

**DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

For The Year Ended June 30, 2016

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DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
TABLE OF CONTENTS

	<u>Reference</u>	<u>Page Number</u>
INTRODUCTORY SECTION		
Board Members		3
FINANCIAL SECTION		
Independent Auditor's Report		7
Management's Discussion and Analysis		11
Basic Financial Statements:		
School-Wide Financial Statements:		
Statement of Net Position	Statement 1	20
Statement of Activities	Statement 2	21
Fund Financial Statements:		
Balance Sheet - Governmental Funds	Statement 3	22
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	Statement 4	23
Notes to Financial Statements		25
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule - General Fund	Statement 5	46
Budgetary Comparison Schedule - Food Service Fund	Statement 6	47
Budgetary Comparison Schedule - Community Service Fund	Statement 7	48
Schedule of Proportionate Share of Net Pension Liability		49
Schedule of Pension Contributions		50
Note to RSI		51
SUPPLEMENTAL INFORMATION		
Uniform Financial Accounting and Reporting Standards - Compliance Table	Schedule 1	54
OTHER REQUIRED REPORTS		
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		57
Minnesota Legal Compliance Report		59
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance		61
Schedule of Expenditures of Federal Awards		64
Schedule of Findings and Questioned Costs		65
Summary Schedule of Prior Year Audit Findings		67

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INTRODUCTORY SECTION

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DULUTH PUBLIC SCHOOLS ACADEMY

CHARTER SCHOOL NO. 4020

BOARD MEMBERS

June 30, 2016

BOARD OF DIRECTORS

<u>Elective</u>	<u>Board Position</u>
Crystal Palmer	President
Neil Byce	Vice-President
Hilary Hodgman	Treasurer
Lisa Harold*	Secretary
Mike St. John	Director
Ryan Welch	Director
Mitch Nault	Director
Stephen Sydow	Director
Russ Kurhajetz	Director
Katie Cronin-Anderson*	Director
Jill Kandel*	Director

*Denotes Duluth Public Schools Academy teacher seat

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Duluth Public Schools Academy
Charter School No. 4020
Duluth, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Duluth Public Schools Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Duluth Public Schools Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Duluth Public Schools Academy, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Duluth Public Schools Academy's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented as supplemental information as required by the Minnesota Department of Education and is also not part of the basic financial statements. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Uniform Financial Accounting and Reporting Standards Compliance Table and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Uniform Financial Accounting and Reporting Standards Compliance Table and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016, on our consideration of Duluth Public Schools Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Duluth Public Schools Academy's internal control over financial reporting and compliance.



REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

November 22, 2016

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MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

The following report presents our discussion and analysis of Duluth Public Schools Academy’s (the School) financial performance during the year ended June 30, 2016. The School’s report consists of financial statements, notes to those statements and other information. The financial statements provide information about the activities of the School, presenting both an aggregate and long-term view of those finances.

The financial reports for the School provide detailed information about the School as a whole, not just the operating fund. This information shows how money flows into and out of funds and the balances left at the year end. The fund financial statements are reported using an accounting method called modified accrual accounting, which focuses on current financial resources. These reports provide a detailed short-term view of the operations of the School.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015-2016 fiscal year include the following:

- The School’s net position decreased by \$129,136. Current assets decreased by \$1,275,110 and current liabilities decreased by \$1,166,511. These changes are primarily due to less cash on hand as a result of decreasing the School’s liability to EdisonLearning, Inc.
- Total revenue increased by \$1,446,076 (8.42%) between fiscal year 2015 and fiscal year 2016 primarily due to an increase in student enrollment that resulted in an overall increase in all funding (local, state, and federal), as well as additional state funding for increased special education programming. Expenses increased by \$2,216,752 (11.82%), which is also attributed to the increase in student enrollment and increase in special education services as well as higher one-time expenses related to the breakaway from EdisonLearning, Inc. this year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor’s Report, required supplementary information which includes the MD&A (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.

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 Position 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 position and how they have changed.

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

The Statement of Net Position presents information on all of the School’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The Statement of Activities presents information showing how the School’s net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The school-wide financial statements outline functions of the School that are principally supported by intergovernmental revenues. The governmental activities of the School include instruction, support services, operation and maintenance of the plant, and operation of non-instructional services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School uses fund accounting to ensure and demonstrate compliance with state statutes and to control and manage money for particular purposes.

Governmental funds – The School’s basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances at year end that are available for spending. Consequently, the government 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.

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net position may serve over time as a useful indicator of a district’s financial position. In the case of the School, liabilities exceeded assets by \$4,968,083 as of June 30, 2016.

**Duluth Public Schools Academy
Charter School No. 4020
Statement of Net Position**

	June 30,	
	2016	2015
Assets and deferred outflows:		
Current assets	\$5,973,351	\$7,248,461
Capital assets, net	13,977,520	14,317,841
Deferred outflows of resources	1,775,551	1,332,568
Total assets and deferred outflows	<u>21,726,422</u>	<u>22,898,870</u>
Liabilities and deferred inflows:		
Current liabilities	2,581,376	3,747,887
Long-term liabilities	23,323,943	22,268,891
Deferred inflows of resources	789,186	1,721,039
Total liabilities and deferred inflows	<u>26,694,505</u>	<u>27,737,817</u>
Net position:		
Net investment in capital assets	(1,115,358)	(1,059,052)
Restricted for regulation	14,597	10,515
Restricted for food service	272,385	249,569
Restricted for community service	37,229	35,530
Restricted for capital improvements	58,257	58,247
Unrestricted	<u>(4,235,193)</u>	<u>(4,133,756)</u>
Total net position	<u><u>(\$4,968,083)</u></u>	<u><u>(\$4,838,947)</u></u>

Changes in Net Position

The School’s total revenues were \$18,621,099 for the year ended June 30, 2016. Program revenues accounted for 42.78% of total revenue for the year.

The total cost of all programs and services was \$18,750,235. Total expenses exceeded revenues by \$129,136.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

**Duluth Public Schools Academy
Charter School No. 4020
Changes in Net Position**

	For The Years Ended June 30,	
	2016	2015
Revenues:		
Program revenues:		
Charges for services	\$421,597	\$363,261
Operating grants and contributions	7,543,729	6,489,832
General revenues:		
Local sources	128,109	184,378
State sources	10,527,465	10,137,291
Investment income	199	261
Total revenues	<u>18,621,099</u>	<u>17,175,023</u>
Expenses:		
District support services	2,467,600	2,327,691
Regular instruction	5,454,019	4,710,788
Special education	5,630,105	4,781,139
Community education and services	157,802	130,567
Instructional support services	303,003	281,915
Pupil support services	2,240,402	1,852,695
Site, building and equipment	1,260,589	1,226,576
Fiscal and other fixed costs	218,953	190,239
Interest and fiscal charges on long-term liabilities	1,017,762	1,031,873
Total expenses	<u>18,750,235</u>	<u>16,533,483</u>
Change in net position	<u>(129,136)</u>	<u>641,540</u>
Net position - beginning	(4,838,947)	421,397
Prior period adjustment	-	(5,901,884)
Net position - beginning, as restated	<u>(4,838,947)</u>	<u>(5,480,487)</u>
Net position - ending	<u><u>(\$4,968,083)</u></u>	<u><u>(\$4,838,947)</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FINANCIAL ANALYSIS OF THE SCHOOL'S GOVERNMENTAL FUNDS

