DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For The Year Ended June 30, 2015

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

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INTRODUCTORY SECTION

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DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
BOARD MEMBERS
June 30, 2015

BOARD OF DIRECTORS

Elective	Board Position
Crystal Palmer	President
Mike St. John	Vice-President
Hilary Hodgman	Treasurer
Lisa Harold*	Secretary
Valerie Petersen*	Director
Neil Byce	Director
Mitch Nault	Director
Stephen Sydow	Director
Russ Kurhajetz	Director
Elizabeth Allen*	Director
Eric Brandenburg	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, 2015, 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, 2015, 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.

Emphasis of Matter

As described in Note 8 to the financial statements, Duluth Public Schools Academy adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Duluth Public Schools Academy's 2014 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated November 21, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, and the 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 Uniform Financial Accounting and Reporting Standards Compliance Table is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Uniform Financial Accounting and Reporting Standards Compliance Table is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2015, 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.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

November 20, 2015

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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, 2015. 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 2014-2015 fiscal year include the following:

- The School's net position decreased by $5,260,344. Current assets increased by $782,621 and current liabilities increased by $18,929. These changes are primarily due to additional cash on hand as a result of the additional surplus in excess of what was budgeted as well as a slightly larger local liability than the prior year.
- Net position of the school-wide financial statements was negatively impacted in the current year by $5,862,689 due to the required implementation of a new accounting standard. This is more fully described on page 14.
- Total revenue increased by $1,396,842 (8.85%) between fiscal year 2014 and fiscal year 2015 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 $868,507, which is also attributed to the increase in student enrollment and increase in special education services.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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.

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 $4,838,947 as of June 30, 2015.

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

	June 30,	
	2015	2014
Assets and deferred outflows:		
Current assets	$7,248,461	$6,465,840
Capital assets, net	14,317,841	14,699,275
Deferred outflows of resources	1,332,568	-
Total assets and deferred outflows	22,898,870	21,165,115
Liabilities and deferred inflows:		
Current liabilities	3,445,904	3,426,975
Long-term liabilities	22,570,874	17,316,743
Deferred inflows of resources	1,721,039	-
Total liabilities and deferred inflows	27,737,817	20,743,718
Net position:		
Net investment in capital assets	(1,059,052)	(955,064)
Restricted for regulation	10,515	5,666
Restricted for food service	249,569	137,006
Restricted for community service	35,530	34,917
Restricted for capital improvements	58,247	-
Unrestricted	(4,133,756)	1,198,872
Total net position	($4,838,947)	$421,397

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The School adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* for the year ended June 30, 2015. The standard is required to be adopted by all entities following GASB who provide defined benefit pension plans administered through trusts, such as TRA. Essentially, the standard required the unfunded portion of cost-sharing multiple-employer pension plans to be allocated pro-rata to participating employers, including the School. The net pension liability is noncurrent and does not affect the fund financial statements. Recording the liability does not change the School's future funding requirements or obligations under the plans, which are determined by Minnesota statutes.

Net position was negatively impacted by $5,862,689 at June 30, 2015 due to the implementation of this standard. Pension-related amounts from above related to the standard are as follows:

Deferred outflows of resources	$1,332,568
Deferred inflows of resources	(1,721,039)
Noncurrent liabilities	(5,474,218)
Total	($5,862,689)

Changes in Net Position

The School's total revenues were $17,175,023 for the year ended June 30, 2015. Program revenues accounted for 39.9% of total revenue for the year.

The total cost of all programs and services was $16,533,483. Total revenues exceeded expenses by $641,540, and there was a prior period adjustment, as discussed on the previous page, of ($5,901,884), resulting in ending net position of ($4,838,947) at June 30, 2015.

