DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For The Year Ended June 30, 2017

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DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
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INTRODUCTORY SECTION

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DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
BOARD MEMBERS
June 30, 2017

BOARD OF DIRECTORS

Elective	Board Position
Neil Byce	President
Stephen Sydow	Vice-President
Hilary Hodgman	Treasurer
Andrew Richey	Vice Treasurer
Katie Cronin-Anderson*	Secretary
Tim Golden	Past-President
Lisa Harold*	Director
Mike St. John	Director
Jill Kandel*	Director
Nicole Jensen*	Director
Ryan Welch	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, 2017, 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, 2017, 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 – PERA Liability

As described in Note 5D to the financial statements, Duluth Public Schools Academy began its participation in the PERA pension plan effective July 1, 2016. This will result in a liability in the Duluth Public Schools Academy's school wide financial statements beginning in 2018 with applicable actuarial information is made available by PERA. Such liability (pension liability net of deferred inflows and outflows) is estimated to be in the range of $2,000,000 - $4,000,000 based on using current information from comparable schools. This will not impact the fund financial statements.

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, 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 27, 2017

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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, 2017. 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 2016-2017 fiscal year include the following:

- Current assets increased by $1,116,304 and current liabilities increased by $508,708. 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 use of a line of credit to accommodate cash flow, based on State of MN holdback, during the first few months of the new fiscal year.
- Total revenue increased by $1,507,715 (8.10%) between fiscal year 2016 and fiscal year 2017 primarily due to an increase in student enrollment, as well as additional state funding for increased needs in special education programming. Expenses increased by $4,608,439 (24.58%), which is also attributed to the increase in student enrollment, increase in the needs of special education services, but the main reason for the increase was a $3.8M expense related to pension plans as also noted on page 13.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

School-wide Statements

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

The two school-wide statements report the School's net position and how they have changed.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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

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

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

Fund Financial Statements

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

Governmental funds – The School's basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances at year end that are available for spending. Consequently, the government funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net position may serve over time as a useful indicator of a district's financial position. In the case of the School liabilities and deferred inflows exceed assets and deferred outflows by $8,197,943 as of June 30, 2017.

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

	June 30, 2017	June 30, 2016
Assets and deferred outflows:		
Current assets	$7,089,655	$5,973,351
Capital assets, net	13,706,551	13,977,520
Deferred outflows of resources	20,548,535	1,775,551
Total assets and deferred outflows	41,344,741	21,726,422
Liabilities and deferred inflows:		
Current liabilities	2,770,334	2,261,626
Long-term liabilities	46,642,492	23,643,693
Deferred inflows of resources	129,858	789,186
Total liabilities and deferred inflows	49,542,684	26,694,505
Net position:		
Net investment in capital assets	(1,022,679)	(1,115,358)
Restricted for regulation	41,866	14,597
Restricted for food service	275,933	272,385
Restricted for community service	32,115	37,229
Restricted for capital improvements	58,280	58,257
Unrestricted	(7,583,458)	(4,235,193)
Total net position	($8,197,943)	($4,968,083)

The School participates in cost-sharing multiple-employer defined benefit pension plans administered by the Teacher's Retirement Association (TRA) and the Public Employees Retirement Association (PERA). Governmental accounting standards require that the School's share of each plan's net pension liability be recorded on the Statement of Net Position. The portion attributable to the School is based on its contributions to each plan in comparison to contributions made by all plan participants.

The School's net pension liability, combine with pension related deferred outflows and inflows of resources, negatively impacted unrestricted net position by $9,683,034 and $5,818,223 as of June 30, 2017 and 2016, respectively. The increased deficit was primarily due to changes in actuarial assumptions used to calculate the net pension liability, as well as lower than expected investment earnings by each plan. The School's total net position would otherwise be positive if not for these pension impacts.

The School continues to make its required contributions to each plan. Additional information can be found in Note 5 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Changes in Net Position

The School's total revenues were $20,128,814 for the year ended June 30, 2017. Program revenues accounted for 44.93% of total revenue for the year.

The total cost of all programs and services was $23,358,674. Total expenses exceeded revenues by $3,229,860.

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

	For The Years Ended June 30, 2017	2016
Revenues:		
Program revenues:		
Charges for services	$477,781	$421,597
Operating grants and contributions	8,566,347	7,543,729
General revenues:		
Local sources	61,726	128,109
State sources	11,021,600	10,527,465
Investment income	1,360	199
Total revenues	20,128,814	18,621,099
Expenses:		
District support services	2,333,670	2,467,600
Regular instruction	7,631,628	5,454,019
Special education	7,701,484	5,630,105
Community education and services	146,843	157,802
Instructional support services	478,999	303,003
Pupil support services	2,519,399	2,240,402
Site, building and equipment	1,435,258	1,260,589
Fiscal and other fixed costs	110,192	218,953
Interest and fiscal charges on long-term liabilities	1,001,201	1,017,762
Total expenses	23,358,674	18,750,235
Change in net position	(3,229,860)	(129,136)
Net position - beginning	(4,968,083)	(4,838,947)
Net position - ending	($8,197,943)	($4,968,083)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FINANCIAL ANALYSIS OF THE SCHOOL'S GOVERNMENTAL FUNDS

