

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2010

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
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INTRODUCTORY SECTION

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2010**

SCHOOL BOARD

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Jason Thomas	May 31, 2011	Board Chair
Matt Peterson	May 31, 2010	Board Chair
Gene Henrie	May 31, 2011	Vice Chair
Tammy Sternal	May 31, 2010	Vice Chair
Greg Buhl	May 31, 2013	Treasurer
Jeremy Maisch	May 31, 2010	Secretary
Sharon Hall	May 31, 2011	Member
Kasie Peters	May 31, 2011	Member
Jamie Bernu	May 31, 2012	Member
Jayme Swenson	May 31, 2013	Member
Liz Barnes	May 31, 2010	Member
Melissa Madina	January 21, 2010	Member

ADMINISTRATION

Paula Higgins

Interim Director

FINANCIAL SECTION

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www.larsonallen.com

INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
Charter School No. 4118
Kaleidoscope Charter School
Otsego, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of Kaleidoscope Charter School as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with 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 opinion.

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 Kaleidoscope Charter School as of June 30, 2010, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund and the 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 December 21, 2010, 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.

Members of the Board of Education
Charter School No. 4118
Kaleidoscope Charter School

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 School's basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards Compliance Table is presented as supplemental information and is also not a required part of the basic financial statements of the School. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Larson Allen LLP
LarsonAllen LLP

Minneapolis, Minnesota
December 21, 2010

REQUIRED SUPPLEMENTARY INFORMATION

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

This section of Kaleidoscope Charter School – Charter School 4118's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2010. Please read it in conjunction with the School's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2009-2010 fiscal year include the following:

- Total General Fund revenues were \$3,417,948 as compared to \$3,080,073 of expenditures.
- Total net assets of governmental activities at June 30, 2010 were \$767,147.
- The total fund balance of the General Fund increased from \$714,829 at June 30, 2009, to \$1,047,996 at the end of fiscal year 2010.

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.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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 School's creditworthiness and the condition of school buildings and other facilities.

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

- *Governmental Activities* – Most of the School's basic services are included here, such as regular and special education, administration. State aid finances 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 may establish other funds to control and manage money for specific purposes.

The School has the following 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 to explain the relationship (or differences) between them.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Assets

The School's *combined* net assets were \$767,147 and \$512,808 on June 30, 2010 and 2009, respectively (see Table A-1).

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

	Governmental Activities		Percentage Change
	2010	2009	
Current and Other Assets	\$ 2,737,137	\$ 2,387,150	14.66 %
Capital and Non-Current Assets	6,883,672	7,023,752	(1.99)
Total Assets	<u>9,620,809</u>	<u>9,410,902</u>	2.23
Current Liabilities	426,562	288,094	48.06
Long-Term Liabilities	8,427,100	8,610,000	(2.12)
Total Liabilities	<u>8,853,662</u>	<u>8,898,094</u>	(0.50)
Net Assets:			
Invested in Capital Assets			
Net of Related Debt	(280,849)	(216,931)	29.46
Unrestricted	1,047,996	729,739	43.61
Total Net Assets	<u>\$ 767,147</u>	<u>\$ 512,808</u>	49.60

The School has successfully completed its sixth year of operations and its financial picture is strong. For the year ended June 30, 2010, the School reported a gain in net assets of \$254,339.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Changes in Net Assets

The total cost of all programs and services including interest and fiscal charges was \$3,271,017 and \$3,404,603 for 2010 and 2009, respectively. Total revenues exceeded expenses, increasing net assets to a balance of \$767,147 at June 30, 2010.

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

	Governmental Activities for the Fiscal Year Ended June 30,		Total % Change
	2010	2009	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 118,793	\$ 108,597	9.39 %
Operating Grants and Contributions	1,159,293	859,636	34.86
<u>General Revenues</u>			
Unrestricted State Aid	2,230,948	2,549,361	(12.49)
Investment Earnings	1,222	22,195	(94.49)
Other	15,100	12,758	18.36
Total Revenues	<u>3,525,356</u>	<u>3,552,547</u>	(0.77)
Expenses			
Administration	134,493	86,091	56.22
District Support Services	352,592	420,267	(16.10)
Regular Instruction	1,297,039	1,298,167	(0.09)
Special Education Instruction	417,662	331,525	25.98
Instructional Support Services	20,362	69,656	(70.77)
Pupil Support Services	71,612	56,618	26.48
Sites and Buildings	361,898	486,767	(25.65)
Fiscal and Other Fixed Cost Programs	10,246	10,878	(5.81)
Food Service	111,569	105,031	6.22
Interest and Fiscal Charges on Long-Term Liabilities	493,544	539,603	(8.54)
Total Expenses	<u>3,271,017</u>	<u>3,404,603</u>	(3.92)
Increase in Net Assets			
Beginning Net Assets	512,808	364,864	
Ending Net Assets	<u>\$ 767,147</u>	<u>\$ 512,808</u>	