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

	For The Years Ended June 30,	
	2015	2014
Revenues:		
Program revenues:		
Charges for services	$363,261	$322,022
Operating grants and contributions	6,489,832	5,970,041
General revenues:		
Local sources	184,378	143,661
State sources	10,137,291	9,342,185
Federal sources	-	-
Other	261	272
Total revenues	17,175,023	15,778,181
Expenses:		
District support services	2,327,691	2,038,845
Regular instruction	4,710,788	4,699,057
Special education	4,781,139	4,251,969
Community education and services	130,567	119,074
Instructional support services	281,915	253,369
Pupil support services	1,852,695	1,876,667
Site, building and equipment	1,226,576	1,198,495
Fiscal and other fixed costs	190,239	179,322
Interest and fiscal changes on long-term liabilities	1,031,873	1,048,178
Total expenses	16,533,483	15,664,976
Change in net position	641,540	113,205
Net position - beginning	421,397	308,192
Prior period adjustment	(5,901,884)	-
Net position - beginning, as restated	(5,480,487)	308,192
Net position - ending	($4,838,947)	$421,397

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund adopted an original revenue budget of $16,356,930, which was revised to a final revenue budget of $16,564,963.

The General Fund adopted an original expenditure budget of $16,009,062, which was revised to a final expenditure budget of $16,217,097.

While the School's final budget for the General Fund anticipated that revenues would exceed expenditures by $347,866, the actual results for the year showed revenues exceeding expenditures by $576,246.

- Actual revenues were $76,882 less than anticipated due to receiving less federal special education revenue as a direct result of incurring less expenditures eligible for reimbursement.
- Actual expenditures were $305,262 less than anticipated, due to savings on originally budgeted expenditures, as well as incurring less federal special education expenditures. These savings were identified throughout the year as part of the on-going budget monitoring.

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:

	2015	2014	Increase (Decrease)
Construction in progress	$24,391	$24,391	$ -
Land	1,109,061	1,109,061	-
Buildings	14,560,128	14,543,878	16,250
Furniture and fixtures	170,806	170,806	-
Technology equipment	21,628	8,774	12,854
Total capital assets	15,886,014	15,856,910	29,104
Accumulated depreciation	(1,568,173)	(1,157,635)	(410,538)
Net capital assets	$14,317,841	$14,699,275	($381,434)

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. $17.1M remains outstanding as of June 30, 2015.

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 2015-2016 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 39 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, 3301 Technology Drive, Duluth, Minnesota 55811.

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BASIC FINANCIAL STATEMENTS

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020 **Statement 1**
STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities
Assets:	
Cash	$3,222,932
Cash and investments held by trustee	1,692,281
Accounts receivable	57,974
Due from other governments	2,260,055
Prepaid items	15,219
Capital assets (net of accumulated depreciation):	
Nondepreciable	1,133,452
Depreciable	13,184,389
Total assets	21,566,302
Deferred outflows of resources:	
Related to pensions	1,332,568
Total assets and deferred outflows of resources	$22,898,870
Liabilities:	
Accounts payable	$50,661
Due to EdisonLearning, Inc.	3,219,333
Unearned revenue	9,197
Accrued interest payable	166,713
Compensated absences:	
Due in less than one year	1,983
Due in more than one year	25,499
Bonds payable:	
Due in less than one year	300,000
Due in more than one year	16,769,174
Net pension liability:	
Due in more than one year	5,474,218
Total liabilities	26,016,778
Deferred inflows of resources:	
Related to pensions	1,721,039
Net position:	
Net investment in capital assets	(1,059,052)
Restricted for regulation	10,515
Restricted for food service	249,569
Restricted for community service	35,530
Restricted for capital improvements	58,247
Unrestricted	(4,133,756)
Total net position	(4,838,947)
Total liabilities, deferred inflows and net position	$22,898,870

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

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020 **Statement 2**
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
District support services	$2,327,691	$ -	$ -	($2,327,691)
Regular instruction	4,710,788	79,851	302,692	(4,328,245)
Special education	4,781,139	8,461	4,437,123	(335,555)
Community education and services	130,567	131,180	-	613
Instructional support services	281,915	-	-	(281,915)
Pupil support services	1,852,695	143,769	395,171	(1,313,755)
Site, building and equipment	1,226,576	-	1,354,846	128,270
Fiscal and other fixed costs	190,239	-	-	(190,239)
Interest and fiscal charges on long-term liabilities	1,031,873	-	-	(1,031,873)
Total governmental activities	$16,533,483	$363,261	$6,489,832	(9,680,390)
General revenues:				
Local sources				184,378
State sources				10,137,291
Investment income				261
Total general revenues				10,321,930
Change in net position				641,540
Net position - beginning as previously reported				421,397
Prior period adjustment				(5,901,884)
Net position - beginning, as restated				(5,480,487)
Net position - ending				($4,838,947)