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

	2017					2016				
	General	Food Service	Community Service	Tischer Creek	Total	General	Food Service	Community Service	Tischer Creek	Total
Assets	$4,888,955	$386,600	$157,325	$1,784,374	$7,217,254	$3,622,277	$369,888	$164,048	$1,972,795	$6,129,008
Liabilities	2,363,908	110,667	125,210	136,561	2,736,346	1,870,777	97,503	126,819	157,971	2,253,070
Fund balance	$2,525,047	$275,933	$32,115	$1,647,813	$4,480,908	$1,751,500	$272,385	$37,229	$1,814,824	$3,875,938

	2017					2016				
	General	Food Service	Community Service	Tischer Creek	Total	General	Food Service	Community Service	Tischer Creek	Total
Revenue	$18,978,669	$578,193	$148,858	$1,498,105	$21,203,825	$17,742,138	$571,915	$159,476	$1,454,906	$19,928,435
Expenditures	18,205,122	574,645	153,972	1,665,116	20,598,855	17,863,050	549,099	157,777	1,451,841	20,021,767
Other financing sources/(uses)	-	-	-	-	-	155,657	-	-	(155,657)	-
Change in fund balance	$773,547	$3,548	($5,114)	($167,011)	$604,970	$34,745	$22,816	$1,699	($152,592)	($93,332)

REVENUE ANALYSIS

General Fund - increase in revenues of $1,236,531, or 7.0%, were due to the increase in enrollment and needs in Special Education Programming.

Food Service Fund - increase in revenues of $6,278, or 1.1%, were due to student growth and increase participation offset by a reduction in free/reduced student population at our North Star site as well as a write off of uncollectable accounts.

Community Service Fund - decrease in revenues of $10,618 were due to varying participation of students throughout the school during the year.

Tischer Creek Fund - increase in revenues of $43,199, or 3.0%, were due to the transition of ownership of the Raleigh Modular from Mobile Lease to Tischer Creek Duluth Building Company in September of 2016. Subsequently the school's lease payment is recorded as revenue for Tischer Creek.

EXPENDITURE ANALYSIS

General Fund - increase in expenditures of $342,072, or 1.9%, were due to Salary adjustments as well as increased costs for procurement items.

Food Service Fund - increase in expenditures of $25,546 or 4.7%, were due to student growth and increased participation in our food service program.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Community Service Fund - decrease in expenditures of $3,805, were due to a slight reduction of participation in our Kids Club Program.

Tischer Creek Fund - increase in expenditures of $213,275, or 14.7% were due to expenses related to building upgrades at both school locations as well as exploratory site costs for potential expansion.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund adopted an original revenue budget of $18,532,074, which was revised to a final revenue budget of $19,018,486.

The General Fund adopted an original expenditure budget of $18,411,390, which was revised to a final expenditure budget of $18,461,031.

While the School's final budget for the General Fund anticipated that revenues would exceed expenditures by $557,455, the actual results for the year showed revenues exceeding expenditures by $773,547.

- Actual revenues were $39,817 less than anticipated, due to a decrease in local and state revenues near year end.
- Actual expenditures were $255,909 less than anticipated, due to funds not being spent on expansion to a K-12 model.

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:

	2017	2016	Increase (Decrease)
Construction in progress	$ -	$24,391	($24,391)
Land	1,109,061	1,109,061	-
Buildings	14,760,735	14,610,090	150,645
Furniture and fixtures	182,945	179,777	3,168
Equipment	36,423	36,423	-
Total capital assets	16,089,164	15,959,742	129,422
Accumulated depreciation	(2,382,613)	(1,982,222)	(400,391)
Net capital assets	$13,706,551	$13,977,520	($270,969)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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. $17.0M remains outstanding as of June 30, 2017.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The School's administration considered many factors when setting the FY 2017-2018 budget. The two largest factors affecting the budget are the pupil count and special education funding. We are no longer working to grow our student population which as a result has stabilized funding respectfully for our FY18 budget. The school will be receiving an increase in state funding due to the expansion of an existing intervention program as well as an increase in participation with our special education programming

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 2017-2018 school year, we anticipate a moderate increase in revenues and expenditures compared to 2016-2017 due to increased funding in the state calculation per pupil unit as well as expanded programming related to intervention and special education services.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020 **Statement 1**
STATEMENT OF NET POSITION
June 30, 2017