The financial performance of the School as a whole is reflected in its governmental funds as well. Financial information from the fund statements is as follows:

	2016					2015				
	General	Food Service	Community Service	Tischer Creek	Total	General	Food Service	Community Service	Tischer Creek	Total
Assets	\$3,622,277	\$369,888	\$164,048	\$1,972,795	\$6,129,008	\$4,961,724	\$257,095	\$40,310	\$1,989,332	\$7,248,461
Liabilities	1,870,777	97,503	126,819	157,971	2,253,070	3,244,969	7,526	4,780	21,916	3,279,191
Fund balance	<u>\$1,751,500</u>	<u>\$272,385</u>	<u>\$37,229</u>	<u>\$1,814,824</u>	<u>\$3,875,938</u>	<u>\$1,716,755</u>	<u>\$249,569</u>	<u>\$35,530</u>	<u>\$1,967,416</u>	<u>\$3,969,270</u>

	2016					2015				
	General	Food Service	Community Service	Tischer Creek	Total	General	Food Service	Community Service	Tischer Creek	Total
Revenue	\$17,742,138	\$571,915	\$159,476	\$1,454,906	\$19,928,435	\$16,488,081	\$538,940	\$131,180	\$1,454,917	\$18,613,118
Expenditures	17,863,050	549,099	157,777	1,451,841	20,021,767	15,911,835	426,377	130,567	1,383,232	17,852,011
Other financing sources/(uses)	155,657	-	-	(155,657)	-	-	-	-	-	-
Change in fund balance	<u>\$34,745</u>	<u>\$22,816</u>	<u>\$1,699</u>	<u>(\$152,592)</u>	<u>(\$93,332)</u>	<u>\$576,246</u>	<u>\$112,563</u>	<u>\$613</u>	<u>\$71,685</u>	<u>\$761,107</u>

REVENUE ANALYSIS

General Fund - increase in revenues of \$1,254,057, or 7.6%, were due to the increase in enrollment.

Food Service Fund - increase in revenues of \$32,975, or 6.1%, were due to student growth and increased participation in the food service program.

Community Service Fund - increase in revenues of \$28,296, or 21.6%, were due to student growth and increased participation in the student activities.

Tischer Creek Fund - decrease in revenues of \$11 was due to a decrease in interest income.

EXPENDITURE ANALYSIS

General Fund - increase in expenditures of \$1,951,215, or 12.3%, were due to student growth and early exit from EdisonLearning, Inc.

Food Service Fund - increase in expenditures of \$122,722 or 28.8%, were due to student growth and increased participation in the food service program as well as equipment purchases.

Community Service Fund - increase in expenditures of \$27,210, or 20.8%, were due to student growth and increased participation in the student activities.

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

Tischer Creek Fund - increase in expenditures of \$68,609, or 5.0%, were due to an increase in principal debt payments and increased site, building, and equipment costs..

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund adopted an original revenue budget of \$17,488,105, which was revised to a final revenue budget of \$17,912,127.

The General Fund adopted an original expenditure budget of \$17,113,992, which was revised to a final expenditure budget of \$17,996,645.

While the School’s final budget for the General Fund anticipated that expenditures would exceed revenues by \$84,518, the actual results for the year showed expenditures exceeding revenues by \$120,912.

- Actual revenues were \$169,989 less than anticipated, due to a donation from the Tischer Creek Fund being recognized as a transfer in versus local revenue.
- Actual expenditures were \$133,595 less than anticipated, due to savings on originally budgeted expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Most capital assets are owned by the Building Company and are related to the acquisition, construction and renovation of School facilities. Balances are as follows:

	2016	2015	Increase (Decrease)
Construction in progress	\$24,391	\$24,391	\$ -
Land	1,109,061	1,109,061	-
Buildings	14,610,090	14,560,128	49,962
Furniture and fixtures	179,778	170,806	8,972
Equipment	36,422	21,628	14,794
Total capital assets	<u>15,959,742</u>	<u>15,886,014</u>	73,728
Accumulated depreciation	<u>(1,982,222)</u>	<u>(1,568,173)</u>	(414,049)
Net capital assets	<u><u>\$13,977,520</u></u>	<u><u>\$14,317,841</u></u>	<u><u>(\$340,321)</u></u>

Long-Term Debt

During the 2011 fiscal year, the Building Company issued debt totaling \$18.4M to acquire facilities. This debt will be repaid through 2040. \$17.3M remains outstanding as of June 30, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The School's administration considered many factors when setting the FY 2016-2017 budget. The two largest factors affecting the budget are the pupil count and additional state funding sources. The student population continues to grow and we currently show an increase of 49 students over the prior year. This increase in enrollment has resulted in additional funding across the board (local, state, and federal sources). The School will also be receiving an increase in state funding due to the expansion of an existing intervention program and newly available American Indian cultural education funding. The one area of funding that has decreased is compensating revenue due to a decline in the district-wide free/reduced percentage.

Operating budget revenues include both enrollment/student based funding and lease aid. These revenues are received exclusively from State and Federal sources. As a result, the School is heavily dependent on the State's and Federal government's ability to fund local school operations. Based on current enrollment data at the start of the 2016-2017 school year, we anticipate a moderate increase in revenues and expenditures compared to 2015-2016 due to increased enrollment as well as expanded programming related to intervention and special education services.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the School's finances and to show the School's accountability for the money it receives. Any questions concerning this report or requests for additional information can be directed to the Director of Business Services, 1515 London Road, Suite #2, Duluth, Minnesota 55812.

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BASIC FINANCIAL STATEMENTS

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
STATEMENT OF NET POSITION
June 30, 2016

Statement 1

	<u>Governmental Activities</u>
Assets:	
Cash	\$1,282,809
Cash and investments held by trustee	1,698,727
Accounts receivable	96,086
Due from other governments	2,824,953
Prepaid items	70,776
Capital assets (net of accumulated depreciation):	
Nondepreciable	1,133,452
Depreciable	<u>12,844,068</u>
Total assets	<u>19,950,871</u>
Deferred outflows of resources:	
Related to pensions	<u>1,775,551</u>
Total assets and deferred outflows of resources	<u><u>\$21,726,422</u></u>
Liabilities:	
Accounts payable	\$46,888
Salaries payable	781,857
Due to EdisonLearning, Inc.	1,256,045
Unearned revenue	12,623
Accrued interest payable	164,213
Compensated absences:	
Due in less than one year	4,750
Due in more than one year	42,750
Bonds payable:	
Due in less than one year	315,000
Due in more than one year	16,476,605
Net pension liability:	
Due in more than one year	<u>6,804,588</u>
Total liabilities	<u>25,905,319</u>
Deferred inflows of resources:	
Related to pensions	<u>789,186</u>
Net position:	
Net investment in capital assets	(1,115,358)
Restricted for regulation	14,597
Restricted for food service	272,385
Restricted for community service	37,229
Restricted for capital improvements	58,257
Unrestricted	<u>(4,235,193)</u>
Total net position	<u>(4,968,083)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$21,726,422</u></u>

