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

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For The Year Ended June 30, 2019

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

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# INTRODUCTORY SECTION

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**DULUTH PUBLIC SCHOOLS ACADEMY**
**CHARTER SCHOOL NO. 4020**
BOARD MEMBERS
June 30, 2019

## BOARD OF DIRECTORS

| Elective | Board Position |
|---|---|
| Hilary Hodgman | President |
| Andrew Richey | Vice-President |
| Kristin Grill | Treasurer |
| Lon Hanson | Vice-Treasurer |
| Katie Anderson * | Secretary |
| Neil Byce | Past-President |
| Amanda Bruggman | Director |
| Chris Todd* | Director |
| Stephen Sydow | Director |
| Amber Lightfeather | Director |
| Val Peterson* | Director |
| Claudia Welty | Director |

*Director resigned before the end of our fiscal year ended June 30, 2019

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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, 2019, and the related notes to the financial statements, which collectively comprise Duluth Public Schools Academy's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Duluth Public Schools Academy, as of June 30, 2019, 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 the schedules of OPEB 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 25, 2019, 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 the effectiveness of Duluth Public Schools Academy's 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 25, 2019

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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, 2019. 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 2018-2019 fiscal year include the following:

- Current assets increased by $1,070,866 and current liabilities decreased by $299,296. These changes are primarily due to the 2010 Bond refunding and 2018 Bonding plus land acquisition by the Building Company, in addition to a strong cash position of the building company and the school.

- Total revenue decreased by $874,064 (4.1%) between fiscal year 2018 and fiscal year 2019 primarily due to a planned decrease in enrollment and a purposeful decrease in special education programing. Expenses decreased by $7,956,666 (30.24%), which is attributed primarily to FY18 having to recognize large FY17 expenses, which set our FY18 expenses artificially high. In addition to that, in FY19 we also had reductions in special education programing, less than anticipated usage of health care benefits, reductions in administrative headcount, and not needing to use our line of credit as much, as well as a decrease in the negative impact related to pension plans of $2,268,396 expense 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 ($11,118,011) as of June 30, 2019.

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

| | June 30, 2019 | June 30, 2018 |
|---|---|---|
| Assets and deferred outflows: | | |
| Current assets | $7,665,861 | $6,594,995 |
| Capital assets, net | 14,878,235 | 13,495,839 |
| Deferred outflows of resources | 16,747,134 | 19,481,960 |
| Total assets and deferred outflows | 39,291,230 | 39,572,794 |
| Liabilities and deferred inflows: | | |
| Current liabilities | 2,304,208 | 2,603,504 |
| Long-term liabilities | 31,253,219 | 45,195,036 |
| Deferred inflows of resources | 16,851,814 | 4,973,532 |
| Total liabilities and deferred inflows | 50,409,241 | 52,772,072 |
| Net position: | | |
| Net investment in capital assets | (1,502,891) | (878,426) |
| Restricted for regulation | 124,665 | 79,957 |
| Restricted for food service | 178,826 | 239,806 |
| Restricted for community service | 37,020 | 36,051 |
| Restricted for capital improvements | - | 58,305 |
| Unrestricted | (9,955,631) | (12,734,971) |
| Total net position | ($11,118,011) | ($13,199,278) |

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 $12,514,954 and $14,783,350 as of June 30, 2019 and 2018, respectively.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

## Changes in Net Position

The School's total revenues were $20,437,591 for the year ended June 30, 2019. Program revenues accounted for 49.11% of total revenue for the year.

The total cost of all programs and services was $18,356,324. Total expenses exceeded revenues by $2,081,267.

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

| | For The Years Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | $370,191 | $441,518 |
| Operating grants and contributions | 9,613,131 | 9,636,262 |
| Capital grants and contributions | - | 27,405 |
| General revenues: | | |
| Local sources | 23,101 | 128,286 |
| State sources | 10,395,880 | 11,064,419 |
| Investment income | 35,288 | 13,765 |
| Total revenues | 20,437,591 | 21,311,655 |
| Expenses: | | |
| District support services | 2,151,106 | 2,957,250 |
| Regular instruction | 3,595,895 | 7,515,851 |
| Special education | 6,228,942 | 9,956,869 |
| Community education and services | (49) | 85,566 |
| Instructional support services | 150,483 | 339,936 |
| Pupil support services | 2,812,545 | 2,847,651 |
| Site, building and equipment | 1,615,862 | 1,499,010 |
| Fiscal and other fixed costs | 124,878 | 125,905 |
| Interest and fiscal charges on long-term debt | 1,676,662 | 984,952 |
| Total expenses | 18,356,324 | 26,312,990 |
| Change in net position | 2,081,267 | (5,001,335) |
| Net position - beginning | (13,199,278) | (8,197,943) |
| Net position - ending | ($11,118,011) | ($13,199,278) |