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, 2015

	General Fund	Food Service	Community Service	Tischer Creek	Totals
Assets:					
Cash	$2,690,698	$209,012	$28,784	$294,438	$3,222,932
Cash and investments held by trustee	-	-	-	1,692,281	1,692,281
Accounts receivable	10,718	35,730	11,526	-	57,974
Due from Minnesota Department of Education	1,986,931	3,139	-	-	1,990,070
Due from Federal Government through Minnesota Department of Education	253,563	9,214	-	-	262,777
Due from Federal Government	7,208	-	-	-	7,208
Prepaid items	12,606	-	-	2,613	15,219
Total assets	$4,961,724	$257,095	$40,310	$1,989,332	$7,248,461
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	$28,619	$126	$ -	$21,916	$50,661
Due to EdisonLearning, Inc.	3,216,350	1,308	1,675	-	3,219,333
Unearned revenue	-	6,092	3,105	-	9,197
Total liabilities	3,244,969	7,526	4,780	21,916	3,279,191
Fund balance:					
Nonspendable - prepaid items	12,606	-	-	2,613	15,219
Restricted for regulation	10,515	-	-	-	10,515
Restricted for food service	-	249,569	-	-	249,569
Restricted for community service	-	-	35,530	-	35,530
Restricted for capital and debt service	58,247	-	-	1,692,281	1,750,528
Committed	425,000	-	-	-	425,000
Assigned	-	-	-	272,522	272,522
Unassigned	1,210,387	-	-	-	1,210,387
Total fund balance	1,716,755	249,569	35,530	1,967,416	3,969,270
Total liabilities and fund balance	$4,961,724	$257,095	$40,310	$1,989,332	$7,248,461

Amounts reported for governmental activities in the statement of net position are different because:	
Fund balance reported above	$3,969,270
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,317,841
Deferred outflows of resources related to pensions - see note 3	1,332,568
Deferred inflows of resources related to pensions - see note 3	(1,721,039)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued interest payable	(166,713)
Compensated absences	(27,482)
Bonds payable	(17,069,174)
Net pension liability	(5,474,218)
Net position of governmental activities (Statement 1)	($4,838,947)

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, 2015

	General Fund	Food Service	Community Service	Tischer Creek	Totals
Revenues:					
Local sources	$272,690	$143,769	$131,180	$1,454,900	$2,002,539
State sources	15,704,414	34,354	-	-	15,738,768
Federal sources	510,733	360,817	-	-	871,550
Investment income	244	-	-	17	261
Total revenues	16,488,081	538,940	131,180	1,454,917	18,613,118
Expenditures:					
Current:					
District support services	2,212,119	-	-	-	2,212,119
Regular instruction	4,573,315	-	-	-	4,573,315
Special education	4,781,872	-	-	-	4,781,872
Community education and services	-	-	128,534	-	128,534
Instructional support services	284,295	-	-	-	284,295
Pupil support services	1,436,781	413,523	-	-	1,850,304
Site, building and equipment	2,164,818	-	-	101,205	2,266,023
Fiscal and other fixed costs	190,239	-	-	-	190,239
Capital outlay	268,396	12,854	2,033	-	283,283
Debt service:					
Principal	-	-	-	270,000	270,000
Interest and fiscal charges	-	-	-	1,012,027	1,012,027
Total expenditures	15,911,835	426,377	130,567	1,383,232	17,852,011
Revenues over expenditures	576,246	112,563	613	71,685	761,107
Fund balance - beginning	1,140,509	137,006	34,917	1,895,731	3,208,163
Fund balance - ending	$1,716,755	$249,569	$35,530	$1,967,416	$3,969,270

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

Revenues over expenditures reported above	$761,107
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	29,104
Depreciation	(410,538)
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.	270,000
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	2,585
Change in compenstaed absences	(27,482)
Amortization of deferred inflows and outflows of resources related to pensions	39,195
Change in net position of governmental activities (Statement 2)	$641,540

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

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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 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* include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. 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.