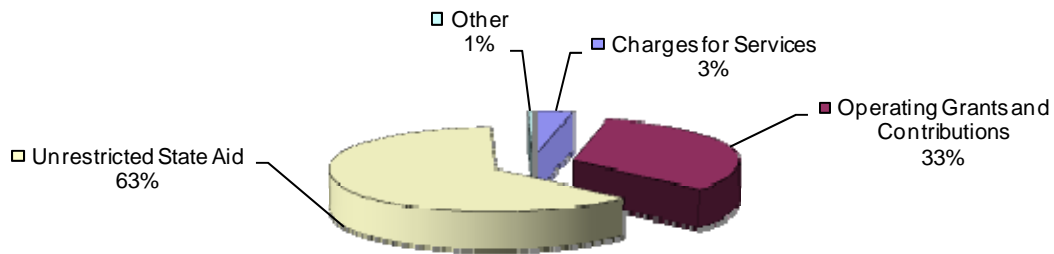
The School's total revenues were \$3,525,356 and \$3,552,547 (including the Building Company) for the years ended June 30, 2010 and 2009, respectively. Unrestricted state formula aid accounted for 63% of total revenue for the year ended June 30, 2010 (see Figure A-1). Another 36% came from program revenue and the remainder of less than 1% from other general revenues.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

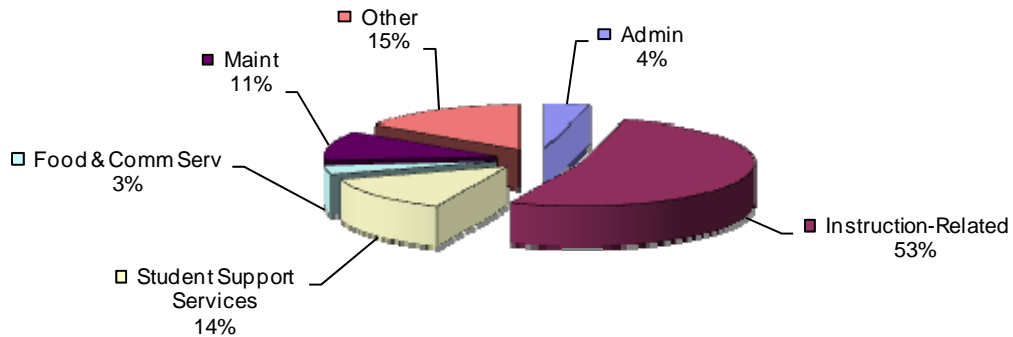
The cost of all *governmental* activities this year was \$3,271,017.

- Some of the cost was paid by the users of the School's programs (\$118,793).
- The federal government, restricted state sources, and private grant funds subsidized certain programs with grants and contributions (\$1,159,293).
- The majority of remaining costs were paid for by unrestricted state aid.

**Figure A-1
Sources of School's Revenues for Fiscal 2010**



**Figure A-2
School Expenses for Fiscal 2010**



**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The School's cost of all governmental activities this year was \$3,271,017. Approximately 52% of the School's expenses were in categories directly related to providing instruction, which includes: elementary and secondary regular instruction, special education instruction, and instructional support services. Another 11% of the cost was for sites and buildings, including the cost of renting space. General/building administration, business services and student support services accounted for 17% of the cost. The food service program represents 3 percent of total costs, and interest and fiscal charges represents 17%.

The fiscal year 2010 total expenses represented a 3.92% decrease over the prior year expenses of \$3,404,603. This decrease is primarily a result of capital outlays which were significantly lower in fiscal 2010.

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2010	2009		2010	2009	
Administration	\$ 134,493	\$ 86,091	56.22 %	\$ 134,493	\$ 86,091	56.22 %
District Support Services	352,592	420,267	(16.10)	352,592	420,267	(16.10)
Regular Instruction	1,297,039	1,298,167	(0.09)	1,133,109	1,275,318	(11.15)
Special Education Instruction	417,662	331,525	25.98	(12,355)	(8,631)	43.15
Instructional Support Services	20,362	69,656	(70.77)	20,362	69,656	(70.77)
Pupil Support Services	71,612	56,618	26.48	34,130	56,331	(39.41)
Sites and Buildings	361,898	486,767	(25.65)	(177,898)	(34,988)	408.45
Fiscal and Other Fixed Cost Programs	10,246	10,878	(5.81)	10,246	10,878	(5.81)
Food Service	111,569	105,031	6.22	4,708	21,845	(78.45)
Interest and Fiscal Charges on Long-Term Liabilities	493,544	539,603	(8.54)	493,544	539,603	(8.54)
Total	\$ 3,271,017	\$ 3,404,603	(3.92)	\$ 1,992,931	\$ 2,436,370	(18.20)

All governmental funds includes not only funds received for the general operation of the School, which are used for classroom instruction, but also includes resources from the entrepreneurial type fund of Food Service. Funding for the general operation of the School is controlled by the state and the School does not have the latitude to allocate money received in Food Service to enhance classroom instruction resources. The School cannot take funds from this restricted areas and use the funds to hire teachers to enhance instruction.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds as well. At June 30, 2010, the School's governmental funds reported a combined fund balance of \$1,966,559. This includes the Building Company activity relating to the ownership of the facility that is leased by the School.