The accompanying notes are an integral part of these financial statements.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2016

Statement 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
District support services	\$2,467,600	\$ -	\$ -	(\$2,467,600)
Regular instruction	5,454,019	81,969	405,916	(4,966,134)
Special education	5,630,105	4,634	5,387,578	(237,893)
Community education and services	157,802	159,476	-	1,674
Instructional support services	303,003	-	-	(303,003)
Pupil support services	2,240,402	175,518	395,422	(1,669,462)
Site, building and equipment	1,260,589	-	1,354,813	94,224
Fiscal and other fixed costs	218,953	-	-	(218,953)
Interest and fiscal charges on long-term liabilities	1,017,762	-	-	(1,017,762)
Total governmental activities	<u>\$18,750,235</u>	<u>\$421,597</u>	<u>\$7,543,729</u>	<u>(10,784,909)</u>
General revenues:				
Local sources				128,109
State sources				10,527,465
Investment income				199
Total general revenues				<u>10,655,773</u>
Change in net position				<u>(129,136)</u>
Net position - beginning				(4,838,947)
Net position - ending				<u>(\$4,968,083)</u>

The accompanying notes are an integral part of these financial statements.

**DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020**

Statement 3

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	Food Service	Community Service	Tischer Creek	Totals
Assets:					
Cash	\$570,753	\$301,750	\$139,000	\$271,306	\$1,282,809
Cash and investments held by trustee	-	-	-	1,698,727	1,698,727
Accounts receivable	11,543	59,495	25,048	-	96,086
Due from Minnesota Department of Education	2,666,065	871	-	-	2,666,936
Due from Federal Government through Minnesota Department of Education	139,721	7,772	-	-	147,493
Due from Federal Government	10,524	-	-	-	10,524
Due from other funds	155,657	-	-	-	155,657
Prepaid items	68,014	-	-	2,762	70,776
Total assets	\$3,622,277	\$369,888	\$164,048	\$1,972,795	\$6,129,008
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	\$36,073	\$6,351	\$2,150	\$2,314	\$46,888
Salaries and taxes payable	778,811	1,308	1,738	-	781,857
Due to EdisonLearning, Inc.	1,051,611	82,941	121,493	-	1,256,045
Due to other funds	-	-	-	155,657	155,657
Unearned revenue	4,282	6,903	1,438	-	12,623
Total liabilities	1,870,777	97,503	126,819	157,971	2,253,070
Fund balance:					
Nonspendable - prepaid items	68,014	-	-	2,762	70,776
Restricted for regulation	14,597	-	-	-	14,597
Restricted for food service	-	272,385	-	-	272,385
Restricted for community service	-	-	37,229	-	37,229
Restricted for capital and debt service	58,257	-	-	1,698,727	1,756,984
Committed	741,127	-	-	-	741,127
Assigned	-	-	-	113,335	113,335
Unassigned	869,505	-	-	-	869,505
Total fund balance	1,751,500	272,385	37,229	1,814,824	3,875,938
Total liabilities and fund balance	\$3,622,277	\$369,888	\$164,048	\$1,972,795	\$6,129,008
Amounts reported for governmental activities in the statement of net position are different because:					
Fund balance reported above					\$3,875,938
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.					13,977,520
Deferred outflows of resources related to pensions - see note 3					1,775,551
Deferred inflows of resources related to pensions - see note 3					(789,186)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:					
Accrued interest payable					(164,213)
Compensated absences					(47,500)
Bonds payable					(16,791,605)
Net pension liability					(6,804,588)
Net position of governmental activities (Statement 1)					(\$4,968,083)

The accompanying notes are an integral part of these financial statements.

**DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020**

Statement 4

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2016

	General Fund	Food Service	Community Service	Tischer Creek	Totals
Revenues:					
Local sources	\$213,737	\$176,493	\$159,476	\$1,454,900	\$2,004,606
State sources	17,037,382	34,896	-	-	17,072,278
Federal sources	490,826	360,526	-	-	851,352
Investment income	193	-	-	6	199
Total revenues	<u>17,742,138</u>	<u>571,915</u>	<u>159,476</u>	<u>1,454,906</u>	<u>19,928,435</u>
Expenditures:					
Current:					
District support services	2,388,484	-	-	-	2,388,484
Regular instruction	5,238,465	-	-	-	5,238,465
Special education	5,590,876	-	-	-	5,590,876
Community education and services	-	-	157,777	-	157,777
Instructional support services	299,599	-	-	-	299,599
Pupil support services	1,693,040	538,501	-	-	2,231,541
Site, building and equipment	2,206,231	-	-	154,010	2,360,241
Fiscal and other fixed costs	218,953	-	-	-	218,953
Capital outlay	227,402	10,598	-	-	238,000
Debt service:					
Principal	-	-	-	300,000	300,000
Interest and fiscal charges	-	-	-	997,831	997,831
Total expenditures	<u>17,863,050</u>	<u>549,099</u>	<u>157,777</u>	<u>1,451,841</u>	<u>20,021,767</u>
Revenues over expenditures	(120,912)	22,816	1,699	3,065	(93,332)
Other financing sources (uses):					
Transfer in	155,657	-	-	-	155,657
Transfer out	-	-	-	(155,657)	(155,657)
Total other financing sources (uses)	<u>155,657</u>	<u>0</u>	<u>0</u>	<u>(155,657)</u>	<u>0</u>
Net change in fund balance	34,745	22,816	1,699	(152,592)	(93,332)
Fund balance - beginning	<u>1,716,755</u>	<u>249,569</u>	<u>35,530</u>	<u>1,967,416</u>	<u>3,969,270</u>
Fund balance - ending	<u>\$1,751,500</u>	<u>\$272,385</u>	<u>\$37,229</u>	<u>\$1,814,824</u>	<u>\$3,875,938</u>

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

Net change in fund balance reported above (\$93,332)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital outlay expenditures - capitalized	73,728
Depreciation	(414,049)

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but does not have any effect on net position. 300,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Amortization of bond discount	(22,431)
Change in accrued interest	2,500
Change in compensated absences	(20,018)
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities	44,466

Change in net position of governmental activities (Statement 2) (\$129,136)

The accompanying notes are an integral part of these financial statements.

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DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Duluth Public Schools Academy (the School), a Minnesota nonprofit corporation, was formed and operates pursuant to Minnesota Statutes, Chapter 317A.

The basic financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the School are described below:

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

A. FINANCIAL REPORTING ENTITY

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the School (the primary government) and its component units. 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. Tischer Creek Duluth Building Company (the Building Company) is a Minnesota non-profit corporation which is classified 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. 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 and own educational sites which will be leased to the School. No separate financial statements of the Building Company are issued. The buildings are leased to the School under the terms of a long-term agreement. All long-term debt related to the purchase of the building and property, and all fixed assets related to the School site are the responsibility of and will be under the ownership of the Building Company.

The School's Authorizer is Innovative Quality Schools. The Authorizer has limited oversight responsibility but is not financially accountable for the School. Therefore, the School is not considered to be a component unit of the Authorizer.