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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

D. INCOME TAXES

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

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 has 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 ABSENSES

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:

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) $125,000 for expenses related to adding two new positions in the business office and a stipend for excess workload; and 2) $300,000 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.

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, 2015:

	Budget	Actual	Actual Over Budget
Special Revenue Fund:			
Community Service Fund	$118,760	$130,567	$11,807

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 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, 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.

The bank balance of the Building Company's deposits at June 30, 2015 was $295,855, of which $250,000 was insured by the FDIC. The remaining $45,855 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.

<u>Credit risk</u> – 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.

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

	Deposits	Wells Fargo Money Market	Total
Statement 3 - Governmental Funds:			
Cash	$3,222,932	$ -	$3,222,932
Cash and investments held by trustee	-	1,692,281	1,692,281
Total	$3,222,932	$1,692,281	$4,915,213

Note 3 RETIREMENT PLANS – TEACHERS RETIREMENT ASSOCIATION

Substantially all employees of the School are required by state law to belong to a pension plan administered by the Teachers Retirement Association (TRA) on a statewide basis. Disclosures relating to the plan are as follows:

A. Summary of Significant Accounting Policies

Pensions. 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. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. Additional information can be found in section G.

B. Plan Description

TRA is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a 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 years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2 percent per year
	First ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) 3 percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic 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 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. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

	Ending June 30, 2014		Ending June 30, 2015	
	Employee	Employer	Employee	Employer
Basic	10.5%	11.0%	11.0%	11.5%
Coordinated	7.0%	7.0%	7.5%	7.5%

The School's contributions to TRA for the plan's fiscal year ended June 30, 2014 were $382,911. The contributions were equal to the required contributions for each year as set by state statute.

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

	Amounts
Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$299,299,837
Deduct employer contributions not related to future contribution efforts	(398,798)
Deduct TRA's contributions not included in allocation	(370,701)
Employer contributions reported in schedule of employer and non-employer pension allocations	$298,530,338

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

E. Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Information	
Measurement Date	June 30, 2014
Valuation Date	July 1, 2014
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	8.25%
Wage Inflation	3.0%
Projected Salary Increase	3.5 - 12%, based on years of service
Cost of living adjustment	2.0% until year 2034; 2.5% thereafter
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.

The actuarial assumptions used in the June 30, 2014 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. The target allocation and best estimates of geometric 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%	

F. Discount Rate

The discount rate used to measure the total pension liability was 8.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2015 contribution rate, contributions from schools will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, 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.

G. Net Pension Liability

On June 30, 2015, the School reported a liability of $5,474,218 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The School's proportionate share was 0.1188% at the end of the measurement period and 0.1095% for the beginning of the year.

The pension liability amount 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 state's proportionate share, and the total portion of the net pension liability that was associated with the School were $5,474,218, $385,233 and $5,859,451, respectively.

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer. Section D contains the rate information.

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 increase from 2.0 percent annually to 2.5 percent annually once the legally specified criteria are met. This is estimated to occur July 1, 2034.

For the year ended June 30, 2015, the School recognized pension expense of $401,716, including $16,805 relating to the support provided by direct aid.

On June 30, 2015, the School had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$467,099	$ -
Difference between projected and actual investment earnings	-	1,721,039
Changes in proportion	441,363	-
Contributions paid to TRA subsequent to the measurement date	424,106	-
Total	$1,332,568	$1,721,039

$424,106 reported as deferred outflows of resources related to pensions resulting from the School’s contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized as pension expense during the following years:

Year	Pension Expense
2016	($240,602)
2017	(240,602)
2018	(240,602)
2019	(240,602)
2020	149,831

H. Pension Liability Sensitivity

The following presents the School’s proportionate share of the net pension liability calculated using the discount rate of 8.25 percent as well as the liability measured using one percent lower and one percent higher.