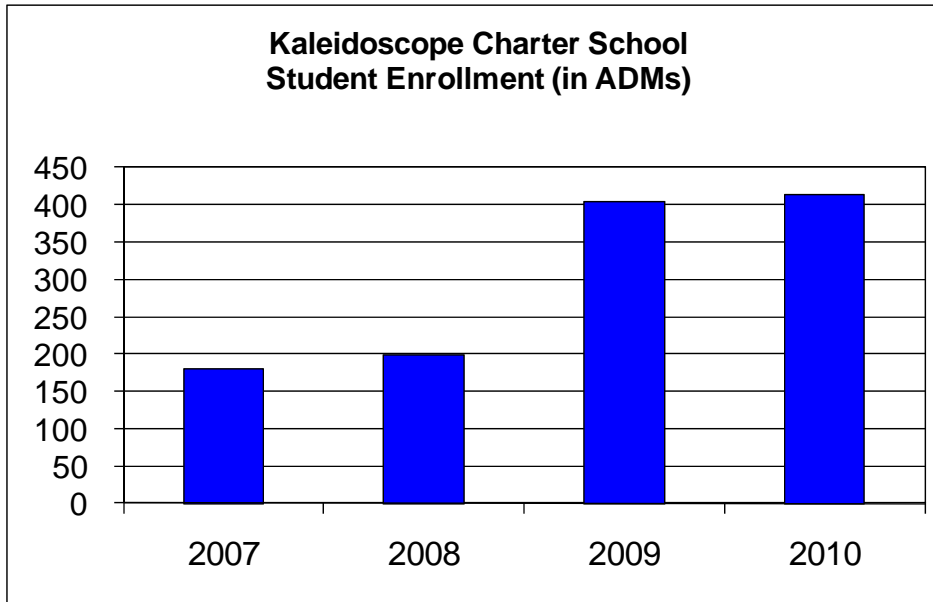
Revenues, including other financing sources, for the School's governmental funds (including the Building Company) were \$4,144,356 while total expenditures, including other financing uses were \$3,823,955. This resulted in an increase to the combined fund balance over the prior year of \$320,401.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

ENROLLMENT

Enrollment is a critical factor in determining revenue with the predominant levels of General Fund revenue being determined by enrollment. The following chart shows the number of students over the last four years.

**Table A-4
Average Daily Membership (ADM)**



Over the last four years the School has increased its average daily membership from 231.48 to 414.08. It is anticipated the enrollment will remain steady or increase slightly during the next several years. The School has a waiting list of students wishing to attend the School and, therefore, performs lottery drawings annually for available spaces.

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 8. Approximately 97% of the General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 68% of personnel expenditures.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2010	June 30, 2009	Increase (Decrease)	Percent
Local Sources:				
Earnings on Investments	\$ 675	\$ 2	\$ 673	336.5 %
Other	93,599	123,104	(29,505)	(24.0)
State Sources	3,069,668	3,130,246	(60,578)	(1.9)
Federal Sources	254,006	186,810	67,196	36.0
Total General Fund Revenue	<u>\$ 3,417,948</u>	<u>\$ 3,440,162</u>	<u>\$ (22,214)</u>	(0.6)

Total General Fund Revenue decreased by \$22,214 from the previous year. This decrease is primarily due to the expiration of a federal implementation grant in the prior fiscal year. However, the increase in the School's average daily membership during the current fiscal year offset a majority of the expired federal funds.

Basic general education revenue is determined by multiple complex state formulas, largely enrollment driven, and consists of a specified minimum amount with variables such as socioeconomic indicators driving additional funding. For Minnesota charter schools the majority of all funding is made up of general education aid, special education aid and charter school lease aid. Other revenue consists of federal and private grant funding that is often expenditure driven.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2010	June 30, 2009		
Salaries	\$ 1,455,052	\$ 1,398,875	\$ 56,177	4.0 %
Employee Benefits	347,636	280,367	67,269	24.0
Purchased Services	1,103,206	1,152,221	(49,015)	(4.3)
Supplies and Materials	132,665	147,590	(14,925)	(10.1)
Capital Expenditures	27,192	164,159	(136,967)	(83.4)
Other Expenditures	14,322	8,542	5,780	67.7
Total Expenditures	<u>\$ 3,080,073</u>	<u>\$ 3,151,754</u>	<u>\$ (71,681)</u>	(2.3)

Total General Fund Expenditures decreased \$71,681 from the previous year. A significant share of this decrease can be attributed to one time expenditures in the prior fiscal year for equipment and technology infrastructure of the new facility.