	Governmental Activities
Assets:	
Cash	$1,949,125
Cash and investments held by trustee	1,769,808
Accounts receivable	568,413
Due from other governments	2,764,032
Prepaid items	38,277
Capital assets (net of accumulated depreciation):	
Nondepreciable	1,109,061
Depreciable	12,597,490
Total assets	20,796,206
Deferred outflows of resources:	
Related to pensions	20,548,535
Total assets and deferred outflows of resources	$41,344,741
Liabilities:	
Accounts payable	$99,918
Salaries payable	1,106,589
Claims payable	162,180
Due to EdisonLearning, Inc.	425,695
Unearned revenue	14,365
Line of credit	800,000
Accrued interest payable	161,587
Compensated absences:	
Due in less than one year	4,175
Due in more than one year	37,570
Bonds payable:	
Due in less than one year	330,000
Due in more than one year	16,169,036
Net pension liability:	
Due in more than one year	30,101,711
Total liabilities	49,412,826
Deferred inflows of resources:	
Related to pensions	129,858
Net position:	
Net investment in capital assets	(1,022,679)
Restricted for regulation	41,866
Restricted for food service	275,933
Restricted for community service	32,115
Restricted for capital improvements	58,280
Unrestricted	(7,583,458)
Total net position	(8,197,943)
Total liabilities, deferred inflows of resources and net position	$41,344,741

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, 2017

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	$2,333,670	$15,058	$ -	($2,318,612)
Regular instruction	7,631,628	109,406	730,215	(6,792,007)
Special education	7,701,484	30,766	5,928,863	(1,741,855)
Community education and services	146,843	148,858	-	2,015
Instructional support services	478,999	-	-	(478,999)
Pupil support services	2,519,399	173,693	403,147	(1,942,559)
Site, building and equipment	1,435,258	-	1,504,122	68,864
Fiscal and other fixed costs	110,192	-	-	(110,192)
Interest and fiscal charges on long-term liabilities	1,001,201	-	-	(1,001,201)
Total governmental activities	$23,358,674	$477,781	$8,566,347	(14,314,546)
General revenues:				
Local sources				61,726
State sources				11,021,600
Investment income				1,360
Total general revenues				11,084,686
Change in net position				(3,229,860)
Net position - beginning				(4,968,083)
Net position - ending				($8,197,943)

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, 2017

	General Fund	Food Service	Community Service	Tischer Creek	Totals
Assets:					
Cash	$1,503,803	$288,892	$143,088	$13,342	$1,949,125
Cash and investments held by trustee	-	-	-	1,769,808	1,769,808
Accounts receivable	468,399	85,777	14,237	-	568,413
Due from Minnesota Department of Education	2,545,693	1,782	-	-	2,547,475
Due from Federal Government through Minnesota Department of Education	206,646	8,899	-	-	215,545
Due from Federal Government	1,012	-	-	-	1,012
Due from other funds	126,349	1,250	-	-	127,599
Prepaid items	37,053	-	-	1,224	38,277
Total assets	$4,888,955	$386,600	$157,325	$1,784,374	$7,217,254
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	$82,410	$6,690	$606	$10,212	$99,918
Salaries and taxes payable	1,092,472	12,146	1,971	-	1,106,589
Claims payable	162,180	-	-	-	162,180
Due to EdisonLearning, Inc.	221,261	82,941	121,493	-	425,695
Due to other funds	1,250	-	-	126,349	127,599
Unearned revenue	4,335	8,890	1,140	-	14,365
Line of credit	800,000	-	-	-	800,000
Total liabilities	2,363,908	110,667	125,210	136,561	2,736,346
Fund balance:					
Nonspendable - prepaid items	37,053	-	-	1,224	38,277
Restricted for regulation	41,866	-	-	-	41,866
Restricted for food service	-	275,933	-	-	275,933
Restricted for community service	-	-	32,115	-	32,115
Restricted for capital and debt service	58,280	-	-	1,769,808	1,828,088
Committed	781,127	-	-	-	781,127
Unassigned	1,606,721	-	-	(123,219)	1,483,502
Total fund balance	2,525,047	275,933	32,115	1,647,813	4,480,908
Total liabilities and fund balance	$4,888,955	$386,600	$157,325	$1,784,374	$7,217,254

Amounts reported for governmental activities in the statement of net position are different because:	
Fund balance reported above	$4,480,908
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	13,706,551
Deferred outflows of resources related to pensions - see note 5	20,548,535
Deferred inflows of resources related to pensions - see note 5	(129,858)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued interest payable	(161,587)
Compensated absences	(41,745)
Bonds payable	(16,499,036)
Net pension liability	(30,101,711)
Net position of governmental activities (Statement 1)	($8,197,943)

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, 2017

	General Fund	Food Service	Community Service	Tischer Creek	Totals
Revenues:					
Local sources	$215,706	$173,693	$148,858	$1,496,900	$2,035,157
State sources	18,281,432	37,438	-	-	18,318,870
Federal sources	481,376	367,062	-	-	848,438
Investment income	155	-	-	1,205	1,360
Total revenues	18,978,669	578,193	148,858	1,498,105	21,203,825
Expenditures:					
Current:					
District support services	2,057,892	-	-	-	2,057,892
Regular instruction	5,177,840	-	-	-	5,177,840
Special education	6,136,665	-	-	-	6,136,665
Community education and services	-	-	153,707	-	153,707
Instructional support services	304,796	-	-	-	304,796
Pupil support services	1,790,961	571,387	-	-	2,362,348
Site, building and equipment	2,324,074	-	-	368,720	2,692,794
Fiscal and other fixed costs	110,192	-	-	-	110,192
Capital outlay	302,702	3,258	265	-	306,225
Debt service:					
Principal	-	-	-	315,000	315,000
Interest and fiscal charges	-	-	-	981,396	981,396
Total expenditures	18,205,122	574,645	153,972	1,665,116	20,598,855
Revenues over expenditures	773,547	3,548	(5,114)	(167,011)	604,970
Fund balance - beginning	1,751,500	272,385	37,229	1,814,824	3,875,938
Fund balance - ending	$2,525,047	$275,933	$32,115	$1,647,813	$4,480,908