**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:

| 2019 | General | Food Service | Community Service | Tischer Creek | Total |
|---|---|---|---|---|---|
| Assets | $4,886,544 | $253,293 | $37,279 | $2,509,643 | $7,686,759 |
| Liabilities | 1,734,977 | 74,467 | 259 | 48,960 | 1,858,663 |
| Fund balance | $3,151,567 | $178,826 | $37,020 | $2,460,683 | $5,828,096 |

| 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 |

| 2019 | General | Food Service | Community Service | Tischer Creek | Total |
|---|---|---|---|---|---|
| Revenue | $20,350,903 | $605,454 | $920 | $1,929,351 | $22,886,628 |
| Expenditures | 19,560,594 | 666,434 | (49) | 20,714,370 | 40,941,349 |
| Other financing sources (uses) | 74,764 | - | - | 19,300,859 | 19,375,623 |
| Change in fund balance | $865,073 | ($60,980) | $969 | $515,840 | $1,320,902 |

| 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 | ($313,553) | ($36,127) | $3,936 | $372,030 | $26,286 |

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

## REVENUE ANALYSIS

General Fund - decrease in revenues of $177,920, or 0.9%, were due to the decrease in enrollment and needs in Special Education Programming.

Food Service Fund - increase in revenues of $2,951, or 0.5%, were due to increased participation.

Community Service Fund - decrease in revenues of $88,582, or 99%, were due to the transfer of the program management to the YMCA.

Tischer Creek Fund - decrease in revenues of $9,263, or 0.5%, were due to the change in rent under the new Bonds effective 11/1/18.

## EXPENDITURE ANALYSIS

General Fund - decrease in expenditures of $1,281,782, or 6.1%, were due to salary adjustments as well as decreased costs for health care.

Food Service Fund - increase in expenditures of $27,804, or 4.4%, were due to intentionally spending down this fund's surplus per MDE requirement.

Community Service Fund - decrease in expenditures of $85,615, or 100%, were due to the transfer of the program's management to the YMCA.

Tischer Creek Fund - increase in expenditures of $19,147,786, or 1,222.3% were due to costs for purchase of the Snowflake property and Bond refunding.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund adopted an original revenue budget of $20,688,457, which was revised to a final revenue budget of $20,525,668.

The General Fund adopted an original expenditure budget of $20,455,402, which was revised to a final expenditure budget of $20,429,218.

While the School's final budget for the General Fund anticipated that revenues would exceed expenditures by $96,450, the actual results for the year showed revenues exceeded expenditures by $790,309, prior to transfers.

- Actual revenues were $174,765 less than anticipated, due to a decrease in state revenues related to the planned enrollment reduction.

- Actual expenditures were $868,624 less than anticipated, due to changes in staffing and associated salary and benefits and lower than expected health care 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:

| | 2019 | 2018 | Increase (Decrease) |
|---|---|---|---|
| Land | $2,773,948 | $1,109,061 | $1,664,887 |
| Construction in progress | 62,540 | - | 62,540 |
| Buildings | 14,938,094 | 14,901,307 | 36,787 |
| Furniture and fixtures | 217,137 | 217,137 | - |
| Equipment | 56,379 | 41,933 | 14,446 |
| Total capital assets | 18,048,098 | 16,269,438 | 1,778,660 |
| Accumulated depreciation | (3,169,863) | (2,773,599) | (396,264) |
| Net capital assets | $14,878,235 | $13,495,839 | $1,382,396 |

Additional information can be found in Note 4 to the financial statements.

### Long-Term Debt

During the 2011 fiscal year, the Building Company issued debt totaling $18.4M to acquire facilities. The outstanding $16.7M of this debt was refunded in fiscal year 2019 by the issuance of $19.1M of new debt. The remaining proceeds were used for land acquisition and site improvements. The entire $19.1M remains outstanding as of June 30, 2019.

Additional information can be found in Note 7 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The School's administration considered many factors when setting the FY 2019-2020 budget. The three largest factors affecting the budget are the pupil count, special education funding and health care costs. The original adopted budget in June was developed with reduced enrollment according to our planned rightsizing. Enrollment in October was significantly less than budgeted and so the school will be providing a revised budget to the Board at the November meeting. We have trimmed expense in administration, reduced staffing costs and trimmed non-programmatic expense to account for the reduced revenue. In the revised budget, the school expects to meet its Bond metric obligations for FY20. The school will be receiving an increase in one-time state funding for "declining enrollment". The school has worked closely with our health insurance provider and agent to restructure the plan to increase consumerism, which has driven down expense.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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 2019-2020 school year and October 1 updated enrollment, we anticipate a larger than expected reduction in revenues and expenditures compared to 2018-2019 due to state funding remaining flat and a fewer than anticipated enrollment beyond our rightsizing measures. The school has reduced administration staffing levels and has benefitted from turnover of highly paid positions as well as reduced non-programmatic expense to meet the lower enrollment and has increased spending oversight and controls.