B. SCHOOL-WIDE AND FUND FINANCIAL STATEMENTS

The school-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental*

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

activities generally are financed through intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* are also clearly identifiable with a specific function and include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, 3) capital grants and contributions. Other items not included among program revenues are reported instead as *general revenues*.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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 (UFARS) for Minnesota School Districts which mandates the use of a governmental accounting structure.

The school-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 as revenue as soon as 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*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenues, grants, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

Fund Financial Statements: The fund financial statements provide information about the School's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

The School reports the following major governmental funds:

The *General Fund* is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

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

The *Community Service Fund* is used to account for the kid's club program.

The *Tischer Creek Fund* is used to account for the activities of the Building Company, a blended component unit.

D. INCOME TAXES

The School and the Building Company are classified as tax-exempt organization under section 501(c)(3) of the Internal Revenue Code and comparable sections of the Minnesota income tax statutes.

A tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes the School and the Building Company have no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard.

E. BUDGETS

A budget for each fund is prepared on the same basis of accounting as the financial statements. The School's Board adopts an annual budget for the following fiscal year for the General Fund, Food Service and Community Service Special Revenue Funds. Legal budgetary control is at the fund level. Budgeted amounts are as originally adopted or as amended by the Board. Budgeted expenditure appropriations lapse at year end. Encumbrance accounting is not used.

F. CASH AND INVESTMENTS

The School maintains multiple bank accounts that are consolidated by fund.

G. CASH AND INVESTMENTS HELD BY TRUSTEE

These cash and investments are held by an escrow agent and restricted for purposes contained in the 2010 bond documents.

H. RECEIVABLES

All receivables are shown net of any allowance for uncollectible amounts.

I. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both school-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures at the time of consumption.

J. CAPITAL ASSETS

Capital assets, which include property, plant, and equipment are reported in the school-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Buildings are depreciated over 39 years. Furniture, fixtures and equipment are depreciated over 5 years.

K. COMPENSATED ABSENCES

It is the School's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay and accumulated sick leave benefits that are vested as severance pay are accrued when incurred in the school-wide financial statements.

A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. In accordance with the provisions of Statement of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

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. Premiums and discounts on debt are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental fund types recognize debt premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

M. FUND BALANCE CLASSIFICATIONS

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

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Nonspendable - consists of amounts that are not in spendable form, such as prepaid items.

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

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the School Board. The School committed funds for the following uses: 1) \$416,000 for expenses related to unforeseen expenses during the transition away from EdisonLearning, Inc.; and 2) \$325,000 towards expenses in developing a high school.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the School's intended use. These constraints are established by the School Board and/or management. Pursuant to Board Resolution, the School's Director is authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the School's policy to first use restricted resources, then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the School's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

N. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

O. USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2016

P. STUDENT ACTIVITIES

All student activities were under Board control.

Q. NET POSITION

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the school-wide financial statements. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the school-wide financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

R. STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceeded budgeted amounts in the following fund at June 30, 2016:

	<u>Budget</u>	<u>Actual</u>	<u>Actual Over Budget</u>
Special Revenue Fund:			
Community Service Fund	\$154,349	\$157,777	\$3,428

S. FAIR VALUE OF FINANCIAL INSTRUMENTS

The School defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. To determine fair value, the School uses a fair value hierarchy categorized into three levels based on the inputs used. Generally, the three levels are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – Significant other observable inputs.
- Level 3 – Significant unobservable inputs.

The School does not have any significant fair value measurements as of June 30, 2016.

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the School maintains deposits at those depository banks authorized by the School’s Board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

bills, notes and bonds; issues of U.S. Government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The School does not have a deposit policy that is more restrictive than Minnesota Statutes.

At June 30, 2016, the bank balance of the School’s deposits, excluding amounts held by the Building Company, was \$1,051,769, all of which was covered by insurance or collateral.

The bank balance of the Building Company’s deposits at June 30, 2016 was \$271,724, of which \$250,000 was insured by the FDIC. The remaining \$21,724 was uninsured, although there is no statutory requirement for deposits of the Building Company to be collateralized.

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 receives 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 rated “A” or better; bankers’ acceptances of United States’ banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States’ corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with 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.

Credit risk – State law limits investments as discussed above. The School has no investment policy that would further limit its investment choices.

Cash and investments held by trustee are entirely invested in the Wells Fargo Advantage 100% Treasury Money Market Fund which has an S&P rating of AAAm.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

A recap of cash and investments as presented in the financial statements is as follows:

	<u>Deposits</u>	<u>Wells Fargo Money Market</u>	<u>Total</u>
Statement 3 - Governmental Funds:			
Cash	\$1,282,809	\$ -	\$1,282,809
Cash and investments held by trustee	<u>-</u>	<u>1,698,727</u>	<u>1,698,727</u>
Total	<u>\$1,282,809</u>	<u>\$1,698,727</u>	<u>\$2,981,536</u>

Note 3 RETIREMENT PLANS

Substantially all employees of the School are required by state law to belong to a pension plan administered by the Teachers' Retirement Association (TRA) which is a cost-sharing multiple-employer defined benefit pension plan administered on a statewide basis. Disclosures relating to this plan is as follows:

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of TRA and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association in 2015. Additional information can be found in section E.

B. PLAN DESCRIPTIONS

The School participates in TRA's Basic Plan (without Social Security coverage) and its Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials. Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state are required to be TRA members.

C. BENEFITS PROVIDED

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service. Two methods (Tier I and Tier II) are used to compute benefits for TRA's Basic and Coordinated Plan members.

Tier I Benefits – a step rate formula of 2.2% per year for the first ten years of service and 2.7% for all other years is applied for Basic Plan members. For years of service prior to July 1, 2006, a step rate formula of 1.2% per year for the first ten years of service and 1.7% for all other years is applied for Coordinated Plan members. For years of service July 1, 2006 and after, a step rate formula of 1.4% per year for the first ten years of service and 1.9% for all other years is applies.

Tier II Benefits – for years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members is applied. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described. Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

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

D. CONTRIBUTIONS

Employee and employer contribution rates are established by Minnesota Statutes. Rates for the years ended June 30, 2015 and 2016 are as follows:

	<u>Employee</u>	<u>Employer</u>
TRA - Basic Plan	11.0%	11.5%
TRA - Coordinated Plan	7.5%	7.5%

The School's contributions to TRA for the plan's fiscal year ended June 30, 2015 were \$424,106 which was equal to the required contribution as set by state statute.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

E. MERGER OF DULUTH TEACHER’S RETIREMENT FUND ASSOCIATION (DTRFA)

Legislation enacted in 2014 merged the DTRFA with TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	TRA CAFR June 30, 2014	Restated
Total pension liability	\$24,901,612,000	\$25,299,564,000
Plan fiduciary net position	20,293,684,000	20,519,756,000
Net pension liability	<u>\$4,607,928,000</u>	<u>\$4,779,808,000</u>

F. NET PENSION LIABILITY AND PENSION EXPENSE

The net pension liability reported at June 30, 2016 was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the measurement date. The School’s proportionate share of the net pension liability was based on its contributions to each respective plan in relation to total contributions to the plan. For TRA, total contributions to the plan include direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. Pension-related assets reported by the School relating to TRA are \$0.

