DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For The Year Ended June 30, 2018

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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, 2018

BOARD OF DIRECTORS

Elective	Board Position
Hilary Hodgman	President
Stephen Sydow	Vice-President
Andrew Richey	Treasurer
Katie Cronin-Anderson*	Secretary
Neil Byce	Past-President
Mike St. John	Director
Ryan Welch	Director
Lon Hanson	Director
Glenda Latour*	Director
Nicole Jensen*	Director
Kristin Grill	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, 2018, 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.

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

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, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Duluth Public Schools Academy's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented as supplemental information as required by the Minnesota Department of Education and is also not part of the basic financial statements. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations 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 19, 2018, 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 solely 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 19, 2018

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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, 2018. 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 2017-2018 fiscal year include the following:

- Current assets decreased by $494,660 and current liabilities decreased by $166,830. These changes are primarily due to the use of committed funds to address health care run out expenses, transfer of committed High School funds re-committed into the k-8 program. While decreasing our overall assets committed funds also decreased our liabilities as some of the k-8 expenses were covered from committed funds vs our normal operating budget.

- Total revenue increased by $1,182,841 (5.88%) between fiscal year 2017 and fiscal year 2018 primarily due to an increase lease aid due to an increase in lease expense as well as additional state funding for increased needs in special education programming and an increase in compensatory revenue. Expenses increased by $2,954,316 (12.65%), which is also attributed to the increase in health care costs, increase in lease expense, increase in the needs of special education services, reducing the due to Edison Learning liability, paying off our line of credit, as well as a $5.1M 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

School-wide Statements

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

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

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

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

Fund Financial Statements

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net position may serve over time as a useful indicator of a district's financial position. In the case of the School, liabilities and deferred inflows exceed assets and deferred outflows by $13,199,278 as of June 30, 2018.

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

	June 30, 2018	June 30, 2017
Assets and deferred outflows:		
Current assets	$6,594,995	$7,089,655
Capital assets, net	13,495,839	13,706,551
Deferred outflows of resources	19,481,960	20,548,535
Total assets and deferred outflows	39,572,794	41,344,741
Liabilities and deferred inflows:		
Current liabilities	2,603,504	2,770,334
Long-term liabilities	45,195,036	46,642,492
Deferred inflows of resources	4,973,532	129,858
Total liabilities and deferred inflows	52,772,072	49,542,684
Net position:		
Net investment in capital assets	(878,426)	(1,022,679)
Restricted for regulation	79,957	41,866
Restricted for food service	239,806	275,933
Restricted for community service	36,051	32,115
Restricted for capital improvements	58,305	58,280
Unrestricted	(12,734,971)	(7,583,458)
Total net position	($13,199,278)	($8,197,943)

The School participates in cost-sharing multiple-employer defined benefit pension plans administered by the Teachers 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, combined with pension related deferred outflows and inflows of resources, negatively impacted unrestricted net position by $14,783,350 and $9,683,034 as of June 30, 2018 and 2017, respectively. The increased deficit was primarily due to changes in actuarial assumptions used to calculate the net pension liability, changes in the proportionate share of the pension plans, and this being the first year the School has had PERA liabilities and deferred outflows and inflows of resources to record. 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.

Changes in Net Position

The School's total revenues were $21,311,655 for the year ended June 30, 2018. Program revenues accounted for 47.42% of total revenue for the year.

The total cost of all programs and services was $26,312,990. Total expenses exceeded revenues by $5,001,335.

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

	For The Years Ended June 30, 2018	2017
Revenues:		
Program revenues:		
Charges for services	$441,518	$477,781
Operating grants and contributions	9,636,262	8,566,347
Capital grants and contributions	27,405	-
General revenues:		
Local sources	128,286	61,726
State sources	11,064,419	11,021,600
Investment income	13,765	1,360
Total revenues	21,311,655	20,128,814
Expenses:		
District support services	2,957,250	2,333,670
Regular instruction	7,515,851	7,631,628
Special education	9,956,869	7,701,484
Community education and services	85,566	146,843
Instructional support services	339,936	478,999
Pupil support services	2,847,651	2,519,399
Site, building and equipment	1,499,010	1,435,258
Fiscal and other fixed costs	125,905	110,192
Interest and fiscal charges on long-term liabilities	984,952	1,001,201
Total expenses	26,312,990	23,358,674
Change in net position	(5,001,335)	(3,229,860)
Net position - beginning	(8,197,943)	(4,968,083)
Net position - ending	($13,199,278)	($8,197,943)

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:

	2018				
	General	Food Service	Community Service	Tischer Creek	Total
Assets	$4,293,844	$319,745	$36,563	$2,050,846	$6,700,998
Liabilities	2,007,350	79,939	512	106,003	2,193,804
Fund balance	$2,286,494	$239,806	$36,051	$1,944,843	$4,507,194

