATION OF THE BALANCE SHEET  
 TO THE STATEMENT OF NET ASSETS  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2009  
 (WITH COMPARATIVE DATA AS OF JUNE 30, 2008)**

	2009	2008
<b>Total Fund Balance for Governmental Funds</b>	<b>\$ 2,092,510</b>	<b>\$ 1,649,162</b>
Total net assets reported for governmental activities in the statement of net assets is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	501,090	501,090
Construction in Progress	-	73,650
Land Improvements, Net of Accumulated Depreciation	29,779	33,615
Buildings and Improvements, Net of Accumulated Depreciation	6,364,511	6,085,245
Leasehold Improvements, Net of Accumulated Depreciation	495,658	-
Equipment, Net of Accumulated Depreciation	156,601	193,110
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(83,558)	(83,558)
Bond issuance costs are reported as expenditures in the governmental funds.	494,299	517,638
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Bonds Payable	(8,075,000)	(8,140,000)
Bank Loan Payable	(263,887)	-
<b>Total Net Assets of Governmental Activities</b>	<b>\$ 1,712,003</b>	<b>\$ 829,952</b>

See accompanying Notes to Basic Financial Statements.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2009  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2008)**

	Major Funds			Total Governmental	
	General	Community Service	Building Company	Funds 2009	2008
<b>REVENUES</b>					
Local Sources:					
Earnings on Investments	\$ 16,937	\$ -	\$ 3,835	\$ 20,772	\$ 37,091
Other	132,366	368,583	633,300	1,134,249	951,944
State Sources	3,415,218	-	-	3,415,218	2,864,309
Federal Sources	821,545	-	-	821,545	297,561
Total Revenues	<u>4,386,066</u>	<u>368,583</u>	<u>637,135</u>	<u>5,391,784</u>	<u>4,150,905</u>
<b>EXPENDITURES</b>					
Current:					
Administration	126,520	-	-	126,520	157,879
District Support Services	238,106	-	-	238,106	228,363
Regular Instruction	1,526,969	-	-	1,526,969	1,380,247
Special Education Instruction	126,785	-	-	126,785	40,312
Instructional Support Services	474,584	-	-	474,584	273,881
Pupil Support Services	40,610	-	-	40,610	45,611
Sites and Buildings	888,603	-	-	888,603	782,034
Fiscal and Other Fixed Cost Programs	20,643	-	-	20,643	19,782
Community Service	-	322,755	-	322,755	235,026
Capital Outlay	533,798	-	366,371	900,169	225,910
Debt Service:					
Principal	-	-	101,113	101,113	30,000
Interest and Fiscal Charges	-	-	509,236	509,236	503,375
Total Expenditures	<u>3,976,618</u>	<u>322,755</u>	<u>976,720</u>	<u>5,276,093</u>	<u>3,922,420</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	409,448	45,828	(339,585)	115,691	228,485
<b>OTHER FINANCING SOURCES (USES)</b>					
Insurance Recovery Proceeds	27,657	-	-	27,657	500
Long-Term Bank Loan Proceeds	-	-	300,000	300,000	-
Total Other Financing Sources	<u>27,657</u>	<u>-</u>	<u>300,000</u>	<u>327,657</u>	<u>500</u>
Net Change in Fund Balances	437,105	45,828	(39,585)	443,348	228,985
Fund Balances - Beginning	<u>701,723</u>	<u>157,804</u>	<u>789,635</u>	<u>1,649,162</u>	<u>1,420,177</u>
Fund Balances - Ending	<u>\$ 1,138,828</u>	<u>\$ 203,632</u>	<u>\$ 750,050</u>	<u>\$ 2,092,510</u>	<u>\$ 1,649,162</u>

See accompanying Notes to Basic Financial Statements.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 RECONCILIATION OF THE STATEMENT OF  
 REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
 GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2009  
 (WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2008)**

	2009	2008
<b>Net Change in Fund Balance - Total Governmental Funds</b>	<b>\$ 443,348</b>	<b>\$ 228,985</b>

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Outlays	864,533	173,924
Loss on Disposal of Capital Assets	(505)	(2,520)
Depreciation Expense	(203,099)	(174,572)

The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of lease revenue bonds and related items is as follows:

Repayment of Loan Principal	36,113	-
Long-term Bank Loan Proceeds	(300,000)	-
Repayment of Bond Principal	65,000	30,000
Change in Accrued Interest Expense - Revenue Bonds	-	338
Amortization of Bond Issuance Costs	(23,339)	(18,496)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 882,051</b>	<b>\$ 237,659</b>