## 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, 2019

| | Governmental Activities |
|---|---|
| Assets: | |
| Cash | $2,856,264 |
| Cash and investments held by trustee | 2,208,164 |
| Accounts receivable net of allowance for uncollectible | 186,592 |
| Due from other governments | 2,361,204 |
| Prepaid items | 53,637 |
| Capital assets - nondepreciable | 2,836,488 |
| Capital assets - net of accumulated depreciation | 12,041,747 |
| Total assets | 22,544,096 |
| | |
| Deferred outflows of resources: | |
| Related to pensions | 15,966,593 |
| Related to debt refunding | 780,541 |
| Total deferred outflows of resources | 16,747,134 |
| | |
| Total assets and deferred outflows of resources | $39,291,230 |
| | |
| Liabilities: | |
| Accounts payable | $198,566 |
| Salaries and taxes payable | 1,214,914 |
| Claims payable | 227,882 |
| Due to EdisonLearning, Inc. | 187,000 |
| Unearned revenue | 9,403 |
| Accrued interest payable | 154,563 |
| Compensated absences: | |
| Due in less than one year | 6,880 |
| Due in more than one year | 61,914 |
| Bonds payable: | |
| Due in less than one year | 305,000 |
| Due in more than one year | 19,064,831 |
| Other postemployment benefits | |
| Due in more than one year | 496,741 |
| Net pension liability: | |
| Due in more than one year | 11,629,733 |
| Total liabilities | 33,557,427 |
| | |
| Deferred inflows of resources: | |
| Related to pensions | 16,851,814 |
| | |
| Net position: | |
| Net investment in capital assets | (1,502,891) |
| Restricted for regulation | 124,665 |
| Restricted for food service | 178,826 |
| Restricted for community service | 37,020 |
| Unrestricted | (9,955,631) |
| Total net position | (11,118,011) |
| | |
| Total liabilities, deferred inflows of resources and net position | $39,291,230 |

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, 2019

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|
| Governmental activities: | | | | |
| District support services | $2,151,106 | $7,891 | $ - | ($2,143,215) |
| Regular instruction | 3,595,895 | 93,504 | 287,420 | (3,214,971) |
| Special education | 6,228,942 | 80,615 | 7,045,684 | 897,357 |
| Community education and services | (49) | - | 920 | 969 |
| Instructional support services | 150,483 | - | - | (150,483) |
| Pupil support services | 2,812,545 | 188,181 | 417,273 | (2,207,091) |
| Site, building and equipment | 1,615,862 | - | 1,861,834 | 245,972 |
| Fiscal and other fixed costs | 124,878 | - | - | (124,878) |
| Interest and fiscal charges on long-term debt | 1,676,662 | - | - | (1,676,662) |
| Total governmental activities | $18,356,324 | $370,191 | $9,613,131 | (8,373,002) |
| General revenues: | | | | |
| Local sources | | | | 23,101 |
| State sources | | | | 10,395,880 |
| Investment income | | | | 35,288 |
| Total general revenues | | | | 10,454,269 |
| Change in net position | | | | 2,081,267 |
| Net position - beginning | | | | (13,199,278) |
| Net position - ending | | | | ($11,118,011) |

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, 2019

| | General Fund | Food Service | Community Service | Tischer Creek | Totals |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash | $2,357,960 | $159,991 | $37,279 | $301,034 | $2,856,264 |
| Cash and investments held by trustee | - | - | - | 2,208,164 | 2,208,164 |
| Accounts receivable net of allowance for uncollectible | 100,970 | 85,622 | - | - | 186,592 |
| Due from Minnesota Department of Education | 2,139,612 | 738 | - | - | 2,140,350 |
| Due from Federal Government through Minnesota Department of Education | 178,336 | 6,942 | - | - | 185,278 |
| Due from Federal Government | 8,860 | - | - | - | 8,860 |
| Due from other governments | 26,716 | - | - | - | 26,716 |
| Due from other funds | 20,898 | - | - | - | 20,898 |
| Prepaid items | 53,192 | - | - | 445 | 53,637 |
| Total assets | $4,886,544 | $253,293 | $37,279 | $2,509,643 | $7,686,759 |
| Liabilities and Fund Balance | | | | | |
| Liabilities: | | | | | |
| Accounts payable | $104,095 | $66,409 | $ - | $28,062 | $198,566 |
| Salaries and taxes payable | 1,212,828 | 2,086 | - | - | 1,214,914 |
| Claims payable | 227,882 | - | - | - | 227,882 |
| Due to EdisonLearning, Inc. | 187,000 | - | - | - | 187,000 |
| Due to other funds | - | - | - | 20,898 | 20,898 |
| Unearned revenue | 3,172 | 5,972 | 259 | - | 9,403 |
| Total liabilities | 1,734,977 | 74,467 | 259 | 48,960 | 1,858,663 |
| Fund balance: | | | | | |
| Nonspendable - prepaid items | 53,192 | - | - | 445 | 53,637 |
| Restricted for regulation | 124,665 | - | - | - | 124,665 |
| Restricted for food service | - | 178,826 | - | - | 178,826 |
| Restricted for community service | - | - | 37,020 | - | 37,020 |
| Restricted for capital and debt service | - | - | - | 2,208,164 | 2,208,164 |
| Assigned | - | - | - | 252,074 | 252,074 |
| Unassigned | 2,973,710 | - | - | - | 2,973,710 |
| Total fund balance | 3,151,567 | 178,826 | 37,020 | 2,460,683 | 5,828,096 |
| Total liabilities and fund balance | $4,886,544 | $253,293 | $37,279 | $2,509,643 | $7,686,759 |

| | |
|---|---|
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Fund balance reported above | $5,828,096 |
| Capital assets and deferred outflows of resources used in governmental activities are not current financial resources and therefore are not reported in the funds: | |
| Capital assets | 14,878,235 |
| Deferred outflows of resources | 16,747,134 |
| Long-term liabilities and deferred inflows of resources are not due and payable in the current period and therefore are not reported in the funds: | |
| Bonds payable | (19,369,831) |
| Accrued interest payable | (154,563) |
| Net pension liability | (11,629,733) |
| Compensated absences | (68,794) |
| Other postemployment benefits | (496,741) |
| Deferred inflows of resources | (16,851,814) |
| Net position of governmental activities (Statement 1) | ($11,118,011) |