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

Net change in fund balance reported above	$604,970
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	129,423
Depreciation	(400,391)
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.	315,000
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	(22,432)
Change in accrued interest	2,626
Change in compensated absences	5,755
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities	(3,864,811)
Change in net position of governmental activities (Statement 2)	($3,229,860)

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 except for equipment are the responsibility of and are 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* are also clearly identifiable with a specific function and include 1) charges to customers for goods, services, or privileges provided, 2) operating grants and contributions, 3) capital grants and contributions. Other items not included among program revenues are reported instead as *general revenues.*

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

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

As required by State Statute, the School operates as a nonprofit corporation under Minnesota Statutes §317A. However, State law also requires that the School comply with Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota School Districts which mandates the use of a governmental accounting structure.

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

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

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

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

The School reports the following major governmental funds:

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

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

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

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

D. INCOME TAXES

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

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

E. BUDGETS

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

F. STUDENT ACTIVITIES

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, school boards can elect to either control or not control extracurricular activities. The School's Board has elected to control extracurricular activities. Therefore, the extracurricular student activity accounts are included in the School's General Fund.

G. CASH AND INVESTMENTS

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

H. 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.

I. RECEIVABLES

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

J. 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.

K. 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 acquisition 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 15-39 years. Furniture, fixtures and equipment are depreciated over 5-10 years.

L. COMPENSATED ABSENCES

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

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

M. 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.

N. FUND BALANCE CLASSIFICATIONS

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

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

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) $415,438 for expenses related to unforeseen expenses during the transition away from EdisonLearning, Inc.; and 2) $365,589 towards expenses for various programs, projects, and purchases.

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.

O. 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.

P. DEFINED BENEFIT PENSION PLANS

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

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

Q. 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.

R. 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.

S. STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceeded budgeted amounts in the following fund at June 30, 2017:

	Budget	Actual	Actual Over Budget
Special Revenue Fund:			
Community Service Fund	$142,848	$153,972	$11,124

T. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The School does not have any significant fair value measurements as of June 30, 2017.

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, 2017, the bank balance of the School's deposits, excluding amounts held by the Building Company, was $2,136,617, all of which was covered by insurance or collateral.

The bank balance of the Building Company's deposits at June 30, 2017 was $13,759, all of which was covered by insurance.

B. INVESTMENTS

The School may also invest idle funds as authorized by Minnesota Statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

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

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

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	$1,949,125	$ -	$1,949,125
Cash and investments held by trustee	-	1,769,808	1,769,808
Total	$1,949,125	$1,769,808	$3,718,933

Note 3 INTERFUND ACTIVITY

As of June 30, 2017, the School's due to/from other funds consisted of $126,349 due to the General Fund from the Tischer Creek Fund, and $1,250 due to the Food Service Fund from the General Fund to account for temporary timing of cash flows.

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 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	0	(24,391)	1,109,061
Capital assets, being depreciated:				
Buildings	14,610,090	150,645	-	14,760,735
Furniture and fixtures	179,777	3,168	-	182,945
Equipment	36,423	-	-	36,423
Total capital assets, being depreciated	14,826,290	153,813	0	14,980,103
Less accumulated depreciation for:				
Buildings	1,808,287	379,109	-	2,187,396
Furniture and fixtures	163,870	16,012	-	179,882
Equipment	10,065	5,270	-	15,335
Total accumulated depreciation	1,982,222	400,391	0	2,382,613
Total capital assets being depreciated - net	12,844,068	(246,578)	-	12,597,490
Governmental activities capital assets - net	$13,977,520	($246,578)	($24,391)	$13,706,551

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

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Site, building and equipment	$395,121
District support services	3,255
Pupil support services	2,015
Total depreciation expense - governmental activities	$400,391

Note 5 RETIREMENT PLANS

The School participates in cost-sharing multiple-employer defined benefit pension plans administered on a statewide basis by the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA). The defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code. Disclosures relating to these plans are as follows:

A. PLAN DESCRIPTIONS

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.

PERA administers the General Employees Retirement Fund (GERF) in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the School, other than teachers, are covered by the GERF. GERF members belong to either the Basic Plan (without Social Security coverage) or the Coordinated Plan (with Social Security coverage). The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. BENEFITS PROVIDED

TRA

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 (Tier I and Tier II) are used to compute benefits for TRA's Basic and Coordinated Plan members.

Tier 1 Benefits **–** for Basic Plan members, a step rate formula of 2.2% per year for the first ten years of service and 2.7% per year thereafter is applied. For Coordinated Plan members with service years up to July 1, 2006, a step rate formula of 1.2% per year for the first ten years of service and 1.7% per year thereafter is applied. For Coordinated Plan members with service years beginning July 1, 2006, a step rate formula of 1.4% per year for the first ten years of service and 1.9% per year thereafter is applied.