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2009**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local Sources:				
Earnings on Investments	\$ 8,000	\$ 8,000	\$ 16,937	\$ 8,937
Other	50,010	182,895	132,366	(50,529)
State Sources	3,298,480	3,458,928	3,415,218	(43,710)
Federal Sources	281,260	857,701	821,545	(36,156)
Total Revenues	<u>3,637,750</u>	<u>4,507,524</u>	<u>4,386,066</u>	<u>(121,458)</u>
<b>EXPENDITURES</b>				
Current:				
Administration	154,398	138,172	126,520	(11,652)
District Support Services	242,631	288,287	238,106	(50,181)
Elementary and Secondary Regular Instruction	1,785,151	1,660,669	1,526,969	(133,700)
Special Education Instruction	40,000	119,804	126,785	6,981
Instructional Support Services	287,152	512,646	474,584	(38,062)
Pupil Support Services	41,055	41,783	40,610	(1,173)
Sites and Buildings	948,059	1,013,721	888,603	(125,118)
Fiscal and Other Fixed Cost Programs	27,000	17,000	20,643	3,643
Capital Outlay	83,630	574,750	533,798	(40,952)
Debt Service:				
Interest and Fiscal Charges	200	200	-	(200)
Total Expenditures	<u>3,609,276</u>	<u>4,367,032</u>	<u>3,976,618</u>	<u>(390,414)</u>
Excess of Revenues Over Expenditures	28,474	140,492	409,448	268,956
<b>OTHER FINANCING SOURCES</b>				
Insurance Recovery Proceeds	-	27,657	27,657	-
Net Change in Fund Balance	<u>\$ 28,474</u>	<u>\$ 168,149</u>	437,105	<u>\$ 268,956</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>701,723</u>	
End of Year			<u>\$ 1,138,828</u>	

See accompanying Notes to Basic Financial Statements.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
 BUDGET AND ACTUAL  
 MAJOR COMMUNITY SERVICE FUND  
 YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Sources:				
Other - Primarily Tuition and Fees	\$ 273,125	\$ 342,564	\$ 368,583	\$ 26,019
<b>EXPENDITURES</b>				
Current:				
Community Service	211,751	339,161	322,755	(16,406)
Excess of Revenues Over Expenditures	\$ 61,374	\$ 3,403	45,828	\$ 42,425
<b>FUND BALANCE</b>				
Beginning of Year			157,804	
End of Year			\$ 203,632	

See accompanying Notes to Basic Financial Statements.



## **NOTES TO BASIC FINANCIAL STATEMENTS**

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of Charter School No. 4116 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. This financial report has been prepared in conformity with GASB Statement No. 34.

**B. Financial Reporting Entity**

Lakes International Language Academy (the School), is a nonprofit corporation that was formed on May 22, 2003, in accordance with Minnesota statutes. The School is sponsored by the Minnesota Department of Education under a contract extending through the end of fiscal year 2009-10. The School strongly emphasizes second language acquisition by immersing children in Spanish from kindergarten through sixth grade. The board of directors consists of the persons designated in the Articles of Incorporation with subsequent changes in board membership being determined by the remaining directors.

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

Component units are legally separate entities for which the School is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there is one organization that is considered to be a component unit of the School. LILA Building Company (the Building Company) is a Minnesota nonprofit corporation that does hold the IRS classification as a 501(c)(3) tax exempt organization which owns the real estate and building that is leased by the School for its operations. The Building Company is governed by a separate board appointed by its members, two of which must also be members of the Board of the School.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

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

**B. Financial Reporting Entity (Continued)**

Although it is legally separate from the School, the Building Company is reported as if it were part of the School (as a blended component unit) because its sole purpose is to acquire, construct and own an educational site which will be leased to the School. No separate financial statements of the Building Company are issued. The building is leased to Lakes International Language Academy under the terms of a long-term agreement. All long-term debt related to the purchase of the building and property and all capital assets related to the school site would be the responsibility of and would be under the ownership of LILA Building Company.

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

**C. Basic Financial Statement Presentation**

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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 items not properly included among program revenues are reported instead as general revenues.

The School applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Generally, the effect of material interfund activity has been removed from the School-wide financial statements.

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

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

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

**D. Measurement Focus and Basis of Accounting**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

**1. Revenue Recognition**

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Community education tuition and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

**2. Recording of Expenditures**

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

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

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

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

**D. Measurement Focus and Basis of Accounting (Continued)**

Description of Funds

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

*Major Governmental Funds*

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the School.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of certain specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. The School maintains the following special revenue funds:

Community Service – The Community Service Fund is used to account for the School's extended day childcare programs.

Building Company – Accounts for all activities of LILA Building Company.

**E. Income Taxes**

The School is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and comparable sections of the Minnesota income tax statutes.