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, 2019

| | General Fund | Food Service | Community Service | Tischer Creek | Totals |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Local sources | $205,111 | $188,181 | $ - | $1,894,746 | $2,288,038 |
| State sources | 19,531,107 | 35,937 | 920 | - | 19,567,964 |
| Federal sources | 614,002 | 381,336 | - | - | 995,338 |
| Investment income | 683 | - | - | 34,605 | 35,288 |
| Total revenues | 20,350,903 | 605,454 | 920 | 1,929,351 | 22,886,628 |
| Expenditures: | | | | | |
| Current: | | | | | |
| District support services | 2,110,385 | - | - | - | 2,110,385 |
| Regular instruction | 5,081,898 | - | - | - | 5,081,898 |
| Special education | 7,035,944 | - | - | - | 7,035,944 |
| Community education and services | - | - | (49) | - | (49) |
| Instructional support services | 224,317 | - | - | - | 224,317 |
| Pupil support services | 2,207,050 | 650,296 | - | - | 2,857,346 |
| Site, building and equipment | 2,743,214 | - | - | 291,420 | 3,034,634 |
| Fiscal and other fixed costs | 124,878 | - | - | - | 124,878 |
| Capital outlay | 32,908 | 16,138 | - | 1,764,214 | 1,813,260 |
| Debt service: | | | | | |
| Principal | - | - | - | 16,670,000 | 16,670,000 |
| Interest | - | - | - | 940,200 | 940,200 |
| Issuance costs and fees | - | - | - | 1,048,536 | 1,048,536 |
| Total expenditures | 19,560,594 | 666,434 | (49) | 20,714,370 | 40,941,349 |
| Revenues over (under) expenditures | 790,309 | (60,980) | 969 | (18,785,019) | (18,054,721) |
| Other financing sources (uses): | | | | | |
| Bonds issued | - | - | - | 19,115,000 | 19,115,000 |
| Bond premium | - | - | - | 260,623 | 260,623 |
| Transfers in | 74,764 | - | - | - | 74,764 |
| Transfers out | - | - | - | (74,764) | (74,764) |
| Total other financing sources (uses) | 74,764 | 0 | 0 | 19,300,859 | 19,375,623 |
| Net change in fund balance | 865,073 | (60,980) | 969 | 515,840 | 1,320,902 |
| Fund balance - beginning | 2,286,494 | 239,806 | 36,051 | 1,944,843 | 4,507,194 |
| Fund balance - ending | $3,151,567 | $178,826 | $37,020 | $2,460,683 | $5,828,096 |

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

| | |
|---|---|
| Net change in fund balance reported above | $1,320,902 |
| 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 | 1,778,660 |
| Depreciation | (396,264) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds: | |
| Bonds issued, including bond premium | (19,375,623) |
| Repayment of principal | 16,670,000 |
| Call premium paid is amortized as interest expense in the statement of activities | 326,400 |
| 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 and call premiums | (18,600) |
| Change in accrued interest | 4,274 |
| Change in compensated absences | (137) |
| Change in other post employment benefits payable | (496,741) |
| Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities | 2,268,396 |
| Change in net position of governmental activities (Statement 2) | $2,081,267 |

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, Innovative Quality Schools 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 Innovative Quality Schools.

### B. SCHOOL-WIDE 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.

### 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 2018 bond documents.

### I. RECEIVABLES

Receivables represent amounts receivable from other governments, individuals, firms, and corporations for goods and services furnished by the School. An allowance of $11,384 has been recorded in the Community Service Fund, which is equal to the Fund's receivable balance. No substantial losses are anticipated from other receivable balances.

### 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 the Public Employees Retirement Association (PERA) 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 employer 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 net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The School has two items that qualify for reporting in this category. They are deferred outflows of resources related to pensions and deferred outflows of resources related to a debt refunding transaction. Both amounts are reported in the school-wide Statement of Net Position.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The School has one item that qualifies for reporting in this category. It is the pension related deferred inflows of resources reported in the school-wide Statement of Net Position.

### O. 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.

### P. LONG-TERM OBLIGATIONS

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. 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.

## Q. 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.

## R. MINIMUM FUND BALANCE POLICY

The School's board has formally adopted a fund balance policy for the General Fund. The policy establishes a minimum fund balance for the General Fund equal to 10% of the annual budgeted expenditures.

At June 30, 2019, the targeted minimum unassigned fund balance for the General Fund was $2,042,921. Actual unassigned fund balance in the General Fund was $2,973,710.