The School’s net pension liability, its proportionate share of the plan’s net pension liability, and pension expense as of and for the year ended June 30, 2016 are as follows:

Net pension liability	<u>TRA</u> \$6,804,588
Proportionate share of net pension liability:	
Measurement date	0.1100%
Prior measurement date	0.1188%
Pension expense	\$630,294

The pension liability related to TRA reflected a reduction due to direct aid provided to TRA. The amount recognized by the School as its proportionate share of the net pension liability, the direct aid, and the total portion of the net pension liability that was associated with the School were \$6,804,588, \$834,698 and \$7,639,286, respectively. In addition, pension expense related to TRA includes recognition of \$147,564 as an increase to pension expense for the support provided by direct aid.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

G. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

At June 30, 2016, the School reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$376,043	\$ -
Difference between projected and actual investment earnings	-	616,042
Changes in actuarial assumptions	523,092	-
Changes in proportion	349,220	173,144
Contributions paid subsequent to the measurement date	527,196	-
Total	<u>\$1,775,551</u>	<u>\$789,186</u>

Amounts reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense during the following years:

<u>Year</u>	<u>Pension Expense</u>
2017	\$17,184
2018	17,184
2019	17,185
2020	407,616

H. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Information

Measurement date	June 30, 2015
Valuation date	July 1, 2015
Experience study	October 30, 2009
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	8.00%
Wage inflation	3.0%
Projected salary increase	3.5 - 12%, based on years of service
Cost of living adjustment	2.0%

Mortality Assumption

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortality, without adjustment.

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to be 2% annually with no increase to 2.5% projected. The prior year valuation assumed a 2.5% increase commencing July 1, 2034. Also, the assumed investment rate of return and the discount rate used to measure the net pension liability was reduced from 8.25% at the prior measurement date to 8.0% at the current measurement date.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15%	6.00%
Bonds	18%	1.45%
Alternative assets	20%	6.40%
Unallocated cash	2%	0.50%
Total	100%	

I. DISCOUNT RATE

The discount rates used to measure the total pension liability was 8.0% and 7.9%. The projection of cash flows used to determine the discount rate assumed that employee, employer, and state contributions, if any, will be made at current statutorily required rates. Based on those assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

J. PENSION LIABILITY SENSITIVITY

The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 8.0%, as well as the liability measured using one percent lower (7.0% for TRA) and one percent higher (9.0%).

	1% Decrease	Current	1% Increase
TRA	\$10,357,464	\$6,804,588	\$3,839,611

K. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103; or by calling 651-296-2409 or 1-800-657-3669.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$1,109,061	\$ -	\$ -	\$1,109,061
Construction in progress	24,391	-	-	24,391
Total capital assets, not being depreciated	<u>1,133,452</u>	<u>-</u>	<u>-</u>	<u>1,133,452</u>
Capital assets, being depreciated:				
Buildings	14,560,128	49,962	-	14,610,090
Furniture and fixtures	170,806	8,971	-	179,777
Equipment	21,628	14,795	-	36,423
Total capital assets, being depreciated	<u>14,752,562</u>	<u>73,728</u>	<u>-</u>	<u>14,826,290</u>
Less accumulated depreciation for:				
Buildings	1,433,669	374,618	-	1,808,287
Furniture and fixtures	129,709	34,161	-	163,870
Equipment	4,795	5,270	-	10,065
Total accumulated depreciation	<u>1,568,173</u>	<u>414,049</u>	<u>-</u>	<u>1,982,222</u>
Total capital assets being depreciated - net	<u>13,184,389</u>	<u>(340,321)</u>	<u>0</u>	<u>12,844,068</u>
Governmental activities capital assets - net	<u>\$14,317,841</u>	<u>(\$340,321)</u>	<u>\$0</u>	<u>\$13,977,520</u>

Most of the capital asset activity relates to the Building Company.

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
District support services	\$3,255
Pupil support services	2,015
Site, building and equipment	<u>408,779</u>
Total depreciation expense - governmental activities	<u>\$414,049</u>

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 5 LONG-TERM LIABILITIES

	<u>Balance</u> <u>6/30/2016</u>
<u>Building Company</u>	
\$17.77M Lease Revenue Bonds Series 2010A; \$630,000 Taxable Lease Revenue Bonds Series 2010B. Both issued November 1, 2010 and due November 1, 2040. The bonds were issued through the HRA of Duluth, Minnesota and carry interest rates ranging from 5.00% - 6.75%.	\$17,315,000
Less: unamortized bond discount	(\$523,395)
Compensated absences	<u>47,500</u>
Total	<u><u>\$16,839,105</u></u>

During fiscal year 2011, the Building Company obtained an \$18.4M construction loan from lease revenue bond proceeds sold by the HRA of Duluth, Minnesota to finance the site acquisition, construction, and equipping buildings owned by the Building Company and leased to Duluth Public Schools Academy. The bond proceeds were placed in an escrow account controlled by Wells Fargo Bank under the terms of a trust agreement between the HRA of Duluth, Minnesota and Wells Fargo Bank for the benefit of the Building Company. The resulting loan is payable in semi-annual installments of principal and interest through November 1, 2040. The note is based on annual interest rates of between 5.00 percent and 6.75 percent (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 Duluth Public Schools Academy and has certain restrictive debt covenants, including a minimum debt service coverage of 110% before corrective action is needed, and 100% for default.

Changes in long-term liabilities are as follows:

	<u>June 30,</u> <u>2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30,</u> <u>2016</u>	<u>Due in</u> <u>One Year</u>
Bonds payable	\$17,615,000	\$ -	(\$300,000)	\$17,315,000	\$315,000
Bond discounts	(545,826)	-	22,431	(523,395)	-
Compensated absences payable	<u>27,482</u>	<u>20,018</u>	<u>-</u>	<u>47,500</u>	<u>4,750</u>
Total	<u><u>\$17,096,656</u></u>	<u><u>\$20,018</u></u>	<u><u>(\$277,569)</u></u>	<u><u>\$16,839,105</u></u>	<u><u>\$319,750</u></u>

Compensated absences are generally liquidated by the General Fund.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Annual debt service requirements to maturity are as follows:

Fiscal Year	Bonds Payable	
	Principal	Interest
2017	\$315,000	\$977,397
2018	330,000	961,272
2019	350,000	944,272
2020	365,000	926,397
2021	385,000	907,647
2022	405,000	887,897
2023	425,000	865,872
2024	445,000	841,512
2025	475,000	815,752
2026	500,000	788,452
2027	525,000	759,752
2028	555,000	729,512
2029	590,000	697,452
2030	620,000	663,572
2031	655,000	627,872
2032	690,000	589,263
2033	735,000	547,403
2034	775,000	503,047
2035	820,000	456,194
2036	870,000	406,550
2037	920,000	353,969
2038	975,000	298,303
2039	1,030,000	239,406
2040	1,095,000	176,984
2041	2,465,000	72,409
Totals	<u>\$17,315,000</u>	<u>\$16,038,158</u>

It is not practicable to determine the specific year for payment of long-term accrued compensated absences.