**KALEIDOSCOPE CHARTER SCHOOL
 CHARTER SCHOOL NO. 4118
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2010**

In 2009-10, General Fund revenue exceeded expenditures and transfers out by \$333,167. Therefore, the unreserved-undesignated fund balance increased from \$714,829 at June 30, 2009, to \$1,047,996 at June 30, 2010. Unreserved-undesignated fund balance is the single best measure of overall financial health. The unreserved-undesignated fund balance at June 30, 2010 represents 34% of annual expenditures.

OTHER MAJOR FUNDS

Expenditures exceeded revenue in the Food Service Fund by \$4,708. This fund balance is required to be zero or a positive fund balance resulting in a transfer from the General Fund of \$4,708 at fiscal year-end.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of the fiscal year on June 30, 2010, the School had invested \$7,216,573 in capital assets, primarily relating to the Building Company (see Table A-7). (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year ended was \$166,473.

**Table A-7
 The School's Capital Assets**

	2010	2009
Land	\$ 472,500	\$ 472,500
Buildings and Improvements	6,459,979	6,459,979
Equipment	284,094	257,701
Less: Accumulated Depreciation	(332,901)	(166,428)
Total	\$ 6,883,672	\$ 7,023,752

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

Long-Term Liabilities

At year-end, the Building Company owed \$8,542,100 in long-term loans as shown in Note 5 to the basic financial statements.

**Table A-8
The School's Long-Term Liabilities**

	2010	2009
Loans Payable	\$ 8,560,000	\$ 8,610,000
Net Bond Premium and Discount	(17,900)	-
Total	\$ 8,542,100	\$ 8,610,000
Long-Term Liabilities:		
Due Within One Year	\$ 115,000	\$ 50,000
Due in More Than One Year	8,427,100	8,560,000
Total	\$ 8,542,100	\$ 8,610,000

General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the School revises 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 passed subsequent to budget adoption, changes necessitated by employment agreements or change in enrollment, and increases in appropriations for significant unbudgeted costs.

Actual revenues and expenditures were basically "on target" when compared to the final adopted budget. While the School's final budget for the General Fund anticipated that revenues would exceed expenditures by \$303,405 the actual result for the year shows an increase in fund balance of \$333,167.

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. The basic general education revenue for all Minnesota Charter Schools remained at the fiscal year 2003 level of \$4,601 per pupil unit through fiscal year 2005. The legislature approved a 4% increase in general education aid for fiscal year 2006 and an additional 4% increase for fiscal year 2007. However, the percent increase has again fallen far below an adequate level. A 2% increase was provided for fiscal year 2008 and a 1% in 2009. In 2010, the per pupil unit funding is held at the 2009 level after federal stimulus dollars are included.

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

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2010**

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 Administration Office, Kaleidoscope Charter School, 7525 Kalland Avenue, Otsego, Minnesota 55301.

BASIC FINANCIAL STATEMENTS

**KALEIDOSCOPE CHARTER SCHOOL
 CHARTER SCHOOL NO. 4118
 STATEMENT OF NET ASSETS
 JUNE 30, 2010**

	Governmental Activities
	2010
ASSETS	
Cash	\$ 435,162
Cash Held by Trustee	808,592
Receivables:	
Other Governments	937,899
Other	7,821
Prepaid Items	2,689
Debt Issuance Costs, Net	544,974
Capital Assets:	
Land	472,500
Other Capital Assets, Net of Depreciation	6,411,172
Total Assets	9,620,809
LIABILITIES	
Salaries Payable	172,260
Accounts and Contracts Payable	53,344
Accrued Interest Payable	85,958
Long-Term Liabilities:	
Portion Due Within One Year	115,000
Portion Due in More Than One Year	8,427,100
Total Liabilities	8,853,662
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	(280,849)
Unrestricted	1,047,996
Total Net Assets	\$ 767,147

See accompanying Notes to Basic Financial Statements.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	Major Funds			Governmental
	General	Food Service	Building Company	Funds 2010
ASSETS				
Cash	\$ 321,946	\$ 1,670	\$ 111,546	\$ 435,162
Cash Held By Trustee	-	-	808,592	808,592
Receivables:				
Due from Minnesota Department of Education	806,095	301	-	806,396
Due from Federal through Minnesota Department of Education	129,985	1,518	-	131,503
Miscellaneous	6,579	1,242	-	7,821
Due from Other Funds	6,043	-	-	6,043
Prepaid Items	2,689	-	-	2,689
	<u>\$ 1,273,337</u>	<u>\$ 4,731</u>	<u>\$ 920,138</u>	<u>\$ 2,198,206</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Salaries Payable	\$ 132,083	\$ -	\$ -	\$ 132,083
Payroll Deductions and Employer Contributions Payable	40,177	-	-	40,177
Accounts and Contracts Payable	53,081	263	-	53,344
Due to Other Funds	-	4,468	1,575	6,043
	<u>225,341</u>	<u>4,731</u>	<u>1,575</u>	<u>231,647</u>
Fund Balance:				
Reserved for:				
Prepaid Items	2,689	-	-	2,689
Unreserved:				
General Fund	1,045,307	-	-	1,045,307
Building Company Fund	-	-	918,563	918,563
Special Revenue Funds	-	-	-	-
	<u>1,047,996</u>	<u>-</u>	<u>918,563</u>	<u>1,966,559</u>
Total Liabilities and Fund Balance	<u>\$ 1,273,337</u>	<u>\$ 4,731</u>	<u>\$ 920,138</u>	<u>\$ 2,198,206</u>

See accompanying Notes to Basic Financial Statements.