**F. Budgeting**

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund and the Community Service Special Revenue Fund. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

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

F. Budgeting (Continued)

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

At the end of each fiscal year, if the General Fund has a net unreserved deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota schools which excludes certain reserves specified in Minnesota statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

G. Cash and Investments

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

H. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the School. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

I. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The School maintains a threshold level of \$500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the School-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 20 years for equipment.

The School does not possess any material amounts of infrastructure capital assets.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

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

J. Accrued Employee Benefits

Unpaid Sick Leave and Vacation Pay (Paid-Time-Off)

Unpaid sick leave and vacation pay (paid-time-off) has not been accrued as these benefits only vest for one staff member and were not deemed significant at year-end.

K. Fund Balance

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

L. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the School's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

M. Net Assets

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

N. Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the School's financial position and operations. Certain comparative information may have been reclassified to conform to the current year presentation.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 2 DEPOSITS AND INVESTMENTS**

**A. Deposits**

The School maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the School maintains deposits at financial institutions which are authorized by the School Board of Education.

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

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The carrying value and bank balance of the School's deposits in banks at June 30, 2009 is \$933,334 and \$934,285, respectively, including \$513,457 in Certificates of Deposit that mature between October 2009 and April 2011. The School's deposits were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2009**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments**

The School may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rate "A" or better
- Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers

At June 30, 2009, the Building Company's investment balances were as follows:

**Cash Investments Held by Trustee**

	<u>Percentage of Total Investments</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Wells Fargo Advantage 100% Treasury Money Market Fund #008	100.0%	N/A	\$ 771,607

These investments are held by an escrow agent in accordance with escrow agreements established with the sale of the 2006A and 2006B Lease Revenue Bonds. The investments solely consist of money market funds which are invested in the Wells Fargo Advantage 100% Treasury Money Market Fund which is rated AAA by Moody's Investors Service.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)**

B. Investments (Continued)

**Concentration of Credit Risk**

The School places no limit on the amount that the School may invest in any one issuer. The deposits and investments are presented in the financial statements as follows:

Cash Investments - Statement of Net Assets	\$ 933,334
Cash and Investments Held by Trustee - Statement of Net Assets	771,607
Total Cash and Investments	\$ 1,704,941

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated:				
<b>LILA Building Company</b>				
Land	\$ 501,090	\$ -	\$ -	\$ 501,090
Construction in Progress	73,650	-	(73,650)	-
Total Capital Assets, Not Being Depreciated	574,740	-	(73,650)	501,090
Capital Assets, Being Depreciated:				
<b>LILA Building Company</b>				
Buildings and Improvements	6,288,441	405,035	-	6,693,476
Land Improvements	36,217	-	-	36,217
Equipment	61,685	-	-	61,685
<b>Lakes International Language Academy</b>				
Leasehold Improvements	-	512,750	-	512,750
Equipment	220,604	20,398	(5,049)	235,953
Total Capital Assets, Being Depreciated	6,606,947	938,183	(5,049)	7,540,081
Accumulated Depreciation for:				
<b>LILA Building Company</b>				
Buildings and Improvements	(203,196)	(125,769)	-	(328,965)
Land Improvements	(2,602)	(3,836)	-	(6,438)
Equipment	(8,361)	(5,081)	-	(13,442)
<b>Lakes International Language Academy</b>				
Leasehold Improvements	-	(17,092)	-	(17,092)
Equipment	(80,818)	(51,321)	4,544	(127,595)
Total Accumulated Depreciation	(294,977)	(203,099)	4,544	(493,532)
Total Capital Assets, Being Depreciated, Net	6,311,970	735,084	(505)	7,046,549
Governmental Activities Capital Assets, Net	\$ 6,886,710	\$ 735,084	\$ (74,155)	\$ 7,547,639

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 3 CAPITAL ASSETS (CONTINUED)**

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

**Governmental Activities**

Administration	\$ 1,799
District Support Services	46,262
Pupil Support Services	1,751
Sites and Buildings	<u>153,287</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 203,099</u>

**NOTE 4 LONG-TERM LIABILITIES**

Bonds Payable and Notes Payable

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
5/1/2006	4.35% - 8.75%	\$ 7,755,000	5/1/2035	\$ -	\$ 7,755,000
5/1/2006	6.75%	445,000	5/1/2012	<u>80,000</u>	<u>320,000</u>
Total Lease Revenue Bonds Series 2005				<u>\$ 80,000</u>	<u>\$ 8,075,000</u>
Bond Discounts - Net				\$	-