Note 6 COMMITMENTS AND CONTINGENCIES

A. GRANTS

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial. The federal financial assistance received may be subject to an audit pursuant to the Uniform Guidance under 2 CFR 200, or audits by the grantor agency.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

B. CONTRACTUAL COMMITMENT AND CONTINGENCY

The School contracted with EdisonLearning, Inc., a Delaware limited partnership, to manage and provide the educational program. The term of the contract ran through June 30, 2017, however the contract was mutually terminated as of June 30, 2016. Fees accrued for 2016, net of adjustments, were \$702,170.

The June 30, 2016 accrued liability related to EdisonLearning, Inc. is \$1,256,045. This represents all invoices received from EdisonLearning, Inc. through October 31, 2016. Included in this amount is approximately \$425,000 for which School management is currently reviewing any future adjustments would be recognized when determinable.

C. LEASES

LEASES WITH OTHER PARTIES

The School has lease agreements for modular office space at Raleigh Edison Charter School, with the current agreement extending through August 31, 2016. Rent expense under these leases was \$50,484 for the year ended June 30, 2016. Future minimum payments under the term of the lease are as follows:

Year Ending June 30	Amount
2017	<u>\$8,414</u>
Total	<u><u>\$8,414</u></u>

The School leases a business office facility from West End Properties, Inc. (c/o Kleiman Realty) with the current agreement extending through June 30, 2017. Rent expense under this lease was \$11,250 for the year ended June 30, 2016. Future minimum payments under the term of the lease are as follows:

Year Ending June 30	Amount
2017	<u>\$27,000</u>
Total	<u><u>\$27,000</u></u>

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

LEASES BETWEEN SCHOOL AND BUILDING COMPANY

The School leases the facility at Northstar Academy and Raleigh from the Building Company with the current agreement extending through November 9, 2040. The net annual base rent for the term of the lease agreement is tied closely to the debt service requirements of the Building Company (see Note 5). Rent expense under this lease was \$1,454,900 for the year ended June 30, 2016. Future annual base rents shall be subject to confirmation by mutual written agreement of the School and Building Company, but shall not be less than \$1,454,900. Future minimum payments under the terms of this lease are as follows:

Year Ending June 30	Amount
2017	\$1,454,900
2018	1,454,900
2019	1,454,900
2020	1,454,900
2021	1,454,900
2022-2026	7,274,500
2027-2031	7,274,500
2032-2036	7,274,500
2037-2047	<u>6,425,808</u>
Total	<u><u>\$35,523,808</u></u>

As of September 1, 2016, the Building Company purchased the modular office space at Raleigh Edison Charter School, and will be leasing it to the School. The agreement term is from September 1, 2016 through August 31, 2017, and shall extend on a year-to-year basis for twelve month extension terms unless either party gives notice of non-renewal. Rent during any extension term shall be 105% of the monthly rent during the immediately prior term. Future minimum payments under the terms of this lease are as follows:

Year Ending June 30	Amount
2017	\$46,200
2018	<u>4,200</u>
Total	<u><u>\$50,400</u></u>

Note 7 INTERFUND ACTIVITY

During 2016, the Building Company agreed to transfer \$155,657 to the School, to cover certain facility costs. This is recorded as a transfer from the Building Company to the School. As of June 30, 2016, this amount is payable by the Building Company to the School.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 8 LINE OF CREDIT

The School has a line of credit with North Shore Bank of Commerce for short-term cash flow needs. The line has a maximum amount of \$1,500,000 with a variable interest rate equal to the prime rate plus 1%, with a 4.75% minimum, is currently in the renewal process. As of June 30, 2016, the line had a balance of \$0, an annual rate of 4.75% and there was no activity during the year. It is secured by the School's assets, however North Shore Bank of Commerce has signed a subordination agreement, relinquishing and subordinating the priority and superiority of its lien on the School's assets to Wells Fargo Bank. This is because the School's bond is also secured by the School's assets.

Note 9 RISK MANAGEMENT

The School purchases commercial insurance for property and liability, transferring the risk of loss (other than deductibles) to the insurance carrier.

The School participates in a risk pool for workers' compensation insurance. The pool in turn contracts with an insurance carrier, thereby transferring the risk from the pool members to the insurance carrier. The workers' compensation policy is retrospectively rated in that the initial premium is adjusted based on the actual experience during the coverage period of the group of entities that participate in the pool. There were no significant reductions in coverage from the previous year and settled claims have not exceeded insurance coverage in any of the prior three years.

Note 10 SUBSEQUENT EVENTS

PERA, a retirement plan similar to TRA (see Note 3) – Effective July 1, 2016, the School will have employees who are eligible for PERA. Previously, the School did not participate in PERA due to its relationship with EdisonLearning, Inc. Beginning July 1, 2016, any employees who are not eligible for TRA and meet the requirements to qualify for PERA will be enrolled in PERA. The budgeted impact for the School in fiscal year 2017 is approximately \$240,000 which represents the employer required contribution for eligible employees.

See Note 6C for lease-related subsequent events.

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REQUIRED SUPPLEMENTARY INFORMATION

**DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020**

Statement 5

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended June 30, 2016
With Comparative Actual Amounts For The Year Ended June 30, 2015

	2016				2015 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Revenues:					
Local sources	\$139,637	\$403,876	\$213,737	(\$190,139)	\$272,690
State sources	16,793,400	17,034,690	17,037,382	2,692	15,704,414
Federal sources	554,818	473,311	490,826	17,515	510,733
Investment income	250	250	193	(57)	244
Total revenues	<u>17,488,105</u>	<u>17,912,127</u>	<u>17,742,138</u>	<u>(169,989)</u>	<u>16,488,081</u>
Expenditures:					
District support services	2,413,922	2,631,820	2,388,484	(243,336)	2,212,119
Regular instruction	5,218,076	5,491,260	5,238,465	(252,795)	4,573,315
Special education	4,939,779	5,322,065	5,590,876	268,811	4,781,872
Instructional support services	354,869	341,699	299,599	(42,100)	284,295
Pupil support services	1,507,829	1,512,378	1,693,040	180,662	1,436,781
Site, building and equipment	2,216,767	2,235,936	2,206,231	(29,705)	2,164,818
Fiscal and other fixed costs	187,660	223,013	218,953	(4,060)	190,239
Capital outlay	275,090	238,474	227,402	(11,072)	268,396
Total expenditures	<u>17,113,992</u>	<u>17,996,645</u>	<u>17,863,050</u>	<u>(133,595)</u>	<u>15,911,835</u>
Revenues over (under) expenditures	<u>374,113</u>	<u>(84,518)</u>	<u>(120,912)</u>	<u>(36,394)</u>	<u>576,246</u>
Other financing sources (uses):					
Transfers in	-	-	155,657	155,657	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>155,657</u>	<u>155,657</u>	<u>-</u>
Net change in fund balance	<u>\$374,113</u>	<u>(\$84,518)</u>	34,745	<u>\$119,263</u>	576,246
Fund balance - beginning			<u>1,716,755</u>		<u>1,140,509</u>
Fund balance - ending			<u>\$1,751,500</u>		<u>\$1,716,755</u>