	2017				
	General	Food Service	Community Service	Tischer Creek	Total
Assets	$4,888,955	$386,600	$157,325	$1,784,374	$7,217,254
Liabilities	2,363,908	110,667	125,210	136,561	2,736,346
Fund balance	$2,525,047	$275,933	$32,115	$1,647,813	$4,480,908

	2018				
	General	Food Service	Community Service	Tischer Creek	Total
Revenue	$20,528,823	$602,503	$89,502	$1,938,614	$23,159,442
Expenditures	20,842,376	638,630	85,566	1,566,584	23,133,156
Other financing sources (uses)	75,000	-	-	(75,000)	-
Change in fund balance	($238,553)	($36,127)	$3,936	$297,030	$26,286

	2017				
	General	Food Service	Community Service	Tischer Creek	Total
Revenue	$18,978,669	$578,193	$148,858	$1,498,105	$21,203,825
Expenditures	18,205,122	574,645	153,972	1,665,116	20,598,855
Change in fund balance	$773,547	$3,548	($5,114)	($167,011)	$604,970

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

REVENUE ANALYSIS

General Fund - increase in revenues of $1,550,154, or 8.2%, were due to the increase in enrollment and needs in Special Education Programming.

Food Service Fund - increase in revenues of $24,310, or 4.2%, were due to increased participation offset by a reduction in free/reduced student population at our North Star site.

Community Service Fund - decrease in revenues of $59,356, or 39.9% were due to the transfer of the program management to the YMCA mid-year.

Tischer Creek Fund - increase in revenues of $440,509, or 29.4%, were due to the increase in rent received for Raleigh, North Star and Modular classroom.

EXPENDITURE ANALYSIS

General Fund - increase in expenditures of $2,637,254, or 14.5%, were due to sMDalary adjustments as well as increased costs for health care.

Food Service Fund - increase in expenditures of $63,985 or 11.1%, were due to intentionally spending down this fund's surplus.

Community Service Fund - decrease in expenditures of $68,406, or 44.4%, were due to the transfer of the program's management to the YMCA mid-year.

Tischer Creek Fund - decrease in expenditures of $98,532, or 5.9% were due exploratory site costs for potential expansion into the Snowflake property being less than those planned for the High School.

GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund adopted an original revenue budget of $20,133,533, which was revised to a final revenue budget of $20,715,645.

The General Fund adopted an original expenditure budget of $20,202,041, which was revised to a final expenditure budget of $21,112,656.

While the School's final budget for the General Fund anticipated that expenditures would exceed revenues by $397,011, the actual results for the year showed expenditures would exceed revenues by $313,553.

- Actual revenues were $186,822 less than anticipated, due to a decrease in state revenues near year end.

- Actual expenditures were $270,280 less than anticipated, due to changes in staffing and associated salary and benefits and lower than expected transportation costs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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:

	2018	2017	Increase (Decrease)
Land	$1,109,061	$1,109,061	$ -
Buildings	14,901,307	14,760,735	140,572
Furniture and fixtures	217,137	182,945	34,192
Equipment	41,933	36,423	5,510
Total capital assets	16,269,438	16,089,164	180,274
Accumulated depreciation	(2,773,599)	(2,382,613)	(390,986)
Net capital assets	$13,495,839	$13,706,551	($210,712)

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. Approximately $16.7M remains outstanding as of June 30, 2018.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The School's administration considered many factors when setting the FY 2018-2019 budget. The three largest factors affecting the budget are the pupil count, special education funding and health care costs. We have now right sized our student population, which as a result should provide stable funding, albeit lower than FY18 respectfully for our FY19 budget and beyond. The school will be receiving an increase in state funding due to the expansion of existing intervention programs and a onetime payment for "declining enrollment". The school has worked closely with our health insurance provider and agent to restructure the plan to increase consumerism, which should drive down costs and increased the percentage of the cost passed on to the staff.

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 and desire to fund local school operations. Based on current enrollment data at the start of the 2018-2019 school year, we anticipate a slight reduction in revenues and expenditures compared to 2017-2018 due to state funding remaining flat and a purposeful rightsizing of our pupil count as we adjust down from growing pupil count for the, then planned, high school. The school has also reduced staffing levels to meet the lower enrollment and has increased spending oversight and controls.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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, 2018

	Governmental Activities
Assets:	
Cash	$1,167,871
Cash and investments held by trustee	1,817,203
Accounts receivable net of allowance for uncollectible	473,931
Due from other governments	3,035,832
Deposits	50,000
Prepaid items	50,158
Capital assets (net of accumulated depreciation):	
Nondepreciable	1,109,061
Depreciable	12,386,778
Total assets	20,090,834
Deferred outflows of resources:	
Related to pensions	19,481,960
Total assets and deferred outflows of resources	$39,572,794
Liabilities:	
Accounts payable	$221,141
Salaries and taxes payable	1,340,196
Claims payable	331,997
Due to EdisonLearning, Inc.	187,000
Unearned revenue	7,467
Accrued interest payable	158,837
Compensated absences:	
Due in less than one year	6,866
Due in more than one year	61,791
Bonds payable:	
Due in less than one year	350,000
Due in more than one year	15,841,467
Net pension liability:	
Due in more than one year	29,291,778
Total liabilities	47,798,540
Deferred inflows of resources:	
Related to pensions	4,973,532
Net position:	
Net investment in capital assets	(878,426)
Restricted for regulation	79,957
Restricted for food service	239,806
Restricted for community service	36,051
Restricted for capital improvements	58,305
Unrestricted	(12,734,971)
Total net position	(13,199,278)
Total liabilities, deferred inflows of resources and net position	$39,572,794