**KALEIDOSCOPE CHARTER SCHOOL
 CHARTER SCHOOL NO. 4118
 RECONCILIATION OF THE BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 GOVERNMENTAL FUNDS
 JUNE 30, 2010**

	2010
Total Fund Balance for Governmental Funds	\$ 1,966,559
<p>Total net assets reported for governmental activities in the statement of net assets is different because:</p>	
<p>Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:</p>	
Land	472,500
Buildings and Improvements, Net of Accumulated Depreciation	6,233,880
Equipment, Net of Accumulated Depreciation	177,292
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(85,958)
Debt issuance costs are reported as expenditures in the governmental funds.	544,974
<p>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:</p>	
Unamortized Discounts	17,900
Contract for Deed Payable	(8,560,000)
Total Net Assets of Governmental Activities	\$ <u>767,147</u>

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010**

	Major Funds			Total Governmental Funds 2010
	General	Food Service	Building Company	
REVENUES				
Local Sources:				
Earnings on Investments	\$ 675	\$ -	\$ 547	\$ 1,222
Other	93,599	73,633	614,292	781,524
State Sources	3,069,668	4,392	-	3,074,060
Federal Sources	254,006	28,836	-	282,842
Total Revenues	3,417,948	106,861	614,839	4,139,648
EXPENDITURES				
Current:				
Administration	134,493	-	-	134,493
District Support Services	350,382	-	-	350,382
Regular Instruction	1,258,679	-	-	1,258,679
Special Education Instruction	421,569	-	-	421,569
Instructional Support Services	19,722	-	-	19,722
Pupil Support Services	71,380	-	-	71,380
Sites and Buildings	786,410	-	60,043	846,453
Fiscal and Other Fixed Cost Programs	10,246	-	-	10,246
Food Service	-	111,569	-	111,569
Community Service	-	-	-	-
Capital Outlay	27,192	-	-	27,192
Debt Service:				
Principal	-	-	50,000	50,000
Interest and Fiscal Charges	-	-	517,562	517,562
Total Expenditures	3,080,073	111,569	627,605	3,819,247
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	337,875	(4,708)	(12,766)	320,401
OTHER FINANCING SOURCES (USES)				
Transfers In	-	4,708	-	4,708
Transfers Out	(4,708)	-	-	(4,708)
Total Other Financing Sources (Uses)	(4,708)	4,708	-	-
Net Change in Fund Balance	333,167	-	(12,766)	320,401
Fund Balance - Beginning	714,829	-	931,329	1,646,158
Fund Balance - Ending	\$ 1,047,996	\$ -	\$ 918,563	\$ 1,966,559

See accompanying Notes to Basic Financial Statements.

**KALEIDOSCOPE CHARTER SCHOOL
 CHARTER SCHOOL NO. 4118
 RECONCILIATION OF THE STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2010**

2010

Net Change in Fund Balance - Total Governmental Funds

\$ 320,401

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 depreciation exceeded capital outlays in the current period.

Capital Outlays

26,393

Depreciation Expense

(166,473)

The governmental funds report debt proceeds as financing sources, while repayment of debt 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 long-term debt and related items is as follows:

Repayment of Loan Principal

50,000

Change in Accrued Interest Expense - Long-term Debt

605

Amortization of Debt Issuance Costs

(641)