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

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

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

PERA

PERA provides retirement, disability, and death benefits. Benefit provisions are established by Minnesota Statute and can only be modified by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

GERF benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. CONTRIBUTIONS

Employee and employer contribution rates are established by Minnesota Statutes. Rates for the years June 30, 2017 and 2016 are as follows:

	Employee	Employer
TRA - Basic Plan	11.0%	11.5%
TRA - Coordinated Plan	7.5%	7.5%
PERA - Basic Plan	9.1%	11.78%
PERA - Coordinated Plan	6.5%	7.5%

The School’s contributions to TRA for the years ended June 30, 2017 and 2016 were $542,599 and $492,385, respectively. The School’s contributions to PERA for the years ended June 30, 2017 and 2016 were $240,528 and $0, respectively. The School’s contributions were equal to the required contributions as set by state statute.

D. NET PENSION LIABILITY AND PENSION EXPENSE

TRA

The net pension liability reported at June 30, 2017 was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the measurement date. The School's proportionate share of the net pension liability was based on contributions received by TRA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total contributions to the plan, which included direct aid from the State of Minnesota, the City of Minneapolis and the Minneapolis School District. The School has no pension-related assets.

The School's net pension liability, its proportionate share of the plan's net pension liability, and pension expense as of and for the year ended June 30, 2017 are as follows:

	TRA
Net pension liability	$30,101,711
Proportionate share of net pension liability:	
Measurement date	0.1262%
Prior measurement date	0.1100%
Pension expense	$5,069,927

The pension expense related to TRA includes recognition of $421,992 as an increase to pension expense (and grant revenue) for the support provided by direct aid.

The net pension liability related to TRA reflected a reduction due to direct aid in the amount of $35,587,410 provided to TRA. The amount recognized by the School as its proportionate share of the net pension liability, the State's proportionate share of the net pension liability, and the total portion of the net pension liability that was associated with the School were $30,101,711, $3,022,140 and $33,123,851, respectively.

PERA

The School began its participation in the PERA plan effective July 1, 2016. Like TRA, GASB No. 68 required the School to record on its school-wide financial statements a liability for the School's allocated share of PERA's unfunded status. That liability is determined using information provided by PERA based on data from a prior year actuarial study. However, because the School did not participate in PERA in the prior year, there was no actuarial liability calculated for the School and no liability has been recorded on the School's 2017 school-wide financial statements. A liability if expected to be recorded in the School's 2018 financial statements when the applicable data becomes available. Such liability (pension liability net of deferred inflows and outflows) is estimated to be in the range of $2,000,000 - $4,000,000 based on using current information form comparable schools. This will not impact the fund financial statements.

E. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

As of June 30, 2017, the School reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience - TRA	$308,372	$ -
Difference between projected and actual investment earnings - TRA	1,286,568	-
Changes in actuarial assumptions - TRA	17,141,987	-
Changes in proportion - TRA	1,028,484	129,858
Contributions paid subsequent to the measurement date:		
TRA	542,596	-
PERA	240,528	-
Total	$20,548,535	$129,858

Amounts reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability during the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30,	Pension Expense TRA
2018	$3,931,919
2019	3,931,920
2020	4,377,453
2021	3,901,600
2022	3,492,661
Thereafter	-

F. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Measurement date	June 30, 2016
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	4.66%, from the Single Equivalent Interest Rate calculation
Price inflation	2.75%
Wage growth rate	3.5%
Projected salary increase	3.5 - 9.5%
Cost of living adjustment	2.0%
Mortality assumptions:	
Pre-retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

For TRA, 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 remain level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.
The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is six years. The “Difference Between Expected and Actual Economic Experience,” “Changes in Actuarial Assumptions,” and “Changes in Proportion” use the amortization period of six years in the schedule presented. The amortization period for “Difference Between Projected and Actual Investment Earnings” is over a period of five years as required by GASB 68.

The State Board of Investment, which manages the investments of TRA and PERA, prepares an analysis of the reasonableness of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. 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%	

G. DISCOUNT RATE

TRA

The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 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 depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

H. PENSION LIABILITY SENSITIVITY

The following presents the School's proportionate share of the net pension liability calculated using the discount rate for TRA, as well as the liability measured using one percent lower (3.66%) and one percent higher (5.66%).

	1% Decrease	Current	1% Increase
TRA	$38,778,528	$30,101,711	$23,034,727

I. PENSION PLAN FIDUCIARY NET POSITION

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

Detailed information about PERA's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained at www.mnpera.org.

Note 6 LONG-TERM LIABILITIES

	Balance 6/30/17
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%.	\$17,000,000
Less: unamortized bond discount	(500,964)
Net bonds payable	\$16,499,036

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, 2016	Additions	Deductions	June 30, 2017	Due in One Year
Bonds payable	\$17,315,000	\$ -	(\$315,000)	\$17,000,000	\$330,000
Bond discounts	(523,395)	-	22,432	(500,964)	-
Compensated absences payable	47,500	55,127	(60,882)	41,745	4,175
Total	\$16,839,105	\$55,127	(\$353,450)	\$16,540,781	\$334,175

Compensated absences are generally liquidated by the General Fund.