## S. 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.

### T. 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.

### U. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The School does not have any significant fair value measurements as of June 30, 2019.

## 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 of a "government entity" 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. The Building Company does not meet the definition of a government entity and therefore, is not subject to the collateral requirements.

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, 2019, the bank balance of the School's deposits, excluding amounts held by the Building Company, was $2,770,523, 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, 2019, all of the School’s investments are in the First American Government Obligation Fund at U.S. Bank.

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 | U.S. Bank Investments | Total |
|---|---|---|---|
| Statement 3 - Governmental Funds: | | | |
| Cash | $2,856,264 | $ - | $2,856,264 |
| Cash and investments held by trustee | - | 2,208,164 | 2,208,164 |
| Total | $2,856,264 | $2,208,164 | $5,064,428 |

The investments are held in a First American Government Obligation Fund which has an S&P rating of AAAm. The fund utilizes the amortized cost method of valuation to transact a $1.00 share price. The securities held by the funds are valued on the basis of amortized cost. Shares may be redeemed without penalty on any business day.

## Note 3 INTERFUND ACTIVITY

As of June 30, 2019, the School's due to/from other funds consisted of $20,898 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 $74,764 to help fund student activities.

## Note 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | $1,109,061 | $1,664,887 | $ - | $2,773,948 |
| Construction in progress | - | 62,540 | - | 62,540 |
| Total capital assets, not being depreciated | 1,109,061 | 1,727,427 | 0 | 2,836,488 |
| Capital assets, being depreciated: | | | | |
| Buildings | 14,901,307 | 36,787 | - | 14,938,094 |
| Furniture and fixtures | 217,137 | - | - | 217,137 |
| Equipment | 41,933 | 14,446 | - | 56,379 |
| Total capital assets, being depreciated | 15,160,377 | 51,233 | 0 | 15,211,610 |
| Less accumulated depreciation for: | | | | |
| Buildings | 2,570,064 | 388,749 | - | 2,958,813 |
| Furniture and fixtures | 182,380 | 2,913 | - | 185,293 |
| Equipment | 21,155 | 4,602 | - | 25,757 |
| Total accumulated depreciation | 2,773,599 | 396,264 | 0 | 3,169,863 |
| Total capital assets being depreciated - net | 12,386,778 | (345,031) | - | 12,041,747 |
| Governmental activities capital assets - net | $13,495,839 | $1,382,396 | $0 | $14,878,235 |

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 | $391,662 |
| District support services | 1,500 |
| Pupil support services | 3,102 |
| Total depreciation expense - governmental activities | $396,264 |

## 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 state statute and can only be modified by the state legislature. 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.

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of

Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated Plan members is 1.2% for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated Plan members is 1.7% for all years 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.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

## C. CONTRIBUTIONS

Employee and employer contribution rates are established by Minnesota Statutes. For the year ended June 30, 2019, the TRA contribution rate was 7.5% for employees and 7.71% for employers. For the year ended June 30, 2018, the TRA contribution rate was 7.5% for both employees and employers. The PERA contribution rate was 6.5% for employees and 7.5% for employers for the years ended June 30, 2019 and 2018, respectively.

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, 2019 | $583,802 | $233,577 |
| June 30, 2018 | 585,762 | 252,040 |

## D. NET PENSION LIABILITY AND PENSION EXPENSE

The net pension liability reported at June 30, 2019 was measured as of June 30, 2018. 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, 2017 through June 30, 2018, 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, 2019 are as follows:

| | TRA | PERA | Total |
|---|---|---|---|
| Net pension liability | $8,783,819 | $2,845,914 | $11,629,733 |
| Proportionate share of net pension liability: | | | |
| Measurement date | 0.1398% | 0.0513% | |
| Prior measurement date | 0.1319% | 0.0464% | |
| Pension expense | ($3,011,285) | $1,005,977 | ($2,005,308) |

The pension expense related to TRA includes recognition of $576,026 as a decrease to pension expense (and grant revenue) for the support provided by direct aid. The pension expense related to PERA includes recognition of $21,735 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 $8,783,819, $824,791 and $9,608,610, respectively.

The net pension liability related to PERA reflected a reduction due to direct aid in the amount of $16,000,000 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 $2,845,914, $93,205 and $2,939,119, respectively.

### E. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience: | | |
| TRA | $113,868 | $176,526 |
| PERA | 75,326 | - |
| Difference between projected and actual investment earnings: | | |
| TRA | - | 681,183 |
| PERA | - | 654,643 |
| Changes in actuarial assumptions: | | |
| TRA | 11,260,619 | 14,976,408 |
| PERA | - | 319,768 |
| Changes in proportion: | | |
| TRA | 1,525,444 | 43,286 |
| PERA | 2,173,957 | - |
| Contributions paid subsequent to the measurement date: | | |
| TRA | 583,802 | - |
| PERA | 233,577 | - |
| Total | $15,966,593 | $16,851,814 |

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, 2020. 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 |
| 2020 | $1,318,496 | $734,223 | $2,052,719 |
| 2021 | 779,058 | 734,225 | 1,513,283 |
| 2022 | 326,052 | (134,177) | 191,875 |
| 2023 | (3,151,334) | (59,399) | (3,210,733) |
| 2024 | (2,249,745) | - | (2,249,745) |
| Thereafter | - | - | - |