Amortization of Bond Discount

24,054

Change in Net Assets of Governmental Activities

\$ 254,339

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings on Investments	\$ -	\$ 500	\$ 675	\$ 175
Other	12,000	58,340	93,599	35,259
State Sources	3,255,186	3,123,706	3,069,668	(54,038)
Federal Sources	88,898	255,180	254,006	(1,174)
Total Revenues	<u>3,356,084</u>	<u>3,437,726</u>	<u>3,417,948</u>	<u>(19,778)</u>
EXPENDITURES				
Current:				
Administration	112,036	116,659	134,493	17,834
District Support Services	349,702	385,821	350,382	(35,439)
Elementary and Secondary Regular Instruction	1,179,094	1,237,647	1,258,679	21,032
Special Education Instruction	402,458	453,658	421,569	(32,089)
Instructional Support Services	79,845	18,643	19,722	1,079
Pupil Support Services	89,120	73,935	71,380	(2,555)
Sites and Buildings	839,933	758,310	786,410	28,100
Fiscal and Other Fixed Cost Programs	15,750	15,750	10,246	(5,504)
Capital Outlay	32,980	48,000	27,192	(20,808)
Total Expenditures	<u>3,100,918</u>	<u>3,108,423</u>	<u>3,080,073</u>	<u>(28,350)</u>
Excess of Revenues Over Expenditures	255,166	329,303	337,875	8,572
OTHER FINANCING USES				
Transfers Out	(36,873)	(25,898)	(4,708)	21,190
Net Change in Fund Balance	<u>\$ 218,293</u>	<u>\$ 303,405</u>	333,167	<u>\$ 29,762</u>
FUND BALANCE				
Beginning of Year			<u>714,829</u>	
End of Year			<u>\$ 1,047,996</u>	

See accompanying Notes to Basic Financial Statements.

**KALEIDOSCOPE CHARTER SCHOOL
 CHARTER SCHOOL NO. 4118
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET TO ACTUAL
 FOOD SERVICE FUND
 YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Other - Primarily Meal Sales	\$ 68,340	\$ 78,000	\$ 73,633	\$ (4,367)
State Sources	-	1,475	4,392	2,917
Federal Sources	-	4,000	28,836	24,836
Total Revenues	68,340	83,475	106,861	23,386
EXPENDITURES				
Current:				
Food Service	105,213	109,373	111,569	2,196
Deficiency of Revenues Under Expenditures	(36,873)	(25,898)	(4,708)	21,190
OTHER FINANCING SOURCES				
Transfer In	36,873	25,898	4,708	(21,190)
Net Change in Fund Balance	\$ -	\$ -	-	\$ -
FUND BALANCE				
Beginning of Year			-	
End of Year			\$ -	

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Kaleidoscope Charter School No. 4118 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

Charter School No. 4118, also known as Kaleidoscope Charter School (the School), is a nonprofit corporation that was formed, and began operating, on January 18, 2004, in accordance with Minnesota Statutes. The School is authorized by Volunteers of America under the terms of an agreement extending through fiscal year 2013. The governing body consists of a board of directors composed of a Chair, Treasurer, and such other officers as the Board of Education shall determine from time to time.

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 blended component unit of the School. Kaleidoscope Charter School Building Company is a Minnesota non-profit corporation holding IRS classification as a 501(c)(3) tax exempt organization which owns the real estate and building under construction which is leased by the School for its operations. The Building Company is governed by a separate board appointed by the Board of the School.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

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, improve, construct and own the site that is leased to the School. The building is leased to the Kaleidoscope Charter School under the terms of a long-term agreement. All long-term debt related to the purchase and improvement of the building and property and all capital assets related to the school site that are presented in this financial report are the responsibility of and are under the ownership of the Kaleidoscope Charter School Building Company.

Aside from its authorizer role, Volunteers of America has no authority, control, power, or administrative responsibilities over Kaleidoscope Charter School. Therefore, the School is not considered a component unit of Volunteers of America.

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 entity 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. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the School-wide financial statements.

Separate Fund financial statements are provided for the governmental funds.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

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

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

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service 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. Principal and interest on long-term debt issues are recognized on their due dates.

The School may report deferred revenue on its statement of net assets and balance sheet. Deferred revenues arise when a 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 the balance sheet and revenue is recognized.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

As required by state statute, the School operates as a nonprofit corporation under Minnesota Statutes §317A. However, state law also requires that the School comply with Uniform Financial Accounting and Reporting Standards for Minnesota School Districts (UFARS) which mandates the use of a governmental fund accounting structure. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. A description of the School's fund included in this report is as follows:

Major Governmental Fund

General Fund

The General Fund is used to account for all financial resources other than those required to be accounted for in another fund. It includes the general operation and pupil transportation activities of the School, as well as capital related activities such as maintenance of facilities and equipment purchases.

Food Service Fund

The Food Service fund accounts for all activity related to the food service program.

Building Company Special Revenue Fund

The Building Company Special Revenue fund is used to account for the proceeds and uses of resources borrowed for the purpose of purchasing and improving the school site, the receipt of lease payments from the School, as well as the debt service payments required under the terms of the related long-term capital loans.

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. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**KALEIDOSCOPE CHARTER SCHOOL
 CHARTER SCHOOL NO. 4118
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. 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 Food 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.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Director submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board. Budget amounts include mid-year budget amendments that increased revenue and expenditures as follows:

<u>Revenues</u>	Original Budget	Amendments	Amended Budget
General Fund	\$ 3,356,084	\$ 81,642	\$ 3,437,726
Special Revenue Funds:			
Food Service Fund	68,340	15,135	83,475
 <u>Expenditures</u>			
General Fund	\$ 3,100,918	\$ 7,505	\$ 3,108,423
Special Revenue Funds:			
Food Service Fund	105,213	4,160	109,373

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 school 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.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash

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.