DULUTH PUBLIC SCHOOLS ACADEMY

CHARTER SCHOOL NO. 4020

Statement 6

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE FUND

For The Year Ended June 30, 2016

With Comparative Actual Amounts For The Year Ended June 30, 2015

	2016			Variance with Final Budget - Over (Under)	2015 Actual Amounts
	Budgeted Amounts		Actual Amounts		
	Original	Final			
Revenues:					
Local sources	\$151,000	\$151,000	\$176,493	\$25,493	\$143,769
State sources	34,300	34,300	34,896	596	34,354
Federal sources	328,700	328,700	360,526	31,826	360,817
Total revenues	<u>514,000</u>	<u>514,000</u>	<u>571,915</u>	<u>57,915</u>	<u>538,940</u>
Expenditures:					
Pupil support services	512,328	540,486	538,501	(1,985)	413,523
Capital outlay	-	10,630	10,598	(32)	12,854
Total expenditures	<u>512,328</u>	<u>551,116</u>	<u>549,099</u>	<u>(2,017)</u>	<u>426,377</u>
Revenues over (under) expenditures	<u>\$1,672</u>	<u>(\$37,116)</u>	22,816	<u>\$59,932</u>	112,563
Fund balance - beginning			<u>249,569</u>		<u>137,006</u>
Fund balance - ending			<u>\$272,385</u>		<u>\$249,569</u>

**DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020**

Statement 7

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - COMMUNITY SERVICE FUND

For The Year Ended June 30, 2016

With Comparative Actual Amounts For The Year Ended June 30, 2015

	2016			Variance with Final Budget - Over (Under)	2015 Actual Amounts
	Budgeted Amounts		Actual Amounts		
	Original	Final			
Revenues:					
Local sources	\$125,000	\$140,000	\$159,476	\$19,476	\$131,180
Total revenues	<u>125,000</u>	<u>140,000</u>	<u>159,476</u>	<u>19,476</u>	<u>131,180</u>
Expenditures:					
Community education and services	124,380	154,349	157,777	3,428	128,534
Capital outlay	-	-	-	-	2,033
Total expenditures	<u>124,380</u>	<u>154,349</u>	<u>157,777</u>	<u>3,428</u>	<u>130,567</u>
Revenues over expenditures	<u>\$620</u>	<u>(\$14,349)</u>	1,699	<u>\$16,048</u>	613
Fund balance (deficit) - beginning			<u>35,530</u>		<u>34,917</u>
Fund balance - ending			<u>\$37,229</u>		<u>\$35,530</u>

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY*
 For The Year Ended June 30, 2016

Teachers Retirement Association

<u>Measurement Date</u>	<u>Fiscal Year Ending</u>	<u>Proportion (Percentage) of the Net Pension Liability</u>	<u>Proportionate Share (Amount) of the Net Pension Liability (a)</u>	<u>Covered Payroll (b)</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
June 30, 2014	June 30, 2015	0.1188%	\$5,474,218	\$5,387,481	101.6%	81.5%
June 30, 2016	June 30, 2015	0.1100%	\$6,804,588	\$5,358,322	127.0%	76.8%

* The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS*
 For The Year Ended June 30, 2016

Teachers Retirement Association

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
June 30, 2015	\$424,106	\$424,106	\$0	\$5,358,322	7.9%
June 30, 2016	\$492,795	\$492,795	\$0	\$6,579,951	7.5%

* The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
REQUIRED SUPPLEMENTARY INFORMATION
NOTE TO RSI
JUNE 30, 2016

Note A LEGAL COMPLIANCE – BUDGETS

The General Fund and Special Revenue Fund budgets are legally adopted on a basis consistent with GAAP. The legal level of budgetary control is at the fund level.

Note B PENSION INFORMATION

Changes of benefit terms (TRA) – the Duluth Teacher’s Retirement Fund Association was merged into TRA on June 30, 2015.

Changes of assumptions (TRA) – Post-retirement benefit adjustments used for the June 30, 2015 valuation are now assumed to be 2% annually with no increase to 2.5% projected. The previous valuation assumed a 2.5% increase commencing July 1, 2034. Also, the discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

Additional details can be obtained from the financial reports of TRA.

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SUPPLEMENTAL INFORMATION

	Audit *	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue *	\$17,897,795	\$17,897,794	\$1	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	17,863,050	17,863,052	(2)	Total Expenditures	-	-	-
<i>Non-Spendable:</i>				<i>Non-Spendable:</i>			
4.60 Non Spendable Fund Balance	68,014	68,013	1	4.60 Non Spendable Fund Balance	-	-	-
<i>Restricted/Reserve:</i>				<i>Restricted/Reserve:</i>			
4.03 Staff Development	-	-	-	4.07 Capital Projects Levy	-	-	-
4.05 Deferred Maintenance	-	-	-	4.09 Alternative Fac. Program	-	-	-
4.06 Health and Safety	-	-	-	4.13 Projects Funded By COP	-	-	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Revenue	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.11 Severance Pay	-	-	-	<i>Unassigned:</i>			
4.13 Project Funded By COP	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.14 Operating Debt	-	-	-				
4.16 Levy Reduction	-	-	-	07 DEBT SERVICE			
4.17 Taconite Building Maint	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.23 Certain Teacher Programs	-	-	-	Total Expenditures	-	-	-
4.24 Operating Capital	-	-	-	<i>Non-Spendable:</i>			
4.26 \$25 Taconite	-	-	-	4.60 Non Spendable Fund Balance	-	-	-
4.27 Disabled Accessibility	-	-	-	<i>Restricted/Reserve:</i>			
4.28 Learning and Development	-	-	-	4.25 Bond Refundings	-	-	-
4.34 Area Learning Center	-	-	-	4.51 QZAB Payments	-	-	-
4.35 Contracted Alt. Programs	-	-	-	<i>Restricted:</i>			
4.36 St. Approved Alt. Program	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.38 Gifted & Talented	-	-	-	<i>Unassigned:</i>			
4.41 Basic Skills Programs	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.45 Career & Tech Programs	-	-	-				
4.46 First Grade Preparedness	-	-	-	08 TRUST			
4.49 Safe Schools Levy	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.50 Pre-Kindergarten	-	-	-	Total Expenditures	-	-	-
4.51 QZAB Payments	-	-	-	<i>Unrestricted:</i>			
4.52 OPEB Liab Not In Trust	-	-	-	4.22 Net Assets	-	-	-
4.53 Unfunded Sev & Retiremt Levy	-	-	-				
<i>Restricted:</i>				09 AGENCY			
4.64 Restricted Fund Balance	72,854	72,853	1	<i>Unrestricted:</i>			
<i>Committed:</i>				4.22 Net Assets	-	-	-
4.18 Committed For Separation	-	-	-				
4.61 Committed Fund Balance	741,127	741,127	-	20 INTERNAL SERVICE			
<i>Assigned:</i>				Total Revenue	\$ -	\$ -	\$ -
4.62 Assigned Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Unassigned:</i>				<i>Unrestricted:</i>			
4.22 Unassigned Fund Balance	869,505	869,503	2	4.22 Net Assets	-	-	-
02 FOOD SERVICE				25 OPEB REVOCABLE TRUST			
Total Revenue	\$571,915	\$571,916	(\$1)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	549,099	549,100	(1)	Total Expenditures	-	-	-
<i>Non-Spendable:</i>				<i>Unrestricted:</i>			
4.60 Non Spendable Fund Balance	-	-	-	4.22 Net Assets	-	-	-
<i>Restricted/Reserve:</i>							
4.52 OPEB Liab Not In Trust	-	-	-	45 OPEB IRREVOCABLE TRUST			
<i>Restricted:</i>				Total Revenue	\$ -	\$ -	\$ -
4.64 Restricted Fund Balance	272,385	272,385	-	Total Expenditures	-	-	-
<i>Unassigned:</i>				<i>Unrestricted:</i>			
4.63 Unassigned Fund Balance	-	-	-	4.22 Net Assets	-	-	-
04 COMMUNITY SERVICE				47 OPEB DEBT SERVICE FUND			
Total Revenue	\$159,476	\$159,476	\$ -	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	157,777	157,776	1	Total Expenditures	-	-	-
<i>Restricted/Reserve:</i>				<i>Non-Spendable:</i>			
4.26 \$25 Taconite	-	-	-	4.60 Non Spendable Fund Balance	-	-	-
4.31 Community Education	-	-	-	<i>Restricted/Reserve:</i>			
4.32 E.C.F.E	-	-	-	4.25 Bond Refundings	-	-	-
4.44 School Readiness	-	-	-	<i>Restricted:</i>			
4.47 Adult Basic Education	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				4.63 Unassigned Fund Balance	-	-	-
4.64 Restricted Fund Balance	37,229	37,231	(2)				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	-	-	-				