1% decrease (7.25%)	Current (8.25%)	1% increase (9.25%)
$9,047,008	$5,474,218	$2,495,747

The School's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

I. Pension Plan Fiduciary Net Position

Detailed information about the plan'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, 55103-4000; or by calling 651-296-2409 or 800-657-3669.

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 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	1,133,452	-	-	1,133,452
Capital assets, being depreciated:				
Buildings	14,543,878	16,250	-	14,560,128
Furniture and fixtures	170,806	-	-	170,806
Equipment	8,774	12,854	-	21,628
Total capital assets, being depreciated	14,723,458	29,104	-	14,752,562
Less accumulated depreciation for:				
Buildings	1,060,332	373,337	-	1,433,669
Furniture and fixtures	95,548	34,161	-	129,709
Equipment	1,755	3,040	-	4,795
Total accumulated depreciation	1,157,635	410,538	-	1,568,173
Total capital assets being depreciated - net	13,565,823	(381,434)	0	13,184,389
Governmental activities capital assets - net	$14,699,275	($381,434)	$0	$14,317,841

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	$1,755
Pupil support services	1,285
Site, building and equipment	407,498
Total depreciation expense - governmental activities	$410,538

Note 5 LONG-TERM LIABILITIES

	Balance 6/30/2015
Building Company	
$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%.	$17,069,174
Compensated absences	27,482
Total	$17,096,656

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:

	June 30, 2014	Additions	Retirements	June 30, 2015	Due in One Year
Bonds payable	$17,885,000	$ -	($270,000)	$17,615,000	$300,000
Bond discounts	(568,257)	-	22,431	(545,826)	-
Compensated absences payable	-	27,482	-	27,482	1,983
Total	$17,316,743	$27,482	($247,569)	$17,096,656	$301,983

Compensated absences are generally liquidated by the General Fund.

Annual debt service requirements to maturity are as follows:

Fiscal	Bonds Payable	
Year	Principal	Interest
2016	$300,000	$992,772
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	$17,615,000	$17,030,930

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 OMB Circular A-133 or audits by the grantor agency.

B. CONTRACTUAL COMMITMENT

The School contracts with EdisonLearning, Inc., a Delaware limited partnership, to manage and provide the educational program. The term of the contract runs through June 30, 2017. The contract can be terminated by either party but only for cause as defined in the contract. Fees for 2015, net of adjustments, were $609,819. Scheduled maximum fees, before any adjustments are as follows:

Year Ending June 30	Amount
2016	$727,090
2017	767,132
Total	$1,494,222

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, 2015. Future minimum payments under the term of the lease are as follows:

Year Ending June 30	Amount
2016	$50,484
2017	8,414
Total	$58,898

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, 2015. 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
2016	$1,454,900
2017	1,454,900
2018	1,454,900
2019	1,454,900
2020	1,454,900
2021-2025	7,274,500
2026-2030	7,274,500
2031-2035	7,274,500
2036-2040	7,274,500
2041	606,208
Total	$36,978,708

Note 7 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 8 CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2015, the School implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* GASB 68 addresses accounting and financial reporting for defined benefit pension plans that are provided to employees of state and local governments, including schools. The standard requires the School to record its share of the net pension liability of these plans, as well as any corresponding deferred inflows and outflows of resources. See Note 3 for further information.

As a result of implementing this standard, the School has recorded a prior period adjustment on the Statement of Activities to reduce its beginning net position by $5,901,884, which is equal to its share of the net pension liability at June 30, 2014.

Note 9 SUBSEQUENT EVENTS

Line of credit – Subsequent to June 30, 2015, the Board approved the signing for a line of credit with North Shore Bank of Commerce in the amount of $1,500,000. As of the date of financial statement issuance, the line of credit has not been utilized.

TRA – Effective for the fiscal year ended June 30, 2016, instructional related administrator positions will be members of the Minnesota Teachers Retirement Association.