I. 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.

J. Prepaid Items

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

K. 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 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 40 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include Land.

The School does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

L. Long-Term Obligations

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

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Fund Balance

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

N. Risk Management

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

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

O. Net Assets

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

NOTE 2 CASH

Deposits

In accordance with applicable Minnesota Statutes, the School maintains deposits at depository banks authorized by the School's Board.

**KALEIDOSCOPE CHARTER SCHOOL
 CHARTER SCHOOL NO. 4118
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2010**

NOTE 2 CASH (CONTINUED)

Deposits (Continued)

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 bank balance of the School’s deposits in banks at June 30, 2010 is \$446,524, and was entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

Deposits and investments are presented in these financial statements as follows:

	Cash and Temporary Investments	Cash and Investments Held by Trustee	Total
Deposits:			
School	\$ 323,616	\$ -	\$ 323,616
Building Company	111,546	-	111,546
Total Deposits	435,162	-	435,162
Investments:			
Building Company	-	808,592	808,592
Total	\$ 435,162	\$ 808,592	\$ 1,243,754

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 CASH (CONTINUED)

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

The School's investments are held by an escrow agent in accordance with escrow agreements established with the sale of the Revenue Bonds 2007A and 2007B.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2010, the School had an investment of \$808,592 in the Wells Fargo Advantage 100% Treasury Money Market Fund, which is rated Aaa by Moody's Investor Service.

Concentration of Credit Risk.

The School places no limit on the amount that the School may invest in any one issuer.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 3 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts at June 30, 2010 as follows:

	Budget	Expenditures	Excess
Food Service Fund	\$ 109,373	\$ 111,569	\$ 2,196

The overages were considered by School management to be the result of necessary expenditures critical to operations and were approved by the Board.

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 472,500	\$ -	\$ -	\$ 472,500
Capital Assets, Being Depreciated:				
Buildings and Improvements	6,459,979	-	-	6,459,979
Equipment	257,701	26,393	-	284,094
Total Capital Assets, Being Depreciated	6,717,680	26,393	-	6,744,073
Accumulated Depreciation for:				
Buildings and Improvements	(96,900)	(129,199)	-	(226,099)
Equipment	(69,528)	(37,274)	-	(106,802)
Total Accumulated Depreciation	(166,428)	(166,473)	-	(332,901)
Total Capital Assets, Being Depreciated, Net	6,551,252	(140,080)	-	6,411,172
Governmental Activities Capital Assets, Net	\$ 7,023,752	\$ (140,080)	\$ -	\$ 6,883,672

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

Governmental Activities	
District Support Services	\$ 1,545
Elementary and Secondary Regular Instruction	34,354
Special Education Instruction	388
Instructional Support Services	640
Pupil Support Services	232
Sites and Buildings	129,314
Total Depreciation Expense, Governmental Activities	\$ 166,473

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 LONG-TERM LIABILITIES

Changes in long-term liabilities are as follows:

	June 30, 2009	Net Additions	Retirements	June 30, 2010	Due in One Year
Bond Discounts	\$ (18,541)	\$ -	\$ (641)	\$ (17,900)	\$ -
Loans Payable	8,610,000	-	50,000	8,560,000	115,000
	<u>\$ 8,591,459</u>	<u>\$ -</u>	<u>\$ 49,359</u>	<u>\$ 8,542,100</u>	<u>\$ 115,000</u>

Construction Loan – City of Falcon Heights – In November 2007, the Building Company entered into an agreement for an \$8,610,000 loan from the City of Falcon Heights, Minnesota to purchase and improve land and buildings to be used as a school site by the School and to pay off the balance of the loan from Stonewood Properties. The loan is secured by a mortgage on the related land, building, and building contents, as well as the assignment of future lease revenue. The loan represents the proceeds of two lease revenue bond issues sold by the City. The first issue is the \$8,110,000 Lease Revenue Bonds, Series 2007A, which bear interest ranging from 5.5% to 6.0% and have final maturity of November 1, 2037. The second issue is the \$500,000 Taxable Lease Revenue Bonds, Series 2007B, which bear an interest rate of 7.5% and have a final maturity of November 1, 2013. Through the terms of the loan agreement, the Building Company assumes all responsibility for the bonds issued by the City, and must make loan payments sufficient to meet the scheduled semiannual debt service payments to retire the bonds.

The School, in turn, entered into an operating lease agreement to rent the school site from the Building Company. The lease term covers a 30-year period ending June 30, 2038, and requires the School to make monthly base lease payments ranging from \$47,360 to \$58,602, plus operating expenses. The School's base lease payments are essentially equal to the loan payments the Building Company is required to make on the loan from the City. The School paid rent of \$614,292 during fiscal 2010.