## F. ACTUARIAL ASSUMPTIONS

TRA

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

| **Actuarial Information** | |
|---|---|
| Measurement date | June 30, 2018 |
| Valuation date | July 1, 2018 |
| Experience study | June 5, 2015 and November 6, 2017 (economic assumptions) |
| Actuarial cost method | Entry Age Normal |
| Actuarial assumptions: | |
| Investment rate of return | 7.50% |
| Price inflation | 2.50% |
| Wage growth rate | 2.85% for 10 years and 3.25% to 9.25% thereafter |
| Projected salary increase | 2.85 to 8.85% for 10 years and 3.25 to 9.25% thereafter |
| Cost of living adjustment | 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually |
| 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 2018 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 2017 valuation:

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.

- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

PERA
The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation | 2.50% per year |
| Salary growth | 3.25% per year after 26 years of service |
| Investment rate of return | 7.50% |

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.5% for the General Employees Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25% after one year of service to 3.25% after 26 years of service.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2018:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

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 | 36% | 5.10% |
| International stocks | 17% | 5.30% |
| Bonds | 25% | 5.90% |
| Alternative assets | 20% | 0.75% |
| Unallocated cash | 2% | 0.50% |
| Total | 100% | |

## G. DISCOUNT RATE

TRA
The discount rate used to measure the total pension liability was 7.50%. This is an increase from the discount rate at the prior measurement date of 5.12%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2018 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 not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

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 (6.50% for TRA and PERA) and one percent higher (8.50% for TRA and PERA).

| | 1% Decrease | Current | 1% Increase |
|---|---|---|---|
| TRA | $13,935,012 | $8,783,819 | $4,528,515 |
| PERA | 4,624,974 | 2,845,914 | 1,377,350 |

### 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 POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

### A. PLAN DESCRIPTION

In addition to providing the pension benefits described in Note 5, the School provides post-employment health care benefits, as defined in paragraph B, through its group health insurance plan (the plan). The plan is a single-employer defined benefit OPEB plan administered by the School. The authority to provide these benefits is established in Minnesota Statutes Sections 471.61 Subd. 2a and 299A.465. The benefits, benefit levels, employee contributions and employer contributions are governed by the School and can be amended by the School through its personnel manual and collective bargaining agreements with employee groups. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

### B. BENEFITS PROVIDED

At retirement, employees of the School receiving a retirement or disability benefit, or eligible to receive a benefit, from a Minnesota public pension plan may continue to participate in the School's group insurance plan through COBRA. Vesting requirements of three years if hired before July 1, 2010 or five years if hired on or after July 1, 2010 for employees participating in the PERA retirement plan, and of three years for employees participating in the TRA retirement plan, generally apply.

All health care coverage is provided through the School's group health insurance plans. The retiree is required to pay 100% of their premium cost for the School-sponsored group health insurance plan in which they participate. The premium is a blended rate determined on the entire active and retiree population. Since the projected claims costs for retirees exceed the blended premium paid by retirees, the retirees are receiving an implicit rate subsidy (benefit). The coverage levels are the same as those afforded to active employees. Upon a retiree reaching age 65, Medicare becomes the primary insurer and the School's plan becomes secondary.

## C. PARTICIPANTS

As of the June 30, 2018 actuarial valuation, participants of the plan consisted of:

| | |
|---|---|
| Active employees electing coverage | 179 |
| Retirees electing coverage | - |
| Total participants | 179 |

## D. TOTAL OPEB LIABILITY AND CHANGES IN TOTAL OPEB LIABILITY

The School's total OPEB liability of $496,741 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date. Changes in the total OPEB liability during 2019 were:

| | |
|---|---|
| Balance - beginning of year | $412,700 |
| Changes for the year: | |
| Service cost | 69,658 |
| Interest | 17,172 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | - |
| Changes in assumptions | (2,789) |
| Benefit payments | - |
| Net changes | 84,041 |
| Balance - end of year | $496,741 |

Changes in assumptions reflect a change in the discount rate from 3.56% as of June 30, 2017 to 3.62% as of June 30, 2018.

### E. ACTUARIAL ASSUMPTIONS AND OTHER INPUTS

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases | 2.50% |
| Discount rate | 3.62% |
| Investment rate of return | 3.62% |
| Healthcare cost trend rates | 6.90% for 2019; 6.40% for 2020;<br>6.00% for 2021; 5.60% for 2022;<br>transition to ultimate rate of 4.00% for 2076 |

Since the plan is funded on a pay-as-you-go basis, both the discount rate and the investment rate of return was based on the Fidelity 20 year Municipal GO AA Index as of June 30, 2018.

Mortality rates for teachers were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments. Mortality rates for non-teachers were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2017, and other adjustments.

100% of current retirees are assumed to continue coverage in their current plan until Medicare eligible (age 65) and then discontinue coverage. 50% of future retirees are assumed to elect coverage at retirement, continue coverage until Medicare eligible (age 65) and then discontinue coverage.