Lease Revenue Bonds Mortgage Loan Series 2006 Issues – LILA Building Company obtained a \$8,200,000 mortgage loan from lease revenue bond proceeds sold by the City of Pine City. The loan proceeds were used to refinance the purchase and remodel of the School's current education site. The City of Pine City issued two separate bond issues as follows: \$7,755,000 of non-taxable lease revenue bonds (Series 2006A) and \$445,000 of taxable lease revenue bonds (Series 2006B). The bond proceeds were placed in an escrow account controlled by Wells Fargo Trust under the terms of a trust agreement between the City of Pine City and Wells Fargo Trust.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 4 LONG-TERM LIABILITIES (CONTINUED)**

The resulting loan is payable in semi-annual installments of principal and interest beginning November 1, 2006 through May 1, 2035. The note is based on annual interest rates that increase from 5.75% to 6.25% (the rates of the related lease revenue bonds) and is secured by a mortgage agreement covering the related land, school building, and building contents as well as the assignment of all lease revenue. The loan is also guaranteed by Lakes International Language Academy and investments of the School are being used as collateral on the loan.

On June 27, 2008, the LILA Building Company entered into an agreement for a bank loan for a remodeling project in the amount of \$300,000. The loan has an interest rate of 4.25%. The outstanding balance on the line of credit at June 30, 2009 and 2008 was \$263,887 and \$0, respectively. The loan is also guaranteed by Lakes International Language Academy.

Following are maturities of long-term debt for LILA Building Company for each of the next five years ending June 30 and thereafter:

Year Ending June 30,	Revenue Bonds Payable		Bank Loan Payable	
	Principal	Interest	Principal	Interest
2010	\$ 80,000	\$ 496,963	\$ 98,544	\$ 9,456
2011	110,000	491,562	115,115	4,885
2012	130,000	484,138	50,228	900
2013	145,000	475,362	-	-
2014	150,000	467,025	-	-
2015 - 2019	925,000	2,191,675	-	-
2020 - 2024	1,260,000	1,876,425	-	-
2025 - 2029	1,730,000	1,443,575	-	-
2030 - 2034	2,345,000	832,500	-	-
2035 - 2037	1,200,000	75,000	-	-
Total	<u>\$ 8,075,000</u>	<u>\$ 8,834,225</u>	<u>\$ 263,887</u>	<u>\$ 15,241</u>

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 5 RETIREMENT PLANS**

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

A. Teacher's Retirement Association (TRA)

**1. Plan Description**

All teachers employed by the School are covered by a cost sharing, multiple employer defined benefit pension plan administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at [www.tra.state.mn.us](http://www.tra.state.mn.us). Alternatively, a copy of the report may be obtained by writing TRA at Teachers Retirement Association, 60 Empire Drive Suite 400, St. Paul, MN 55103-1855 or by calling (651) 296-6449 or 1-800-657-3853.

**2. Funding Policy**

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 5.50% and 9.00%, respectively, of their annual covered salary while the School is required to contribute at an actuarially determined rate.

The School is required to contribute the following percentages of annual covered payroll: 5.50% for Coordinated Plan members and 9.50% for Basic Plan members. The contribution requirements of plan members and the School are established and may be amended by State Statute. The School contributions for the years ended June 30, 2009, 2008, and 2007 were \$78,194, \$70,610, and \$45,035, respectively, equal to the required contributions for each year as set by state statute.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 5 RETIREMENT PLANS (CONTINUED)**

**B. Public Employees' Retirement Association (PERA)**

**1. Plan Description**

All full-time and certain part-time employees of the School (other than teachers) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the Public Employees' Retirement Fund (PERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive #200, St. Paul, MN 55103-2088, or by calling (651) 296-7460 or 1-800-652-9026.

**2. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for the 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. PERF Basic Plan members and Coordinated Plan members were required to contribute 9.00% and 5.50%, respectively, of their annual covered salary in 2007. Contribution rates in the Coordinated Plan increased in 2008 to 6.75%.

The School is required to contribute the following percentages of annual covered payroll: 9.10% for Basic Plan PERF members and 6.50% for Coordinated Plan members. Employer contribution rates for the Coordinated Plan increased to 6.75% effective January 1, 2008. The School's contributions to the Public Employees Retirement Fund for the years ended June 30, 2009, 2008, and 2007 were \$39,088, \$24,759, and \$15,965, respectively. The School's contributions were equal to the contractually required contributions for each year as set by state statute.

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 6 COMMITMENTS AND CONTINGENCIES**

**A. Federal and State Programs**

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

**B. Lease Commitments and Terms**

Effective with the purchase and expansion of the educational site by the LILA Building Company, the School leased the site from the LILA Building Company (a blended component unit). Under the terms of the lease agreement, the lease term is for the period beginning May 1, 2006 and ending June 30, 2035. The School has an option to extend the lease term for two additional ten-year lease periods either on the same lease terms or as agreed upon with the Building Company. In June of 2008, the lease was amended to increase the monthly lease cost in response to the additional square footage resulting from an expansion project.