Following are maturities of long-term debt for the Kaleidoscope Charter School Building Company for each of the next five years and thereafter ended June 30:

Year Ending June 30,	Loan Payable	
	Principal	Interest
2011	\$ 115,000	\$ 515,750
2012	120,000	507,413
2013	130,000	498,713
2014	140,000	489,288
2015	145,000	480,100
2016 - 2020	875,000	2,268,950
2021 - 2025	1,160,000	1,979,400
2026 - 2030	1,545,000	1,587,600
2031 - 2035	2,100,000	1,062,000
2036 - 2038	2,230,000	309,600
Total	<u>\$ 8,560,000</u>	<u>\$ 9,698,813</u>

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 RETIREMENT PLANS

Substantially all employees of the District 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:

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 State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All Basic members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by 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 consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at 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 5.5% and 9.0%, 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: 5.5% for Coordinated Plan members and 9.5% 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, 2010, 2009 and 2008 were \$64,181, \$58,873 and \$36,795, respectively, equal to the required contribution as set by state statute.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 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, 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 District 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 9.1% and 6.0%, respectively, of their annual covered salary in 2008.

The School is required to contribute the following percentages of annual covered payroll: 11.78% 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, 2009. The School's contributions for the years ended June 30, 2010, 2009 and 2008 were \$18,867, \$21,724 and \$18,245, respectively, equal to the required contribution as set by state statute.

**KALEIDOSCOPE CHARTER SCHOOL
 CHARTER SCHOOL NO. 4118
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2010**

NOTE 7 COMMITMENTS AND CONTINGENCIES

A. Federal Grants

Amounts received or receivable from federal 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 – Kaleidoscope Charter School Building Company

On November 1, 2007, the School (lessee) signed a lease for educational space with the Kaleidoscope Charter School Building Company (lessor), Otsego, Minnesota, commencing upon completion of the building, which occurred in October 2008. An amended lease agreement was signed and effective on July 1, 2009. The amended lease expires on June 30, 2038. The annual rent under the new lease starts at \$614,292 for the first year and increases each year until it reaches \$660,667 for fiscal year 2037. The annual rent for the final year of the lease, 2038, is \$236,700. All of these amounts are to be paid in equal monthly installments each year.

Year Ending June 30,	Schedule of Minimum Base rents
2011	\$ 632,525
2012	632,279
2013	653,096
2014	650,496
2015	650,450
2016 - 2020	3,263,934
2021 - 2025	3,259,667
2026 - 2030	3,254,133
2031 - 2035	3,284,668
2036 - 2038	1,555,167
Total	\$ 17,836,415

The net MDE-approved lease cost for the School for fiscal 2009-10 under the terms of the lease agreements was \$614,292. The School qualified for an estimated \$548,352 in state charter school lease aid for fiscal 2010 based on 90% of the approved costs incurred.

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.

**KALEIDOSCOPE CHARTER SCHOOL
CHARTER SCHOOL NO. 4118
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

C. Line of Credit

In January 2009, the School obtained an unsecured line of credit in the amount of \$150,000 through Wells Fargo Bank. The line of credit bears an annual interest rate of 5.25% and expired on February 10, 2010. This line of credit replaced a similar agreement that expired in December 2008. In January 2010, the School renewed the line of credit for another year through February 1, 2011. The extended line of credit bears an annual interest rate equal to the index rate plus 2%, for a total of 7.25%. The School did not have any borrowing activity on the line of credit during fiscal year 2010.

SUPPLEMENTAL INFORMATION

**KALEIDOSCOPE CHARTER SCHOOL
 CHARTER SCHOOL NO. 4118
 UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
 COMPLIANCE TABLE
 JUNE 30, 2010**

	AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND			
Total Revenue	\$ 3,417,948	\$ 3,417,948	\$ -
Total Expenditures	\$ 3,080,073	\$ 3,080,073	\$ -
<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	\$ 1,047,996	\$ 1,047,997	\$ (1)
02 FOOD SERVICE			
Total Revenue	\$ 106,861	\$ 106,860	\$ 1
Total Expenditures	\$ 111,569	\$ 111,568	\$ 1
<i>Reserved:</i>			
411 Severance Pay	\$ -	\$ -	\$ -
419 Encumbrances	\$ -	\$ -	\$ -
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -
<i>Unreserved:</i>			
418 Severance - Ins. Premium	\$ -	\$ -	\$ -
422 Unreserved/Undesignated	\$ -	\$ -	\$ -

OTHER REQUIRED REPORTS

**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**

Board of Education
Charter School No. 4118
Kaleidoscope Charter School
Otsego, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of Kaleidoscope Charter School as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 21, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Education
Charter School No. 4118
Kaleidoscope Charter School

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*.

We noted certain additional matters that we reported to management of the School in a separate letter dated December 21, 2010.

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
December 21, 2010

LarsonAllen[®] LLP

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REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Charter School No. 41184118
Kaleidoscope Charter School
Otsego, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Kaleidoscope Charter School as of and for the year ended June 30, 2010, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 21, 2010.

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
December 21, 2010