Annual debt service requirements to maturity are as follows:

Fiscal	Bonds Payable	
Year	Principal	Interest
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	$17,000,000	$15,060,761

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

Note 7 COMMITMENTS AND CONTINGENCIES

A. GRANTS

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

B. CONTRACTUAL COMMITMENT AND CONTINGENCY

The School previously contracted with EdisonLearning, Inc., a Delaware limited partnership, to manage and provide the educational program. The contract was mutually terminated as of June 30, 2016.

The June 30, 2017 final accrued liability related to EdisonLearning, Inc. is $425,695. This represents amounts for which School management is currently reviewing. Any future adjustments would be recognized when determinable.

C. LEASES

LEASES WITH OTHER PARTIES
The School leases a business office facility from West End Properties, Inc. (c/o Kleiman Realty) with the current agreement extending through June 30, 2018. Rent expense under this lease was $27,000 for the year ended June 30, 2017. Future minimum payments under the terms of this lease are as follows:

Year Ending June 30	Amount
2018	$27,000

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 6). Rent expense under this lease was $1,454,900 for the year ended June 30, 2017. 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
2018	$1,872,600
2019	1,454,900
2020	1,454,900
2021	1,454,900
2022	1,454,900
2023-2027	7,274,500
2028-2032	7,274,500
2033-2037	7,274,500
2038-2040	4,970,908
Total	$34,486,608

As of September 1, 2016, the Building Company purchased the modular office space at Raleigh Edison Charter School, and since that time has been leasing it to the School. The agreement term is from September 1, 2016 through August 31, 2017, and shall extend on a year-to-year basis for twelve month extension terms unless either party gives notice of non-renewal. Rent expense under this lease was $42,000 for the year ended June 30, 2017. Rent during any extension term shall be 105% of the monthly rent during the immediately prior term. Future minimum payments under the terms of this lease are included in the Northstar and Raleigh scheduled future minimum payments above.

Note 8 LINE OF CREDIT

The School has a line of credit for short-term cash flow needs with a maximum amount of $1,500,000. The School has another line of credit for health insurance costs related to their self-insured employee health insurance plan with a maximum amount of $800,000. Both lines of credit have a variable interest rate equal to the prime rate plus 1%, with a 4.75% minimum and a maturity date of December 31, 2017. They are secured by the School's assets, however North Shore Bank of Commerce has signed a subordination agreement, relinquishing and subordinating the priority and superiority of its lien on the School's assets to Wells Fargo Bank. This is because the School's bond is also secured by the School's assets. The School had the following activity on the lines of credit during June 30, 2017:

	Beginning Balance June 30, 2016	Total Advances	Total Repayments	Ending Balance June 30, 2017
Line of credit	$ -	$1,630,350	($830,350)	$800,000
Line of credit - health insurance	0	0	0	0
Total	$0	$1,630,350	($830,350)	$800,000

Note 9 RISK MANAGEMENT

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

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

Effective July 1, 2016, the School began using stop-loss insurance coverage for employee healthcare. For fiscal year 2017, the School's maximum out-of-pocket was approximately $1,500,000 and excess amounts are covered 100% by insurance. The School obtained a line of credit for short-term funding (see Note 8).

The claims liability reported at June 30, 2017 is based on the requirements of GASB Statement No, 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* which requires a liability for claims be reported if it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. For fiscal year 2017, the School's healthcare claims exceeded its maximum out-of-pocket and all excess claims will be reimbursed by insurance.

A summary of claims activity and related receivables and payables at June 30, 2017, is as follows:

	2017
Total claims	$1,966,993
Admin fees paid	507,656
Total claims and admin fees expenses	2,474,649
Total school payments	(2,312,470)
Claims payable	$162,179
School maximum out-of-pocket liability	$1,486,011
Less school HSA reimbursement	(135,250)
Maximum school healthcare claims liability	$1,350,761
Total claims plus admin admin fees expenses	$2,474,649
Less school healthcare claims liability	(1,350,761)
Less employee healthcare claims liability	(399,895)
Insurance claims liability	723,993
Less insurance paid	(263,413)
Reimbursement receivable (included in accounts receivable)	$460,580

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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, 2017
With Comparative Actual Amounts For The Year Ended June 30, 2016