The net annual base rent for the term of the lease agreement is tied closely to the debt service requirements of the LILA Building Company, including amounts held in escrow as part of the respective loan agreements. In addition, the School is responsible for all interior and exterior repair and maintenance costs as well as all utility costs.

The total amount of rent paid by the School to LILA Building Company under the terms of the lease agreement for fiscal 2009 was \$599,000. The estimated charter school lease state aid entitlement for fiscal 2009 was \$539,100 (based on 90% of the MDE-approved lease costs incurred). This entitlement is subject to proration by the Minnesota Department of Education to the extent the overall funding that has been provided is insufficient to meet all amounts owed to Minnesota charter schools. Future amounts to be requested for state lease aid from the Minnesota Department of Education may vary due to financing arrangements, which are subject to change.

The minimum annual lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2010	\$ 717,000
2011	754,000
2012	698,138
2013	653,000
2014	650,000
2015 - 2019	3,280,000
2020 - 2024	3,300,000
2025 - 2029	3,336,000
2030 - 2034	3,341,000
2035 - 2037	668,000
Total Minimum Lease Payments	<u>\$ 17,397,138</u>

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009**

**NOTE 6 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**B. Lease Commitments and Terms (Continued)**

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

## **SUPPLEMENTAL INFORMATION**

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 GENERAL FUND  
 BALANCE SHEET  
 JUNE 30, 2009  
 (WITH COMPARATIVE DATA AS OF JUNE 30, 2008)**

	2009	2008
<b>ASSETS</b>		
Cash and Investments	\$ 722,533	\$ 312,915
Receivables:		
Accounts and Interest Receivable	11,107	495
Due from Other Funds	23,241	38,131
Due from Minnesota Department of Education	337,152	319,565
Due from Federal through the Minnesota Department of Education	32,106	85,781
Prepaid Items	55,328	19,831
<b>Total Assets</b>	<b>\$ 1,181,467</b>	<b>\$ 776,718</b>
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Salaries and Compensated Absences Payable	\$ 5,357	\$ 4,916
Payroll Deductions and Employer Contributions Payable	14,377	1,102
Accounts and Contracts Payable	19,805	65,377
Deferred Revenue	3,100	3,600
<b>Total Liabilities</b>	42,639	74,995
Fund Balance:		
Unreserved, Undesignated	1,138,828	701,723
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,181,467</b>	<b>\$ 776,718</b>

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
 BUDGET AND ACTUAL  
 YEAR ENDED JUNE 30, 2009  
 (WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2008)**

	2009		Over (Under) Final Budget	2008
	Final Budget	Actual Amounts		Actual Amounts
<b>REVENUES</b>				
Local Sources:				
Earnings on Investments	\$ 8,000	\$ 16,937	\$ 8,937	\$ 12,153
Other	182,895	132,366	(50,529)	76,802
State Sources	3,458,928	3,415,218	(43,710)	2,864,309
Federal Sources	857,701	821,545	(36,156)	297,561
Total Revenues	4,507,524	4,386,066	(121,458)	3,250,825
<b>EXPENDITURES</b>				
Current:				
Administration:				
Salaries	96,408	92,400	(4,008)	112,773
Employee Benefits	21,799	21,179	(620)	29,403
Purchased Services	17,565	11,922	(5,643)	11,109
Supplies and Materials	400	106	(294)	77
Capital Expenditures	-	-	-	1,000
Other Expenditures	2,000	913	(1,087)	4,517
Total Administration	138,172	126,520	(11,652)	158,879
District Support Services:				
Salaries	115,175	106,783	(8,392)	66,705
Employee Benefits	47,653	28,598	(19,055)	35,984
Purchased Services	100,909	87,449	(13,460)	90,156
Supplies and Materials	15,550	12,208	(3,342)	21,065
Capital Expenditures	1,000	-	(1,000)	1,000
Other Expenditures	9,000	3,068	(5,932)	14,453
Total District Support Services	289,287	238,106	(51,181)	229,363
Elementary and Secondary				
Regular Instruction:				
Salaries	1,253,090	1,213,166	(39,924)	1,059,485
Employee Benefits	297,645	241,925	(55,720)	214,776
Purchased Services	37,811	27,896	(9,915)	41,974
Supplies and Materials	70,428	42,518	(27,910)	60,608
Capital Expenditures	57,000	15,946	(41,054)	94,694
Other Expenditures	1,695	1,464	(231)	3,404
Total Elementary and Secondary Regular Instruction	1,717,669	1,542,915	(174,754)	1,474,941

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL (CONTINUED)  
YEAR ENDED JUNE 30, 2009  
(WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2008)**