* Note: The audited total revenues amount in the General Fund above includes a reclassification of \$155,657 from transfers in, to local sources revenue for UFARS purposes only. This represents an interfund transfer from the School's Building Company, which is recorded in the audited financial statements as an interfund transfer per GASB 34.

OTHER REQUIRED REPORTS

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

To the Board of Directors
Duluth Public Schools Academy
Charter School No. 4020
Duluth, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Duluth Public Schools Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Duluth Public Schools Academy's basic financial statements and have issued our report thereon dated November 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Duluth Public Schools Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Duluth Public Schools Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Duluth Public Schools Academy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Duluth Public Schools Academy
Independent Auditor's Report on Internal Control over
Financial Reporting And on Compliance and Other Matters

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

November 22, 2016



MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Directors
Duluth Public Schools Academy
Charter School No. 4020
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Duluth Public Schools Academy as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 22, 2016.

The *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains two categories of compliance to be tested in audits of charter schools: uniform financial accounting and reporting standards, and charter schools.

In connection with our audit, nothing came to our attention that caused us to believe that Duluth Public Schools Academy failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Duluth Public Schools Academy's noncompliance with the above referenced provisions.

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

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

November 22, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Duluth Public Schools Academy
Charter School No. 4020
Duluth, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Duluth Public Schools Academy's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Duluth Public Schools Academy's major federal programs for the year ended June 30, 2016. Duluth Public Schools Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Duluth Public Schools Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Duluth Public Schools Academy'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Duluth Public Schools Academy's compliance.

Duluth Public Schools Academy
Independent Auditor's Report on Compliance for Each
Major Program and Internal Control Over Compliance
Required By the Uniform Guidance

Opinion on Each Major Federal Program

In our opinion, Duluth Public Schools Academy complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Duluth Public Schools Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Duluth Public Schools Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Duluth Public Schools Academy's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Duluth Public Schools Academy
Independent Auditor's Report on Compliance for Each
Major Program and Internal Control Over Compliance
Required By the Uniform Guidance

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

November 22, 2016

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2016

Federal Funding Source/ Pass Through Agency/ Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education:			
Passed through State of Minnesota:			
Title I Grants to Local Educational Agencies (LEAs)	84.010	None noted	\$208,144
Improving Teacher Quality State Grants	84.367	None noted	39,684
Special Education - Grants to States (IDEA, Part B)	84.027	None noted	208,000
Special Education - Preschool Grants (IDEA Preschool)	84.173	None noted	24,474
Total Special Ed Cluster			<u>232,474</u>
Received directly from federal sources:			
Indian Education - Grants to Local Educational Agencies	84.060	None noted	<u>10,524</u>
Total U.S. Department of Education			<u>490,826</u>
U.S. Department of Agriculture:			
Passed through State of Minnesota:			
School Breakfast Program	10.553	None noted	60,982
National School Lunch Program	10.555	None noted	272,840
Summer Food Service Program	10.559	None noted	609
Total Child Nutrition Cluster			<u>334,431</u>
Child and Adult Care Food Program	10.558	None noted	<u>12,304</u>
Total U.S. Department of Agriculture			<u>346,735</u>
Total Federal Expenditures			<u><u>\$837,561</u></u>

Notes to the schedule of expenditures of federal awards

Note 1. Basis of Presentation

The above schedule of expenditures of federal awards includes the federal grant activity of Duluth Public Schools Academy and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance in 2 CFR 200, Audits of States, Local Governments and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Non-Cash Assistance

The above schedule includes \$36,391 of non-cash assistance. This amount represents the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program, CFDA No. 10.555.

Note 3. Indirect Costs

Duluth Public Schools Academy did not elect to use the 10% de minimis cost rate for indirect (F&A) costs.

Note 4. Subrecipients

Duluth Public Schools Academy does not have any subrecipients.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2016

SECTION I - SUMMARY OF AUDIT RESULTS

<i>Financial Statements</i>			
A. Type of auditor's report issued:	Unmodified		
B. Internal control over financial reporting:			
• Material weakness(es) identified?	___	Yes	<u> X </u> No
• Significant deficiencies identified that are not considered to be material weaknesses?	___	Yes	<u> X </u> No
C. Noncompliance material to financial statements noted?	___	Yes	<u> X </u> No
<i>Federal Awards</i>			
D. Internal control over major programs:			
• Material weakness(es) identified?	___	Yes	<u> X </u> No
• Significant deficiencies identified that are not considered to be material weaknesses?	___	Yes	<u> X </u> No
E. Type of auditor's report issued on compliance for major programs:	Unmodified		
F. Any other audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	___	Yes	<u> X </u> No
G. Identification of major programs:			
<u>Name of Federal Program</u>	<u>CFDA Number</u>		
Title I Grants to Local Educational Agencies (LEAs)	84.010		
H. Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000		
I. Auditee qualified as a low-risk auditee	<u> X </u>	Yes	___ No

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS
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Finding: None

SECTION III - FEDERAL AWARD FINDINGS

Finding: None

**DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For The Year Ended June 30, 2016**

FOLLOW UP ON PRIOR YEAR FINDINGS

MINNESOTA LEGAL COMPLIANCE FINDINGS

Finding: 2015-001 Deficiencies in Collateral for Deposits

Condition and Context: At June 30, 2015, the bank balance of the School's deposits, excluding amounts held by the Building Company, was \$2,937,392, of which \$250,000 was insured by the FDIC. Pledged collateral in the amount of \$2,956,131 was required to cover uninsured deposits, but only \$2,335,906 was obtained, resulting in a collateral shortage of \$620,225 at year end.

Recommendation: We recommend the School continue to monitor the pledged collateral for sufficiency to comply with Minnesota Statute 118A.03.

Current Status: Resolved; during 2016, the School obtained four pledged securities totaling \$4,000,000 to obtain sufficient collateral for deposits.

FINANCIAL AUDIT FINDINGS

None.

FEDERAL AWARD FINDINGS

None.

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