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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, 2015
With Comparative Actual Amounts For The Year Ended June 30, 2014

	2015				
	Budgeted Amounts		Actual	Variance with Final Budget -	2014 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$211,476	$237,614	$272,690	$35,076	$212,627
State sources	15,624,954	15,743,079	15,704,414	(38,665)	14,385,390
Federal sources	520,500	584,270	510,733	(73,537)	568,881
Investment income	-	-	244	244	231
Total revenues	16,356,930	16,564,963	16,488,081	(76,882)	15,167,129
Expenditures:					
District support services	2,335,653	2,366,004	2,212,119	(153,885)	1,954,531
Regular instruction	4,601,261	4,661,054	4,573,315	(87,739)	4,542,162
Special education	4,827,442	4,890,174	4,781,872	(108,302)	4,251,019
Instructional support services	286,033	289,750	284,295	(5,455)	253,369
Pupil support services	1,445,558	1,464,343	1,436,781	(27,562)	1,422,061
Site, building and equipment	2,178,049	2,206,352	2,164,818	(41,534)	2,173,564
Fiscal and other fixed costs	191,401	193,888	190,239	(3,649)	179,322
Capital outlay	143,665	145,532	268,396	122,864	249,178
Total expenditures	16,009,062	16,217,097	15,911,835	(305,262)	15,025,206
Revenues over expenditures	$347,868	$347,866	576,246	$228,380	141,923
Fund balance - beginning			1,140,509		998,586
Fund balance - ending			$1,716,755		$1,140,509

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, 2015
With Comparative Actual Amounts For The Year Ended June 30, 2014

	2015				
	Budgeted Amounts		Actual	Variance with Final Budget -	2014 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$130,000	$130,000	$143,769	$13,769	$110,829
State sources	25,000	25,000	34,354	9,354	24,796
Federal sources	362,191	367,691	360,817	(6,874)	333,159
Investment income	-	-	-	-	14
Total revenues	517,191	522,691	538,940	16,249	468,798
Expenditures:					
Pupil support services	547,191	470,691	413,523	(57,168)	454,606
Capital outlay	-	-	12,854	12,854	-
Total expenditures	547,191	470,691	426,377	(44,314)	454,606
Revenues over (under) expenditures	($30,000)	$52,000	112,563	$60,563	14,192
Fund balance - beginning			137,006		122,814
Fund balance - ending			$249,569		$137,006

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, 2015
With Comparative Actual Amounts For The Year Ended June 30, 2014

	2015				
	Budgeted Amounts		Actual	Variance with Final Budget -	2014 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$140,000	$118,760	$131,180	$12,420	$142,227
Investment income	-	-	-	-	12
Total revenues	140,000	118,760	131,180	12,420	142,239
Expenditures:					
Community education and services	118,759	118,760	128,534	9,774	119,074
Capital outlay	-	-	2,033	2,033	-
Total expenditures	118,759	118,760	130,567	11,807	119,074
Revenues over expenditures	$21,241	$0	613	$613	23,165
Fund balance (deficit) - beginning			34,917		11,752
Fund balance - ending			$35,530		$34,917

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, 2015

Teachers Retirement Association

Measurement Date	Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability	Proportionate Share (Amount) of the Net Pension Liability (a)	Covered-Employee Payroll (b)	Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2014	June 30, 2015	0.1188%	$5,474,218	$5,387,481	101.6%	81.5%

* 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
SCHEDULE OF PENSION CONTRIBUTIONS*
For The Year Ended June 30, 2015

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-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
June 30, 2015	$424,106	$424,106	$0	$5,358,322	7.9%

* 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
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
JUNE 30, 2015

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

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details can be obtained from the financial reports of TRA.

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SUPPLEMENTAL INFORMATION

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020 **Schedule 1**
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS - COMPLIANCE TABLE
June 30, 2015