	2017				
	Budgeted Amounts		Actual	Variance with Final Budget -	2016 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$80,145	$222,617	$215,706	($6,911)	$213,737
State sources	17,712,276	18,184,584	18,281,432	96,848	17,037,382
Federal sources	739,403	611,035	481,376	(129,659)	490,826
Investment income	250	250	155	(95)	193
Total revenues	18,532,074	19,018,486	18,978,669	(39,817)	17,742,138
Expenditures:					
District support services	2,952,441	1,827,268	2,057,892	230,624	2,388,484
Regular instruction	4,661,188	5,227,892	5,177,840	(50,052)	5,238,465
Special education	5,777,177	6,242,643	6,136,665	(105,978)	5,590,876
Instructional support services	305,534	313,080	304,796	(8,284)	299,599
Pupil support services	1,546,765	1,770,998	1,790,961	19,963	1,693,040
Site, building and equipment	2,384,438	2,387,769	2,324,074	(63,695)	2,206,231
Fiscal and other fixed costs	212,353	119,887	110,192	(9,695)	218,953
Capital outlay	571,494	571,494	302,702	(268,792)	227,402
Total expenditures	18,411,390	18,461,031	18,205,122	(255,909)	17,863,050
Revenues over (under) expenditures	120,684	557,455	773,547	216,092	(120,912)
Other financing sources:					
Transfers in	-	-	-	-	155,657
Net change in fund balance	$120,684	$557,455	773,547	$216,092	34,745
Fund balance - beginning			1,751,500		1,716,755
Fund balance - ending			$2,525,047		$1,751,500

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, 2017
With Comparative Actual Amounts For The Year Ended June 30, 2016

	2017				
	Budgeted Amounts		Actual	Variance with Final Budget -	2016 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$144,677	$168,500	$173,693	$5,193	$176,493
State sources	26,505	37,398	37,438	40	34,896
Federal sources	366,008	361,220	367,062	5,842	360,526
Total revenues	537,190	567,118	578,193	11,075	571,915
Expenditures:					
Pupil support services	565,753	586,546	571,387	(15,159)	538,501
Capital outlay	-	-	3,258	3,258	10,598
Total expenditures	565,753	586,546	574,645	(11,901)	549,099
Revenues over (under) expenditures	($28,563)	($19,428)	3,548	$22,976	22,816
Fund balance - beginning			272,385		249,569
Fund balance - ending			$275,933		$272,385

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, 2017
With Comparative Actual Amounts For The Year Ended June 30, 2016

	2017				
	Budgeted Amounts		Actual	Variance with Final Budget -	2016 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$130,753	$147,000	$148,858	$1,858	$159,476
Total revenues	130,753	147,000	148,858	1,858	159,476
Expenditures:					
Community education and services	130,753	142,848	153,707	10,859	157,777
Capital outlay	-	-	265	265	-
Total expenditures	130,753	142,848	153,972	11,124	157,777
Revenues over expenditures	$0	$4,152	(5,114)	($9,266)	1,699
Fund balance (deficit) - beginning			37,229		35,530
Fund balance - ending			$32,115		$37,229

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, 2017

Teachers Retirement Association

Measurement Date	Fiscal Year Ending	School's Proportion of the Net Pension Liability	School's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the School (b)	Total Proportionate Share of the Net Pension Liability (a+b)	Covered Payroll (c)	School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2014	June 30, 2015	0.1188%	$5,474,218	$385,233	$5,859,451	$5,387,481	101.6%	81.5%
June 30, 2015	June 30, 2016	0.1100%	6,804,588	834,698	7,639,286	5,654,747	120.3%	76.8%
June 30, 2016	June 30, 2017	0.1262%	30,101,711	3,022,140	33,123,851	6,565,133	458.5%	44.9%

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
SCHEDULE OF PENSION CONTRIBUTIONS
For The Year Ended June 30, 2017

Teachers Retirement Association

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
June 30, 2015	$424,106	$424,106	$ -	$5,654,747	7.5%
June 30, 2016	492,385	492,385	-	6,565,133	7.5%
June 30, 2017	542,599	542,599	-	7,234,653	7.5%

PERA - General Employees Retirement Fund

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
June 30, 2017	240,528	240,528	-	3,207,040	7.5%

The schedule above 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. PERA information is applicable beginning with fiscal year ending June 30, 2017.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
REQUIRED SUPPLEMENTARY INFORMATION
NOTE TO RSI
JUNE 30, 2017

Note A BUDGETARY INFORMATION

The General Fund and the Food Service Special Revenue Fund budgets are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level.

Note B PENSION INFORMATION

2016 Changes
Changes of benefit terms (TRA) – the Duluth Teacher's Retirement Fund Association was merged into TRA on June 30, 2015.

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

2017 Changes
TRA – Teachers Retirement Association:
Changes in actuarial assumptions for the July 1, 2016 valuation include:

- The assumed investment rate of return and discount rate was reduced from 8.00% to 4.66%.
- Post-retirement benefit adjustments are now assumed to remain level at 2.0% annually. In the previous measurement, benefit adjustments increased to 2.5% in 2034.
- The price inflation assumption was reduced from 3.00% to 2.75%.
- The general wage growth and payroll growth assumptions were reduced from 3.75% to 3.50%.
- Projected salary increases of 3.5% – 12.0% were changed to 3.5% – 9.5%.
- Mortality assumptions changed as a result of using updated mortality tables.