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, 2018

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:					
District support services	$2,957,250	$12,668	$ -	$ -	($2,944,582)
Regular instruction	7,515,851	112,684	292,904	-	(7,110,263)
Special education	9,956,869	68,865	7,243,324	-	(2,644,680)
Community education and services	85,566	62,444	2,130	-	(20,992)
Instructional support services	339,936	-	-	-	(339,936)
Pupil support services	2,847,651	184,857	399,752	-	(2,263,042)
Site, building and equipment	1,499,010	-	1,698,152	27,405	226,547
Fiscal and other fixed costs	125,905	-	-	-	(125,905)
Interest and fiscal charges on long-term liabilities	984,952	-	-	-	(984,952)
Total governmental activities	$26,312,990	$441,518	$9,636,262	$27,405	(16,207,805)
General revenues:					
Local sources					128,286
State sources					11,064,419
Investment income					13,765
Total general revenues					11,206,470
Change in net position					(5,001,335)
Net position - beginning					(8,197,943)
Net position - ending					($13,199,278)

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, 2018

	General Fund	Food Service	Community Service	Tischer Creek	Totals
Assets					
Cash	$730,642	$217,731	$36,543	$182,955	$1,167,871
Cash and investments held by trustee	-	-	-	1,817,203	1,817,203
Accounts receivable net of allowance for uncollectible	379,258	94,653	20	-	473,931
Due from Minnesota Department of Education	2,919,143	684	-	-	2,919,827
Due from Federal Government through Minnesota Department of Education	78,945	6,677	-	-	85,622
Due from Federal Government	30,383	-	-	-	30,383
Due from other funds	106,003	-	-	-	106,003
Deposits	-	-	-	50,000	50,000
Prepaid items	49,470	-	-	688	50,158
Total assets	$4,293,844	$319,745	$36,563	$2,050,846	$6,700,998
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	$148,963	$71,974	$204	$ -	$221,141
Salaries and taxes payable	1,338,080	2,116	-	-	1,340,196
Claims payable	331,997	-	-	-	331,997
Due to EdisonLearning, Inc.	187,000	-	-	-	187,000
Due to other funds	-	-	-	106,003	106,003
Unearned revenue	1,310	5,849	308	-	7,467
Total liabilities	2,007,350	79,939	512	106,003	2,193,804
Fund balance:					
Nonspendable - prepaid items	49,470	-	-	688	50,158
Restricted for regulation	79,957	-	-	-	79,957
Restricted for food service	-	239,806	-	-	239,806
Restricted for community service	-	-	36,051	-	36,051
Restricted for capital and debt service	58,305	-	-	1,817,203	1,875,508
Unassigned	2,098,762	-	-	126,952	2,225,714
Total fund balance	2,286,494	239,806	36,051	1,944,843	4,507,194
Total liabilities and fund balance	$4,293,844	$319,745	$36,563	$2,050,846	$6,700,998

Amounts reported for governmental activities in the statement of net position are different because:	
Fund balance reported above	$4,507,194
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	13,495,839
Deferred outflows of resources related to pensions - see note 5	19,481,960
Deferred inflows of resources related to pensions - see note 5	(4,973,532)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Accrued interest payable	(158,837)
Compensated absences	(68,657)
Bonds payable	(16,191,467)
Net pension liability	(29,291,778)
Net position of governmental activities (Statement 1)	($13,199,278)

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, 2018

	General Fund	Food Service	Community Service	Tischer Creek	Totals
Revenues:					
Local sources	$279,681	$202,751	$87,372	$1,925,100	$2,494,904
State sources	19,663,023	35,962	2,130	-	19,701,115
Federal sources	585,868	363,790	-	-	949,658
Investment income	251	-	-	13,514	13,765
Total revenues	20,528,823	602,503	89,502	1,938,614	23,159,442
Expenditures:					
Current:					
District support services	2,462,739	-	-	-	2,462,739
Regular instruction	5,371,645	-	-	-	5,371,645
Special education	7,627,743	-	-	-	7,627,743
Community education and services	-	-	85,566	-	85,566
Instructional support services	240,539	-	-	-	240,539
Pupil support services	2,023,874	629,920	-	-	2,653,794
Site, building and equipment	2,832,919	-	-	123,954	2,956,873
Fiscal and other fixed costs	125,905	-	-	-	125,905
Capital outlay	157,012	8,710	-	147,359	313,081
Debt service:					
Principal	-	-	-	330,000	330,000
Interest and fiscal charges	-	-	-	965,271	965,271
Total expenditures	20,842,376	638,630	85,566	1,566,584	23,133,156
Revenues over expenditures	(313,553)	(36,127)	3,936	372,030	26,286
Other financing sources (uses):					
Transfers in	75,000	-	-	-	75,000
Transfers out	-	-	-	(75,000)	(75,000)
Total other financing sources (uses)	75,000	0	0	(75,000)	0
Net change in fund balance	(238,553)	(36,127)	3,936	297,030	26,286
Fund balance - beginning	2,525,047	275,933	32,115	1,647,813	4,480,908
Fund balance - ending	$2,286,494	$239,806	$36,051	$1,944,843	$4,507,194