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	$16,488,081	$16,488,077	$4
Total Expenditures	15,911,835	15,911,832	3
Non-Spendable:			
4.60 Non Spendable Fund Balance	12,606	12,605	1
Restricted/Reserve:			
4.03 Staff Development	-	-	-
4.05 Deferred Maintenance	-	-	-
4.06 Health and Safety	-	-	-
4.07 Capital Projects Levy	-	-	-
4.08 Cooperative Revenue	-	-	-
4.11 Severance Pay	-	-	-
4.13 Project Funded By COP	-	-	-
4.14 Operating Debt	-	-	-
4.16 Levy Reduction	-	-	-
4.17 Taconite Building Maint	-	-	-
4.23 Certain Teacher Programs	-	-	-
4.24 Operating Capital	-	-	-
4.26 $25 Taconite	-	-	-
4.27 Disabled Accessibility	-	-	-
4.28 Learning and Development	-	-	-
4.34 Area Learning Center	-	-	-
4.35 Contracted Alt. Programs	-	-	-
4.36 St. Approved Alt. Program	-	-	-
4.38 Gifted & Talented	-	-	-
4.41 Basic Skills Programs	-	-	-
4.45 Career & Tech Programs	-	-	-
4.46 First Grade Preparedness	-	-	-
4.49 Safe Schools Levy	-	-	-
4.50 Pre-Kindgergarten	-	-	-
4.51 QZAB Payments	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
4.53 Unfunded Sev & Retiremt Levy	-	-	-
Restricted:			
4.64 Restricted Fund Balance	68,762	68,763	(1)
Committed:			
4.18 Committed For Separation	-	-	-
4.61 Committed Fund Balance	425,000	425,000	-
Assigned:			
4.62 Assigned Fund Balance	-	-	-
Unassigned:			
4.22 Unassigned Fund Balance	1,210,387	1,210,387	-
02 FOOD SERVICE			
Total Revenue	$538,940	$538,940	$ -
Total Expenditures	426,377	426,376	1
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	249,569	249,570	(1)
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	$131,180	$131,180	$ -
Total Expenditures	130,567	130,567	-
Restricted/Reserve:			
4.26 $25 Taconite	-	-	-
4.31 Community Education	-	-	-
4.32 E.C.F.E	-	-	-
4.44 School Readiness	-	-	-
4.47 Adult Basic Education	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	35,530	35,530	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.07 Capital Projects Levy	-	-	-
4.09 Alternative Fac. Program	-	-	-
4.13 Projects Funded By COP	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
07 DEBT SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.25 Bond Refundings	-	-	-
4.51 QZAB Payments	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
08 TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Net Assets	-	-	-
09 AGENCY			
Unrestricted:			
4.22 Net Assets	-	-	-
20 INTERNAL SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Net Assets	-	-	-
25 OPEB REVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Net Assets	-	-	-
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Net Assets	-	-	-
47 OPEB DEBT SERVICE FUND			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.25 Bond Refundings	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-

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, 2015, 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 20, 2015.

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.

4810 White Bear Parkway, St. Paul, MN, 55110 651.426.7000 www.redpathcpas.com

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 20, 2015

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, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions,* except as noted in finding 2015-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the 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, 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 20, 2015

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SCHEDULE OF FINDINGS AND RESPONSES
For The Year Ended June 30, 2015

LEGAL COMPLIANCE FINDING

Finding: 2015-001 Deficiencies in Collateral for Deposits

Criteria: Minnesota Statute 118A provides certain specific collateral requirements for deposits as follows:

M.S. 118A.03 **When and What Collateral Required**. Subdivision 1. **For deposits beyond insurance.** To the extent that funds deposited are in excess of available federal deposit insurance, the government entity shall require the financial institution to furnish collateral security or a corporate surety bond executed by a company authorized to do business in the state.

Subd. 2. **In lieu of surety bond.** The following are the allowable forms of collateral in lieu of a corporate surety bond:

(1) United States government treasury bills, treasury notes, treasury bonds;

(2) issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;

(3) general obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;

(4) irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and

(5) time deposits that are fully insured by the Federal Deposit Insurance Corporation.

Subd. 3. **Amount.** The total amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the business day. The financial institution may furnish both a surety bond and collateral aggregating the required amount.

Subd. 4. **Assignment.** Any collateral pledged shall be accompanied by a written assignment to the government entity from the financial institution. The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged. Interest earned on assigned collateral will be remitted to the financial institution so long as it is not in default. The government entity may sell the collateral to recover the amount due. Any surplus from the sale of the collateral shall be payable to the financial institution, its assigns, or both.

Subd. 5. **Withdrawal of excess collateral.** A financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation. The authority to return any delivered and assigned collateral rests with the government entity.