Additional 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, 2017

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	$18,978,669	$18,978,671	($2)
Total Expenditures	18,205,122	18,205,118	4
Non-Spendable:			
4.60 Non Spendable Fund Balance	37,053	37,052	1
Restricted/Reserve:			
4.03 Staff Development	-	-	-
4.06 Health and Safety	-	-	-
4.07 Capital Projects Levy	-	-	-
4.08 Cooperative Revenue	-	-	-
4.13 Project Funded By COP	-	-	-
4.14 Operating Debt	-	-	-
4.16 Levy Reduction	-	-	-
4.17 Taconite Building Maint	-	-	-
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	-	-	-
4.40 Teacher Development and Evaluatioı	-	-	-
4.41 Basic Skills Programs	-	-	-
4.45 Career & Tech Programs	-	-	-
4.48 Achievement and Integration	-	-	-
4.49 Safe Schools Levy	-	-	-
4.50 Pre-Kindergarten	-	-	-
4.51 QZAB Payments	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
4.53 Unfunded Sev & Retiremt Levy	-	-	-
4.67 LTFM			
4.72 Medical Assistance	41,866	41,866	-
Restricted:			
4.64 Restricted Fund Balance	58,280	58,280	-
Committed:			
4.18 Committed For Separation	-	-	-
4.61 Committed Fund Balance	781,127	781,127	-
Assigned:			
4.62 Assigned Fund Balance	-	-	-
Unassigned:			
4.22 Unassigned Fund Balance	1,606,721	1,606,722	(1)
02 FOOD SERVICE			
Total Revenue	$578,193	$578,193	$ -
Total Expenditures	574,645	574,645	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	275,933	275,933	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	$148,858	$148,858	$ -
Total Expenditures	153,972	153,975	(3)
Non Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.26 $25 Taconite	-	-	-
4.31 Community Education	-	-	-
4.32 E.C.F.E	-	-	-
4.40 Teacher Development and Evaluatioı	-	-	-
4.44 School Readiness	-	-	-
4.47 Adult Basic Education	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	32,115	32,113	2
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	-	-	-
4.67 LTFM	-	-	-
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	-	-	-
20 INTERNAL SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Unassigned Fund Balance (Net Asset	-	-	-
25 OPEB REVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Net Assets	-	-	-
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Unassigned Fund Balance (Net Asset	-	-	-
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, 2017, 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 27, 2017.

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.

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 Duluth Public Schools Academy'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 27, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the Duluth Public Schools Academy's basic financial statements, and have issued our report thereon dated November 27, 2017.

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

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

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

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

November 27, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited Duluth Public Schools Academy's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Duluth Public Schools Academy's major federal programs for the year ended June 30, 2017. Duluth Public Schools Academy's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Duluth Public Schools Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal* Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Duluth Public Schools Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Duluth Public Schools Academy's compliance.

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, 2017.

Report on Internal Control Over Compliance

Management of Duluth Public Schools Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Duluth Public Schools Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Duluth Public Schools Academy's internal control over compliance.

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

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

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

Redpath and Company, Ltd.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

November 27, 2017

DULUTH PUBLIC SCHOOLS ACADEMY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2017

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	$247,979
Supporting Effective Instruction State Grants	84.367	None noted	38,884
Special Education Grants to States	84.027	None noted	165,742
Special Education Preschool Grants	84.173	None noted	7,411
Total Special Ed Cluster			173,153
Received directly from federal sources:			
Indian Education Grants to Local Educational Agencies	84.060	None noted	13,216
Total U.S. Department of Education			473,232
U.S. Department of Agriculture:			
Passed through State of Minnesota:			
School Breakfast Program	10.553	None noted	65,993
National School Lunch Program	10.555	None noted	272,255
Summer Food Service Program	10.559	None noted	2,254
Total Child Nutrition Cluster			340,502
Child and Adult Care Food Program	10.558	None noted	25,310
Child Nutrition Discretionary Grants Limited Availability	10.579	None noted	8,144
Fresh Fruit and Vegetable Program	10.582	None noted	1,250
Total U.S. Department of Agriculture			375,206
Total Federal Expenditures			$848,438

Notes to the schedule of expenditures of federal awards

Note 1. Basis of Presentation

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

Note 2. Non-Cash Assistance

The above schedule includes $38,295 of non-cash assistance. This amount represents the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program, CFDA No. 10.555.

Note 3. Indirect Costs

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

Note 4. Subrecipeints

Duluth Public Schools Academy does not have any subrecipients.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2017

SECTION I - SUMMARY OF AUDIT RESULTS

Financial Statements					
A. Type of auditor's 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 auditor's report issued on compliance for major programs:	Unmodified				
F. Any other audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?		Yes	X	No
G. Identification of major programs:					
Name of Federal Program	CFDA Numbers				
Child Nutrition Cluster	10.553 / 10.555 / 10.559				
H. Dollar threshold used to distinguish between Type A and Type B programs:	$750,000				
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, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding: None

SECTION III - FEDERAL AWARD FINDINGS

Finding: None

SECTION IV – LEGAL COMPLIANCE FINDINGS

Finding: None

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For The Year Ended June 30, 2017

FOLLOW UP ON PRIOR YEAR FINDINGS

FINANCIAL AUDIT FINDINGS

None.

FEDERAL AWARD FINDINGS

None.

MINNESOTA LEGAL COMPLIANCE FINDINGS

None.

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