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

Net change in fund balance reported above	$26,286
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	152,869
Contributed capital revenue - capitalized	27,405
Depreciation	(390,986)
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.	330,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Amortization of bond discount	(22,431)
Change in accrued interest	2,750
Change in compensated absences	(26,912)
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities	(5,100,316)
Change in net position of governmental activities (Statement 2)	($5,001,335)

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

The financial statements of the reporting entity include those of the School (the primary government) and its component units. Generally, component units are legally separate organizations for which the primary government is financially accountable.

There is one organization that is considered to be a component unit of the School. Tischer Creek Duluth Building Company (the Building Company) is an affiliated nonprofit building corporation which is classified as a 501(c)(3) tax exempt organization. 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 are leased to the School. No separate financial statements of the Building Company are issued.

The School is required to operate under a charter agreement with an entity that has been approved by the Minnesota Department of Education (MDE) to be a charter school "authorizer." The authorizer monitors and evaluates the School's performance, and periodically determines whether to renew the School's charter. The School's authorizer is Innovative Quality Schools. Aside from its responsibilities as authorizer, Friends of Education has no authority or control over the School, and is not financially accountable for it. Therefore, the School is not considered a component unit of Friends of Education.

B. SCHOOL-WIDE AND FUND FINANCIAL STATEMENTS

The school-wide financial statements (the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School. Amounts 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. *Governmental activities* generally are financed through intergovernmental revenues, and other non-exchange transactions. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

As a general rule the effect of interfund activity has been eliminated from the school-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services, are similarly treated when they involve other funds of the School. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include charges for goods and services, as well as operating and capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not included among program revenues are reported instead as *general revenues*.

C. FUND FINANCIAL STATEMENTS

Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized when it becomes both measurable and available. *Measurable* means the amount of the transaction can be determined and *available* means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and GAAP. Minnesota Statutes include state aid formulas for specific fiscal years. Federal revenue and other non-exchange transactions are recognized when all eligibility requirements imposed by the provider have been met and the resources are available. Food service sales and other miscellaneous revenue are recorded as revenue when received because they are generally not measurable until then. A 60 day availability period is used for other fund revenue.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, as applicable, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The emphasis of fund financial statements is on major funds, each displayed in a separate column. The School reports the following major 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

The School's Board adopts an annual budget for the General Fund, the Food Service Special Revenue Fund and the Community Service Special Revenue Fund. Budgets are prepared on the same basis of accounting as the financial statements. 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.

Expenditures exceed budgeted appropriations by the following amounts during the year ended June 30, 2018:

	Budget	Actual	Actual Over Budget
Special Revenue Fund:			
Food Service Fund	$631,219	$638,630	$7,411
Community Service Fund	75,748	85,566	9,818

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

Cash balances of the General Fund and Food Service and Community Service Special Revenue Funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Investments are stated at fair value as of the balance sheet date.

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

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

J. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as 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 5-15 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. DEFINED BENEFIT PENSION PLANS

For purposes of measuring the net pension liability, deferred outflows and inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to and deductions from 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.

N. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School has one item that qualifies for reporting in this category. It is the pension related deferred outflows of resources reported in the school-wide Statement of Net Position.

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. It is the pension related deferred inflows of resources reported in the school-wide Statement of Net Position.

O. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

OPEB are defined as benefits (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as healthcare benefits paid in the period after employment. With the exception of benefits provided by COBRA health coverage, the School does not offer such benefits to its employees. Management has determined any implicit rate subsidy would be immaterial and a liability for OPEB has not been recorded.

P. UNEARNED REVENUE

Unearned revenue represents amounts received under federal, state or private grant programs but not expended in the current year. Such amounts are unearned until subsequent periods when the funds are expended.

Q. LONG-TERM OBLIGATIONS

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities. Bond premiums and discounts, if material, are amortized over the life of the related debt.

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

R. 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.

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.

S. 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.

T. 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.

U. USE OF ESTIMATES

The preparation of financial statements in accordance with 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.

V. 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 had investments of $1,817,203 in the Wells Fargo Advantage 100% Treasury Money Market Fund as of June 30, 2018, which are categorized as level 1 investments and have an S&P rating of AAAm.