	2009		Over (Under) Final Budget	2008
	Final Budget	Actual Amounts		Actual Amounts
<b>EXPENDITURES (Continued)</b>				
Current (Continued):				
Special Education Instruction:				
Purchased Services	\$ 47,642	\$ 59,028	\$ 11,386	\$ 40,272
Supplies and Materials	13,575	4,718	(8,857)	40
Total Special Education Instruction	119,804	126,785	6,981	40,312
Instructional Support Services:				
Salaries	368,211	358,774	(9,437)	175,019
Employee Benefits	85,598	61,792	(23,806)	25,548
Purchased Services	41,971	33,018	(8,953)	61,061
Supplies and Materials	16,466	20,600	4,134	12,253
Capital Expenditures	1,000	-	(1,000)	-
Other Expenditures	400	400	-	-
Total Instructional Support Services	513,646	474,584	(39,062)	273,881
Pupil Support Services:				
Salaries	34,000	34,751	751	39,622
Employee Benefits	5,373	3,832	(1,541)	4,841
Purchased Services	300	288	(12)	266
Supplies and Materials	1,525	1,209	(316)	567
Capital Expenditures	3,000	3,644	644	3,630
Other Expenditures	585	530	(55)	315
Total Pupil Support Services	44,783	44,254	(529)	49,241

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 GENERAL FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
 BUDGET AND ACTUAL (CONTINUED)  
 YEAR ENDED JUNE 30, 2009  
 (WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2008)**

	2009		Over (Under) Final Budget	2008
	Final Budget	Actual Amounts		Actual Amounts
<b>EXPENDITURES (Continued)</b>				
Current (Continued):				
Sites and Buildings:				
Salaries	\$ 120,720	\$ 118,888	\$ (1,832)	\$ 106,377
Employee Benefits	33,251	24,202	(9,049)	17,868
Purchased Services	806,750	731,752	(74,998)	632,454
Supplies and Materials	53,000	13,761	(39,239)	25,335
Total Sites and Buildings	<u>1,526,471</u>	<u>1,402,811</u>	<u>(123,660)</u>	<u>782,034</u>
Fiscal and Other Fixed Cost Programs:				
Purchased Services	17,000	20,643	3,643	19,782
Debt Service:				
Interest and Fiscal Charges	<u>200</u>	<u>-</u>	<u>(200)</u>	<u>-</u>
Total Expenditures	<u>4,367,032</u>	<u>3,976,618</u>	<u>(390,414)</u>	<u>3,028,433</u>
Excess of Revenue Over Expenditures	140,492	409,448	268,956	222,392
<b>OTHER FINANCING SOURCES</b>				
Insurance Recovery Proceeds	<u>27,657</u>	<u>27,657</u>	<u>-</u>	<u>500</u>
Net Change in Fund Balance	<u>\$ 168,149</u>	437,105	<u>\$ 268,956</u>	222,892
<b>FUND BALANCE</b>				
Beginning of Year		<u>701,723</u>		<u>478,831</u>
End of Year		<u>\$ 1,138,828</u>		<u>\$ 701,723</u>

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 COMMUNITY SERVICE SPECIAL REVENUE FUND  
 BALANCE SHEET  
 JUNE 30, 2009  
 (WITH COMPARATIVE DATA AS OF JUNE 30, 2008)**

	2009	2008
<b>ASSETS</b>		
Cash and Investments	\$ 205,953	\$ 168,074
Receivables:		
Accounts and Interest Receivable	15,462	10,904
Prepaid Items	397	257
Total Assets	\$ 221,812	\$ 179,235
 <b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Payroll Deductions and Employer Contributions Payable	\$ 1,593	\$ 709
Accounts and Contracts Payable	1,492	1,841
Deferred Revenue	15,095	18,881
Total Liabilities	18,180	21,431
Fund Balance:		
Unreserved, Undesignated	203,632	157,804
Total Liabilities and Fund Balance	\$ 221,812	\$ 179,235

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 COMMUNITY SERVICE SPECIAL REVENUE FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
 BUDGET AND ACTUAL  
 YEAR ENDED JUNE 30, 2009  
 (WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2008)**

	2009		Over (Under) Final Budget	2008
	Final Budget	Actual Amounts		Actual Amounts
<b>REVENUES</b>				
Local Sources:				
Other - Primarily Tuition and Fees	\$ 342,564	\$ 368,583	\$ 26,019	\$ 306,565
<b>EXPENDITURES</b>				
Current:				
Salaries	240,279	234,790	(5,489)	180,677
Employee Benefits	49,207	43,815	(5,392)	32,004
Purchased Services	28,467	25,362	(3,105)	2,392
Supplies and Materials	21,208	18,788	(2,420)	19,953
Total Expenditures	339,161	322,755	(16,406)	235,026
Excess of Revenues Over Expenditures	\$ 3,403	45,828	\$ 42,425	71,539
<b>FUND BALANCE</b>				
Beginning of Year		157,804		86,265
End of Year		\$ 203,632		\$ 157,804