For retirees, actual disability status was used. 100% of current and future retirees under age 65 are assumed to become Medicare eligible at the later of age 65 or retirement. Actual Medicare status was used for retired members.

### F. SENSITIVITY OF THE TOTAL OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the total OPEB liability of the School, as well as what the School's total OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.62%) or 1% higher (4.62%) than the current discount rate:

| | 1% Decrease (2.62%) | Discount Rate (3.62%) | 1% Increase (4.62%) |
|---|---|---|---|
| Total OPEB liability | $544,411 | $496,741 | $451,754 |

### G. SENSITIVITY OF THE TOTAL OPEB LIABILITY TO CHANGES IN THE HEALTHCARE COST TREND RATES

The following presents the total OPEB liability of the School, as well as what the School's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (5.9% decreasing to 3.0%) or 1% higher (7.9% decreasing to 5.0%) than the current healthcare cost trend rates:

| | 1% Decrease (5.9% decreasing to 3.0%) | Healthcare Cost Trend Rates (6.9% decreasing to 4.0%) | 1% Increase (7.9% decreasing to 5.0%) |
|---|---|---|---|
| Total OPEB liability | $420,274 | $496,741 | $589,895 |

### H. OPEB EXPENSE AND DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended June 30, 2019, the School recognized $84,041of OPEB expense.

Deferred outflows and inflows of resources related to OPEB are immaterial as of June 30, 2019, and therefore, have not been recorded in these financial statements.

## Note 7 LONG-TERM LIABILITIES

| | Balance June 30, 2019 |
|---|---|
| Building Company | |
| $18,655,000 Lease Revenue Refunding Bonds Series 2018A; interest rates from 3.125% to 5.00%; final maturity date November 1, 2048. | $18,655,000 |
| $460,000 Taxable Lease Revenue Refunding Bonds Series 2018B; interest rate of 4.75%; final maturity date November 1, 2020. | 460,000 |
| Unamortized bond premium | 254,831 |
| Total | $19,369,831 |

Changes in long-term liabilities are as follows:

| | June 30, 2018 | Additions | Deductions | June 30, 2019 | Due in One Year |
|---|---|---|---|---|---|
| Bonds payable | $16,670,000 | $19,115,000 | ($16,670,000) | $19,115,000 | $305,000 |
| Unamortized bond discount | (478,533) | - | 478,533 | - | - |
| Unamortized bond premium | - | 260,623 | (5,792) | 254,831 | - |
| Compensated absences payable | 68,657 | 77,603 | (77,466) | 68,794 | 6,880 |
| Total | $16,260,124 | $19,453,226 | ($16,274,725) | $19,438,625 | $311,880 |

During fiscal year 2011, the Building Company obtained a construction loan from series 2010 lease revenue bond proceeds sold by the HRA of Duluth, Minnesota to finance the site acquisition, construction, and equipping of buildings owned by the Building Company and leased to Duluth Public Schools Academy.

On October 31, 2018, the Building Company obtained a $19,115,000 loan from lease revenue bond proceeds sold by the HRA of Duluth, Minnesota. $16,320,000 of proceeds were used to refund the outstanding principal due on the Lease Revenue Bonds, Series 2010A which contained interest rates ranging between 5.00% and 5.875%. The remaining proceeds were used for land acquisition and site improvements upon land adjacent to the North Star Campus, and issuance costs.

The refunding portion of the transaction will reduce debt service payments related to the refunded bonds by $1,132,719, with a net present value (economic gain) of $354,094.

The bond proceeds were placed in an escrow account controlled by U.S. Bank under the terms of a trust agreement between the HRA of Duluth, Minnesota and U.S. Bank for the benefit of the Building Company. The resulting loan is payable in semi-annual installments of principal and interest through November 1, 2048. The loan 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.

<u>Deferred Outflows of Resources – Debt Refunding</u>
On the Statement of Net Position, an amount is presented as deferred outflow of resources relating to the debt refunding transaction which occurred during fiscal year 2019. The unamortized bond discount of $478,533 on the 2010A bonds at the time of the refunding, combined with a call premium of $326,400 paid to refund the bonds, is being amortized as interest expense on the Statement of Activities at a rate of $36,588 per year through November 1, 2040.

Annual debt service requirements to maturity are as follows:

| Fiscal | Bonds Payable | |
|---|---|---|
| Year | Principal | Interest |
| 2020 | $305,000 | $915,013 |
| 2021 | 320,000 | 901,509 |
| 2022 | 330,000 | 889,681 |
| 2023 | 345,000 | 877,859 |
| 2024 | 355,000 | 864,728 |
| 2025 | 370,000 | 849,988 |
| 2026 | 385,000 | 833,944 |
| 2027 | 405,000 | 817,156 |
| 2028 | 420,000 | 799,625 |
| 2029 | 440,000 | 781,350 |
| 2030 | 460,000 | 760,500 |
| 2031 | 485,000 | 736,875 |
| 2032 | 510,000 | 712,000 |
| 2033 | 535,000 | 685,875 |
| 2034 | 565,000 | 658,375 |
| 2035 | 590,000 | 629,500 |
| 2036 | 620,000 | 599,250 |
| 2037 | 655,000 | 567,375 |
| 2038 | 685,000 | 533,875 |
| 2039 | 720,000 | 498,750 |
| 2040 | 760,000 | 461,750 |
| 2041 | 800,000 | 422,750 |
| 2042 | 840,000 | 381,750 |
| 2043 | 880,000 | 338,750 |
| 2044 | 930,000 | 293,500 |
| 2045 | 975,000 | 245,875 |
| 2046 | 1,025,000 | 195,875 |
| 2047 | 1,080,000 | 143,250 |
| 2048 | 1,135,000 | 87,875 |
| 2049 | 1,190,000 | 29,750 |
| Totals | $19,115,000 | $17,514,353 |