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the School maintains deposits at financial institutions which are authorized by the School's Board.

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

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

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

At June 30, 2018, the bank balance of the School's deposits, excluding amounts held by the Building Company, was $1,303,496, all of which was covered by insurance or collateral.

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’s investment policy does not place further limits on its investment choices.

Custodial Credit Risk – For investments in securities, custodial credit risk is the risk that in the event of failure of the counterparty to a transaction, the School will not be able to recover the value of its investment securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form, and therefore are not subject to custodial credit risk disclosures. The School’s investment policy does not address custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt investments could adversely affect the fair value of an investment. The School’s investment policy does not address interest rate risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an entity’s investment in a single issuer. The School places no limit on the amount the School may invest in any one issuer. At June 30, 2018, all of the School’s investments are in the Wells Fargo Advantage 100% Treasury Money Market Fund.

In addition to following Minnesota Statutes pertaining to deposits and investments, the Building Company complies with all investment limitations and requirements imposed by its bondholders.

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	$1,167,871	$ -	$1,167,871
Cash and investments held by trustee	-	1,817,203	1,817,203
Total	$1,167,871	$1,817,203	$2,985,074

Note 3 INTERFUND ACTIVITY

As of June 30, 2018, the School's due to/from other funds consisted of $106,003 due to the General Fund from the Tischer Creek Fund for the reimbursement of general operating costs. There was also a transfer from the Tischer Creek Fund to the General Fund of $75,000 to help fund student activities.

Note 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$1,109,061	$ -	$ -	$1,109,061
Total capital assets, not being depreciated	1,109,061	0	-	1,109,061
Capital assets, being depreciated:				
Buildings	14,760,735	140,572	-	14,901,307
Furniture and fixtures	182,945	34,192	-	217,137
Equipment	36,423	5,510	-	41,933
Total capital assets, being depreciated	14,980,103	180,274	0	15,160,377
Less accumulated depreciation for:				
Buildings	2,187,396	382,668	-	2,570,064
Furniture and fixtures	179,882	2,498	-	182,380
Equipment	15,335	5,820	-	21,155
Total accumulated depreciation	2,382,613	390,986	0	2,773,599
Total capital assets being depreciated - net	12,597,490	(210,712)	-	12,386,778
Governmental activities capital assets - net	$13,706,551	($210,712)	$0	$13,495,839

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	$385,166
District support services	3,255
Pupil support services	2,565
Total depreciation expense - governmental activities	$390,986

Note 5 DEFINED BENEFIT PENSION 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 Coordinated Plan in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity 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, and is governed by an eleven member Board of Trustees. All full-time and certain part-time employees of the School, other than teachers, are covered by the GERF.

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.

Tier 1 Benefits – for 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 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 is applied. For years of service July 1, 2006 and after, a level formula of 1.9% per year 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. 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 is 1.2% of average salary for each of the first ten years of service and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% 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 ended June 30, 2018 and 2017 are as follows:

	Employee	Employer
TRA	7.5%	7.5%
PERA	6.5%	7.5%

The School's contributions to TRA and PERA were equal to the required contributions as set by state statute. Contributions to TRA and PERA for the previous two fiscal years were as follows:

Year Ended	TRA	PERA
June 30, 2018	$585,762	$252,040
June 30, 2017	542,599	240,528

D. NET PENSION LIABILITY AND PENSION EXPENSE

The net pension liability reported at June 30, 2018 was measured as of June 30, 2017. 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 each respective plan during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, 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, 2018 are as follows:

	TRA	PERA	Total
Net pension liability	$26,329,633	$2,962,145	$29,291,778
Proportionate share of net pension liability:			
Measurement date	0.1319%	0.0464%	
Prior measurement date	0.1262%	0.0000%	
Pension expense	$4,907,582	$1,080,444	$5,988,026

The pension expense related to TRA and PERA includes recognition of $48,832 and $1,076, respectively, 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 $26,329,633, $2,546,075 and $28,875,708, respectively.

The net pension liability related to PERA reflected a reduction due to direct aid in the amount of $6,000,000 provided to PERA. 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 $2,962,145, $37,223 and $2,999,368, respectively.

E. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience:		
TRA	$214,868	$184,189
PERA	97,623	-
Difference between projected and actual investment earnings:		
TRA	-	214,500
PERA	-	502,950
Changes in actuarial assumptions:		
TRA	14,270,259	3,688,366
PERA	-	296,955
Changes in proportion:		
TRA	1,235,821	86,572
PERA	2,825,587	-
Contributions paid subsequent to the measurement date:		
TRA	585,762	-
PERA	252,040	-
Total	$19,481,960	$4,973,532

Amounts reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense during the following years:

	Pension Expense		
Year	TRA	PERA	Total
2019	$3,056,539	$749,680	$3,806,219
2020	3,542,421	749,680	4,292,101
2021	3,030,924	749,681	3,780,605
2022	2,603,517	(125,736)	2,477,781
2023	(686,080)	-	(686,080)
Thereafter	-	-	-

F. ACTUARIAL ASSUMPTIONS

TRA
The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Information	
Measurement date	June 30, 2017
Valuation date	July 1, 2017
Experience study	June 5, 2015 and November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	5.12%, from the Single Equivalent Interest Rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for 10 years and 3.25% thereafter
Projected salary increase	2.85 to 8.85% for 10 years and 3.25 to 9.25% thereafter
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.