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 LILA BUILDING SPECIAL REVENUE FUND  
 BALANCE SHEET  
 JUNE 30, 2009  
 (WITH COMPARATIVE DATA AS OF JUNE 30, 2008)**

	2009	2008
<b>ASSETS</b>		
Cash and Investments	\$ 4,848	\$ 25,477
Cash and Investments in Escrow	771,607	841,903
Other Receivables:		
Accounts and Interest Receivable	120	5,532
Total Assets	<b>\$ 776,575</b>	<b>\$ 872,912</b>
<b>LIABILITIES AND FUND BALANCE</b>		
Liabilities:		
Accounts and Contracts Payable	\$ -	\$ 45,146
Due to Other Funds	23,241	38,131
Deferred Revenue	3,284	-
Total Liabilities	26,525	83,277
Fund Balance:		
Reserved for Debt Service	767,934	764,919
Unreserved	(17,884)	24,716
Total Fund Balance	750,050	789,635
Total Fund Liabilities and Fund Balance	<b>\$ 776,575</b>	<b>\$ 872,912</b>

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 LILA BUILDING SPECIAL REVENUE FUND  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
 YEAR ENDED JUNE 30, 2009  
 (WITH COMPARATIVE DATA FOR THE YEAR ENDED JUNE 30, 2008)**

	2009	2008
<b>REVENUES</b>		
Local Sources:		
Earnings on Investments	\$ 3,835	\$ 24,938
Other	633,300	568,577
Total Revenues	637,135	593,515
<b>EXPENDITURES</b>		
Current:		
Purchased Services	34,986	13,805
Capital Outlay	331,385	111,781
Debt Service:		
Principal	101,113	30,000
Interest and Fiscal Charges	509,236	503,375
Total Expenditures	976,720	658,961
Deficiency of Revenues Under Expenditures	(339,585)	(65,446)
<b>OTHER FINANCING SOURCES</b>		
Bank Loan Proceeds	300,000	-
Net Change in Fund Balance	(39,585)	(65,446)
Fund Balance - Beginning	789,635	855,081
Fund Balance - Ending	\$ 750,050	\$ 789,635

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS  
COMPLIANCE TABLE  
JUNE 30, 2009**

**01 GENERAL FUND**

Total Revenue	\$ 4,413,723
Total Expenditures	\$ 3,976,618
<i>Reserved:</i>	
403 Staff Development	\$ -
405 Deferred Maintenance	\$ -
406 Health & Safety	\$ -
407 Capital Project Levy	\$ -
408 Cooperative Programs	\$ -
411 Severance Pay	\$ -
414 Operating Debt	\$ -
416 Levy Reduction	\$ -
417 Taconite Building Maint	\$ -
419 Encumbrances	\$ -
423 Certain Teacher Programs	\$ -
424 Operating Capital	\$ -
426 \$25 Taconite	\$ -
427 Disabled Accessibility	\$ -
428 Learning & Development	\$ -
434 Area Learning Center	\$ -
435 Contracted Alt. Programs	\$ -
436 State Approved Alt. Program	\$ -
438 Gifted & Talented	\$ -
441 Basic Skills Programs	\$ -
445 Career and Technical Programs	\$ -
446 First Grade Preparedness	\$ -
449 Safe Schools Crime	\$ -
450 Prekindergarten	\$ -
451 QZAB Payments	\$ -
452 OPEB Liab Not In Trust	\$ -
453 Unfunded Sev & Retirement Levy	\$ -
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ 1,138,828

**02 FOOD SERVICE**

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ -
452 OPEB Liab Not In Trust	\$ -
<i>Unreserved:</i>	
418 Severance - Ins. Premium	\$ -
422 Unreserved/Undesignated	\$ -

**04 COMMUNITY SERVICE**

Total Revenue	\$ 368,583
Total Expenditures	\$ 322,755
<i>Reserved:</i>	
411 Severance Pay	\$ -
419 Encumbrances	\$ -
426 \$25 Taconite	\$ -
431 Community Education	\$ -
432 E.C.F.E.	\$ -
444 School Readiness	\$ -
447 Adult Basic Education	\$ -
452 OPEB Liab Not In Trust	\$ -
<i>Unreserved:</i>	
418 Severance Premium	\$ -
422 Unreserved/Undesignated	203,832