Subd. 6. **Default.** For purposes of this section, default on the part of the financial institution includes, but is not limited to, failure to make interest payments when due, failure to promptly deliver upon demand all money on deposit, less any early withdrawal penalty that may be required in connection with the withdrawal of a time deposit, or closure of the depository. If a financial institution closes, all deposits shall be immediately due and payable. It shall not be a default under this subdivision to require prior notice of withdrawal if such notice is required as a condition of withdrawal by applicable federal law or regulation.

Subd. 7. **Safekeeping.** All collateral shall be placed in safekeeping in a restricted account at a 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 selection shall be approved by the government entity.

HIST: 1996 c 399 art 1 s 4

Condition: At June 30, 2015, the bank blance 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.

Cause: Wells Fargo pledges collateral on the following day for all bank balances. For example, the last day of the month is pledged on the first day of the consecutive month. Deposits made on the last day of the month are not automatically included in the balance that is used to calculate the necessary collateral unless Wells Fargo is notified by 12:30 CST that additional same day collateral is needed to cover deposits made on the last business day of the month.

Effect: The effect was temporary noncompliance with Minnesota Statutes. The School did not have any losses of uninsured bank deposits.

Recommendation: We understand that the School is aware of instances throughout the year when collateral is insufficient and is currently looking into how to remedy the situation.

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

Management Response:

Corrective Action Plan (CAP): The School will request via email, as instructed by Wells Fargo, additional same day collateral for all deposits made on the last business day of the month in the amount equal to 110% of the deposits made. All requests must be made by noon CST and confirmations will be sent to the Board Treasurer.

Explanation of agreement or disagreement: The School is in agreement with the finding.

Official responsible for ensuring CAP: Director of Business Services.

Planned completion date for CAP: Implemented November 2, 2015.

Plan to monitor completion for CAP: Board Treasurer will receive confirmations of all same day collateral requests to ensure the CAP is being followed.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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.

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, 2015.

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 OMB Circular A-133, 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. However, material weaknesses may exist that have not been identified.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited 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, 2015, and the related notes to the financial statements, which collectively comprise Duluth Public Schools Academy's basic financial statements. We issued our report thereon dated November 20, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of this Report

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

November 20, 2015

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2015

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	84.010	None noted	$238,703
Total Title I Cluster			238,703
Improving Teacher Quality State Grant	84.367	None noted	38,801
Total Title II Cluster			38,801
Special Education Grants to States	84.027	None noted	224,846
Total Special Education Cluster			224,846
Received directly from federal sources:			
Indian Education Grants to Local Educational Agencies	84.060	None noted	7,208
Total Title VII Cluster			7,208
Total U.S. Department of Education			509,558
U.S. Department of Agriculture:			
Passed through State of Minnesota:			
School Breakfast Program	10.553	None noted	68,999
National School Lunch Program	10.555	None noted	289,806
Summer Food Service Program for Children	10.559	None noted	1,368
Total Child Nutrition Cluster			360,173
Total U.S. Department of Agriculture			360,173
Total Federal Expenditures			$869,731

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 OMB Circular A-133, 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 $42,151 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.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2015

SECTION I - SUMMARY OF AUDIT RESULTS

Financial Statements

A. Type of auditors' report issued:	Unmodified			
B. Internal control over financial reporting:				
• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiencies identified that are not considered to be material weaknesses?	____	Yes	X	No
C. Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

D. Internal control over major programs:				
• Material weakness(es) identified?	____	Yes	X	No
• Significant deficiencies identified that are not considered to be material weaknesses?	____	Yes	X	No
E. Type of auditors' report issued on compliance for major programs:	Unmodified			
F. Any other audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	____	Yes	X	No

G. Identification of major programs:

Name of Federal Program	CFDA Number
Child Nutrition Cluster	10.553/10.555/10.559

H. Dollar threshold used to distinguish between Type A and Type B programs:	$300,000			
I. Auditee qualified as a low-risk auditee	X	Yes	____	No

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

None.

SECTION III - FEDERAL AWARD FINDINGS

None.

SECTION IV - PRIOR YEAR FINDINGS – FEDERAL AWARDS

None.