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 five years as required by GASB 68.

The following changes in actuarial assumptions occurred since the 2016 valuation:

- The investment return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive loan increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.

PERA

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active member payroll growth	3.25% per year
Investment rate of return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per through 2044 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience studies. The most recent four-year experience study was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

TRA and PERA

The State Board of Investment, which manages the investments of TRA and PERA, prepares an analysis on a regular basis of the reasonableness of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	39%	5.10%
International stocks	19%	5.30%
Bonds	20%	0.75%
Alternative assets	20%	5.90%
Unallocated cash	2%	0.00%
Total	100%	

G. DISCOUNT RATE

TRA
The discount rate used to measure the total pension liability was 5.12%. This is an increase from the discount rate at the prior measurement date of 4.66%. 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 2053 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 (7.50%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

PERA
The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on that assumption, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. PENSION LIABILITY SENSITIVITY

The following presents the School's proportionate share of the net pension liability calculated using the discount rate for each plan, as well as the liability measured using one percent lower (4.12% for TRA; 6.50% for PERA) and one percent higher (6.12% for TRA; 8.50% for PERA).

	1% Decrease	Current	1% Increase
TRA	$34,750,042	$26,329,633	$19,230,204
PERA	4,594,508	2,962,145	1,625,760

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 report may be obtained at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, MN, 55103; or by calling 651-296-7460 or 1-800-652-9026.

Note 6 LONG-TERM LIABILITIES

	Balance 6/30/18
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%.	$16,670,000
Less: unamortized bond discount	(478,533)
Net bonds payable	$16,191,467

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.

As described in Note 10, the 2010 series bonds were refunded on October 31, 2018.

Changes in long-term liabilities are as follows:

	June 30, 2017	Additions	Deductions	June 30, 2018	Due in One Year
Bonds payable	$17,000,000	$ -	($330,000)	$16,670,000	$350,000
Bond discounts	(500,964)	-	22,431	(478,533)	-
Compensated absences payable	41,745	97,784	(70,872)	68,657	6,866
Total	$16,540,781	$97,784	($378,441)	$16,260,124	$356,866

Compensated absences are generally liquidated by the General Fund.

Annual debt service requirements to maturity are as follows:

Fiscal	Bonds Payable	
Year	Principal	Interest
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	$16,670,000	$14,099,489

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 COMMITMENTS AND CONTINGENCIES

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, 2018 remaining accrued liability related to EdisonLearning, Inc. is $187,000. This represents amounts for which School management and EdisonLearning Inc. are currently reviewing. Any future adjustments would be recognized when determinable.

At June 30, 2018, the Building Company had commitments of $66,960 for construction contracts.

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, 2019. Rent expense under this lease was $27,000 for the year ended June 30, 2018. Future minimum payments under the terms of this lease are as follows:

Year Ending June 30	Amount
2019	$27,540

LEASES BETWEEN SCHOOL AND BUILDING COMPANY

The School leases the facility at Northstar Academy and Raleigh Academy 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 $1,872,600 for the year ended June 30, 2018. 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 $1,857,996. Future minimum payments under the terms of this lease are as follows:

Year Ending June 30	Amount
2019	$1,857,996
2020	1,857,996
2021	1,857,996
2022	1,857,996
2023	1,857,996
2024-2028	9,289,980
2029-2033	9,289,980
2034-2038	9,289,980
2039-2041	4,490,157
Total	$41,650,077

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, 2019, 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 $52,500 for the year ended June 30, 2018. 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 5.50% minimum and have maturity dates of January 2019. 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, 2018:

	Ending Balance June 30, 2017	Total Advances	Total Repayments	Ending Balance June 30, 2018
Line of credit	$800,000	$ -	($800,000)	$ -
Line of credit - health insurance	-	-	-	-
Total	$800,000	$0	($800,000)	$0

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 2018, the School's maximum out-of-pocket was approximately $1,700,000 and excess amounts of reimbursable claims 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, 2018 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 2018, 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, 2018 and June 30, 2017, is as follows:

	2018	2017
Beginning balance, claims payable	$162,179	$0
Payments on prior year claims	(162,179)	-
Incurred claims and admin fees expenses	2,991,414	2,474,649
Payments on current year claims	(2,659,417)	(2,312,470)
Claims payable	$331,997	$162,179
Total reimbursable claims	$2,148,373	$2,474,649
Less School maximum out-of-pocket and healthcare reimbursements	(1,691,390)	(1,750,656)
Insurance claims liability	456,983	723,993
Less insurance paid	(92,384)	(263,413)
Reimbursement receivable (included in accounts receivable)	$364,599	$460,580

Note 10 SUBSEQUENT EVENTS

On October 31, 2018, the Building Company issued refunding bonds in the amount of $19,115,000. The proceeds will be used to refund the series 2010 bonds, upgrade School facilities, and purchase and form site improvements upon the land adjacent to its North Star Campus. The rates of the bonds range from 3.25% to 5%. Principal payments are due in 2019-2048.