**06 BUILDING CONSTRUCTION**

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Reserved:</i>	
407 Capital Projects Levy	\$ -
409 Alternative Facility Program	\$ -
413 Project Funded by COP	\$ -
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

**07 DEBT SERVICE**

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Reserved:</i>	
425 Bond Refundings	\$ -
451 QZAB Payments	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

**08 TRUST**

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Reserved:</i>	
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

**09 AGENCY**

<i>Unreserved: Should Always Be -0-</i>	
422 Unreserved/Undesignated	\$ -

**20 INTERNAL SERVICE**

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Reserved:</i>	
419 Encumbrances	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

**25 OPEB REVOCABLE TRUST**

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

**45 OPEB IRREVOCABLE TRUST**

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

**47 OPEB DEBT SERVICE**

Total Revenue	\$ -
Total Expenditures	\$ -
<i>Reserved:</i>	
425 Bond Refundings	\$ -
<i>Unreserved:</i>	
422 Unreserved/Undesignated	\$ -

**FY09 SAFE SCHOOL MAINTENANCE OF EFFORT**

Total Expenditures	\$ -
FTE	-

**FY09 OPERATING CAPITAL TRANSFER**

Per Pupil Amount	\$ -
AMCPU	\$ -
Total Transfer	\$ -

## **SINGLE AUDIT AND OTHER REQUIRED REPORTS**

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
 CHARTER SCHOOL NO. 4116  
 SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS  
 JUNE 30, 2009**

Federal Agency/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>		
Passed Through Minnesota Department of Education:		
ESEA Title I Grants to Local Educational Agencies	84.010	\$ 9,279
IDEA, Part B - Special Education Grants to States	84.027	42,855
Foreign Language Assistance Program (FLAP)	84.293B	269,397
Title II	84.367	1,082
		<u>322,613</u>
Received Direct:		
Federal Charter School Facilities Incentive Grant	84.282D	<u>500,000</u>
		<u>\$ 822,613</u>

Notes to Schedule of Expenditures of Federal Awards:

Note 1:

The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Charter School No. 4116.

Note 2:

The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 1 to the financial statements of the School.

Note 3:

The pass-through entity identifying number is unknown.

**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***

Members of the Board of Education  
Charter School No. 4116  
Lakes International Language Academy  
Forest Lake, Minnesota

We have audited the financial statements the governmental activities and each major fund of Lakes International Language Academy as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 3, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

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

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

Members of the Board of Education  
Charter School No. 4116  
Lakes International Language Academy

**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 test disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management of the School, the Minnesota Department of Education, and state and federal awarding entities and is not intended to be and should not be used by anyone other than these specified parties.

  
LarsonAllen LLP

Minneapolis, Minnesota  
November 3, 2009

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Education  
Charter School No. 4116  
Lakes International Language Academy  
Forest Lake, Minnesota

### **COMPLIANCE**

We have audited the compliance of Lakes International Language Academy with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School's management. Our responsibility is to express an opinion on the School's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School's compliance with those requirements.

In our opinion, the School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

### **INTERNAL CONTROL OVER COMPLIANCE**

The management of the School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over compliance.

Members of the Board of Education  
Charter School No. 4116  
Lakes International Language Academy

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the Board of Education, management of the School, the Minnesota Department of Education, and state and federal awarding entities and is not intended to be and should not be used by anyone other than these specified parties.

  
LarsonAllen LLP

Minneapolis, Minnesota  
November 3, 2009

## REPORT ON MINNESOTA LEGAL COMPLIANCE

Members of the Board of Education  
Charter School No. 4116  
Lakes International Language Academy  
Forest Lake, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Lakes International Language Academy as of and for the year ended June 30, 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 3, 2009.

We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers two main categories of compliance to be tested: uniform financial accounting and reporting standards, and charter schools. Our study included both of the listed categories.

The results of our tests indicate that, with respect to the items tested, the School complied, in all material respects, with the provisions referred to in the preceding paragraph.

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

*Larson Allen LLP*  
LarsonAllen LLP

Minneapolis, Minnesota  
November 3, 2009

**LAKES INTERNATIONAL LANGUAGE ACADEMY  
CHARTER SCHOOL NO. 4116  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009**

**SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Lakes International Language Academy.
2. No material weaknesses were disclosed during the audit of the financial statements of Lakes International Language Academy.
3. No instances of noncompliance material to the financial statements of Lakes International Language Academy were disclosed during the audit.
4. No material weaknesses were disclosed during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Lakes International Language Academy expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for Lakes International Language Academy were disclosed during the audit.
7. The programs tested as major programs included:
  - U.S. Department of Education:
    - Federal Charter School Facilities
    - Incentive Grant
  - CFDA #84.282D
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Lakes International Language Academy was not determined to be a low-risk auditee.