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, 2018
With Comparative Actual Amounts For The Year Ended June 30, 2017

	2018				
	Budgeted Amounts		Actual	Variance with Final Budget -	2017 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$241,559	$305,285	$279,681	($25,604)	$215,706
State sources	19,533,921	19,835,501	19,663,023	(172,478)	18,281,432
Federal sources	357,953	574,647	585,868	11,221	481,376
Investment income	100	212	251	39	155
Total revenues	20,133,533	20,715,645	20,528,823	(186,822)	18,978,669
Expenditures:					
District support services	1,975,567	2,192,117	2,462,739	270,622	2,057,892
Regular instruction	6,230,421	5,828,141	5,371,645	(456,496)	5,177,840
Special education	7,007,269	7,800,034	7,627,743	(172,291)	6,136,665
Instructional support services	133,295	126,216	240,539	114,323	304,796
Pupil support services	1,828,096	2,070,305	2,023,874	(46,431)	1,790,961
Site, building and equipment	2,690,441	2,812,743	2,832,919	20,176	2,324,074
Fiscal and other fixed costs	164,000	139,500	125,905	(13,595)	110,192
Capital outlay	172,952	143,600	157,012	13,412	302,702
Total expenditures	20,202,041	21,112,656	20,842,376	(270,280)	18,205,122
Revenues over (under) expenditures	(68,508)	(397,011)	(313,553)	83,458	773,547
Other financing sources:					
Transfers in	-	-	75,000	75,000	-
Total other financing sources	0	0	75,000	75,000	0
Net change in fund balance	($68,508)	($397,011)	(238,553)	$158,458	773,547
Fund balance - beginning			2,525,047		1,751,500
Fund balance - ending			$2,286,494		$3,298,594

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, 2018
With Comparative Actual Amounts For The Year Ended June 30, 2017

	2018				
	Budgeted Amounts		Actual	Variance with Final Budget -	2017 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$168,501	$193,894	$202,751	$8,857	$173,693
State sources	38,020	35,020	35,962	942	37,438
Federal sources	362,061	355,061	363,790	8,729	367,062
Total revenues	568,582	583,975	602,503	18,528	578,193
Expenditures:					
Pupil support services	616,068	623,219	629,920	6,701	571,387
Capital outlay	20,000	8,000	8,710	710	3,258
Total expenditures	636,068	631,219	638,630	7,411	574,645
Revenues over (under) expenditures	($67,486)	($47,244)	(36,127)	$11,117	3,548
Fund balance - beginning			275,933		272,385
Fund balance - ending			$239,806		$275,933

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, 2018
With Comparative Actual Amounts For The Year Ended June 30, 2017

	2018				
	Budgeted Amounts			Variance with	2017
	Original	Final	Actual Amounts	Final Budget - Over (Under)	Actual Amounts
Revenues:					
Local sources	$152,000	$88,858	$87,372	($1,486)	$148,858
State sources	-	-	2,130	2,130	-
Total revenues	152,000	88,858	89,502	644	148,858
Expenditures:					
Community education and services	151,321	75,748	85,566	9,818	153,707
Capital outlay	-	-	-	-	265
Total expenditures	151,321	75,748	85,566	9,818	153,972
Revenues over expenditures	$679	$13,110	3,936	($9,174)	(5,114)
Fund balance (deficit) - beginning			32,115		37,229
Fund balance - ending			$36,051		$32,115

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
Teachers Retirement Association								
June 30, 2014	June 30, 2015	0.1188%	$5,474,218	$385,233	$5,859,451	$5,387,481	108.8%	81.5%
June 30, 2015	June 30, 2016	0.1100%	6,804,588	834,698	7,639,286	5,654,747	135.1%	76.8%
June 30, 2016	June 30, 2017	0.1262%	30,101,711	3,022,140	33,123,851	6,565,133	504.5%	44.9%
June 30, 2017	June 30, 2018	0.1319%	26,329,633	2,546,075	28,875,708	7,810,160	369.7%	51.6%
PERA - General Employees Retirement Fund								
June 30, 2017	June 30, 2018	0.0464%	$2,962,145	$37,223	$2,999,368	3,360,533	89.3%	75.9%

The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2015 for TRA 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, 2018.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020 **Statement 9**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
For The Year Ended June 30, 2018

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)
Teachers Retirement Association					
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%
June 30, 2018	585,762	585,762	-	7,810,160	7.5%
PERA - General Employees Retirement Fund					
June 30, 2017	$240,528	$240,528	$ -	$3,207,040	7.5%
June 30, 2018	252,040	252,040	-	3,360,533	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
NOTES TO RSI
June 30, 2018

Note A BUDGETARY INFORMATION

The General Fund and 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

TEACHERS RETIREMENT ASSOCIATION

2017 Changes
Changes in actuarial assumptions:

- The investment return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive loan increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.

2016 Changes
Changes in actuarial assumptions:

- The assumed investment rate of return and discount rate was reduced from 8.00% to 4.66%.
- 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.

2015 Changes
Changes of benefit terms:

- The Duluth Teacher's Retirement Fund Association was merged into TRA on June 30, 2015.

Changes in actuarial assumptions:

- Post-retirement benefit adjustments are assumed to remain level at 2.0% annually. The previous valuation assumed a 2.5% increase commencing July 1, 2034.
- The discount rate was reduced from 8.25% to 8.00%

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2017 Changes
Changes in actuarial assumptions:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1% per year for all future years to 1% per year through 2044 and 2.5% per year thereafter.

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

SUPPLEMENTAL INFORMATION

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020 **Schedule 1**
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS - COMPLIANCE TABLE
June 30, 2018

	Audit *	UFARS	Variance
01 GENERAL FUND			
Total Revenue *	$20,603,823	$20,603,821	$2
Total Expenditures	20,842,376	20,842,374	2
Non-Spendable:			
4.60 Non Spendable Fund Balance	49,470	49,469	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 Evaluation	-	-	-
4.41 Basic Skills Programs	-	-	-
4.45 Career & Tech Programs	-	-	-
4.48 Achievement and Integration	-	-	-
4.49 Safe Schools Levy	-	-	-
4.50 Pre-Kindgergarten	-	-	-
4.51 QZAB Payments	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
4.53 Unfunded Sev & Retiremt Levy	-	-	-
4.67 LTFM			
4.72 Medical Assistance	79,957	79,957	-
Restricted:			
4.64 Restricted Fund Balance	58,305	58,305	-
Committed:			
4.18 Committed For Separation	-	-	-
4.61 Committed Fund Balance	-	-	-
Assigned:			
4.62 Assigned Fund Balance	-	-	-
Unassigned:			
4.22 Unassigned Fund Balance	2,098,762	2,098,764	(2)
02 FOOD SERVICE			
Total Revenue	$602,503	$602,502	$1
Total Expenditures	638,630	638,630	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	239,806	239,805	1
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	$89,502	$89,502	$ -
Total Expenditures	85,566	85,565	1
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 Evaluation	-	-	-
4.44 School Readiness	-	-	-
4.47 Adult Basic Education	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	36,051	36,050	1
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 Assets)	-	-	-
25 OPEB REVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Net Assets	-	-	-
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unrestricted:			
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
47 OPEB DEBT SERVICE FUND			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.25 Bond Refundings	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-

*** Note: The audited total revenues amount in the General Fund above includes a reclassification of $75,000 from transfers in, to local sources revenue for UFARS purposes only. This respresents an interfund transfer from the School's Building Company, which is recorded in the audited financial statements as an interfund transfer per GASB 34.**

OTHER REQUIRED REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Duluth Public Schools Academy, as of and for the year ended June 30, 2018, 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 19, 2018.

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 19, 2018

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, 2018, 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 19, 2018.

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 19, 2018

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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, 2018. 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 the terms and conditions of its federal awards 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, 2018.

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 19, 2018

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2018

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	$236,722
Supporting Effective Instruction State Grants	84.367	None noted	39,916
Special Education Grants to States	84.027	None noted	233,555
Special Education Preschool Grants	84.173	None noted	2,215
Total Special Education Cluster			235,770
Received directly from federal sources:			
Indian Education Grants to Local Educational Agencies	84.060	None noted	16,266
Total U.S. Department of Education			528,674
U.S. Department of Agriculture:			
Passed through State of Minnesota:			
School Breakfast Program	10.553	None noted	65,971
National School Lunch Program	10.555	None noted	270,507
Total Child Nutrition Cluster			336,478
Child and Adult Care Food Program	10.558	None noted	27,214
Child Nutrition Discretionary Grants Limited Availability	10.579	None noted	98
Total U.S. Department of Agriculture			363,790
Total Federal Expenditures			$892,464

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 $38,524 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 did not pass any awards through to subrecipients.

DULUTH PUBLIC SCHOOLS ACADEMY
CHARTER SCHOOL NO. 4020
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2018

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
Special Education Cluster	84.027 / 84.173

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, 2018

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, 2018

FOLLOW UP ON PRIOR YEAR FINDINGS

FINANCIAL AUDIT FINDINGS

None.

FEDERAL AWARD FINDINGS

None.

MINNESOTA LEGAL COMPLIANCE FINDINGS

None.

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