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

## Note 8 COMMITMENTS AND CONTINGENCIES

### A. LITIGATION

Existing and pending lawsuits, claims, and other actions in which the School is a defendant are either covered by insurance; of an immaterial amount; or, in the judgment of the School's management, remotely recoverable by plaintiffs.

### B. 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.

### C. 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, 2019 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, 2019, the Building Company had commitments of $588,264 for construction contracts.

### D. 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, 2020. Rent expense under this lease was $27,540 for the year ended June 30, 2019. Future minimum payments under the terms of this lease are as follows:

| Year Ending June 30 | Amount |
|---|---|
| 2020 | $27,900 |

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 June 30, 2049. 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 7). Rent expense under this lease was $1,839,621 for the year ended June 30, 2019. Future annual base rents shall be subject to confirmation by mutual written agreement of the School and Building Company. Future minimum payments under the terms of this lease are as follows:

| Year Ending June 30 | Amount |
|---|---|
| 2020 | $1,788,163 |
| 2021 | 1,729,818 |
| 2022 | 1,729,818 |
| 2023 | 1,729,818 |
| 2024 | 1,729,818 |
| 2025-2029 | 8,649,090 |
| 2030-2034 | 8,649,090 |
| 2035-2039 | 8,649,090 |
| 2040-2044 | 8,649,090 |
| 2045-2049 | 8,649,090 |
| Total | $51,952,885 |

The School leases modular office space at Raleigh Edison Charter School from the Building Company. The agreement term is on a year-to-year basis for twelve month extension terms unless either party gives notice of non-renewal. The current agreement term expires June 30, 2020. Rent expense under the lease was $55,125 for the year ended June 30, 2019. 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 9 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 6.50% minimum and have maturity dates of January 31, 2020. 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 U.S. 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, 2019:N

| | Ending Balance June 30, 2018 | Total Advances | Total Repayments | Ending Balance June 30, 2019 |
|---|---|---|---|---|
| Line of credit | $ - | $ - | $ - | $ - |
| Line of credit - health insurance | - | 1,200,000 | (1,200,000) | - |
| Total | $0 | $1,200,000 | ($1,200,000) | $0 |

## Note 10 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 2019, the School's maximum out-of-pocket was $1,986,000 and excess amounts of reimbursable claims are covered 100% by insurance. The School obtained a line of credit for short-term funding (see Note 9).

The claims liability reported at June 30, 2019 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 2019, 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, 2019 and June 30, 2018, is as follows:

| | 2019 | 2018 |
|---|---|---|
| Beginning balance, claims payable | $331,997 | $162,179 |
| Payments on prior year claims | (331,997) | (162,179) |
| Incurred claims and admin fees expenses | 2,561,174 | 2,991,414 |
| Payments on current year claims | (2,333,292) | (2,659,417) |
| Claims payable | $227,882 | $331,997 |
| Total reimbursable claims | $2,325,293 | $2,148,373 |
| Less School maximum out-of-pocket and healthcare reimbursements | (1,986,000) | (1,691,390) |
| Insurance claims liability | 339,293 | 456,983 |
| Less insurance paid | (253,179) | (92,384) |
| Reimbursement receivable (included in accounts receivable) | $86,114 | $364,599 |

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# REQUIRED SUPPLEMENTARY INFORMATION

**DULUTH PUBLIC SCHOOLS ACADEMY**
**CHARTER SCHOOL NO. 4020** **Statement 5**
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended June 30, 2019
With Comparative Actual Amounts For The Year Ended June 30, 2018

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Budgeted Amounts | | Actual | Variance with Final Budget - | 2018 Actual |
| | Original | Final | Amounts | Over (Under) | Amounts |
| Revenues: | | | | | |
| Local sources | $259,559 | $208,340 | $205,111 | ($3,229) | $279,681 |
| State sources | 19,887,911 | 19,741,801 | 19,531,107 | (210,694) | 19,663,023 |
| Federal sources | 540,887 | 575,027 | 614,002 | 38,975 | 585,868 |
| Investment income | 100 | 500 | 683 | 183 | 251 |
| Total revenues | 20,688,457 | 20,525,668 | 20,350,903 | (174,765) | 20,528,823 |
| Expenditures: | | | | | |
| District support services | 2,182,912 | 2,212,140 | 2,110,385 | (101,755) | 2,462,739 |
| Regular instruction | 5,505,669 | 5,514,130 | 5,081,898 | (432,232) | 5,371,645 |
| Special education | 7,618,209 | 7,426,084 | 7,035,944 | (390,140) | 7,627,743 |
| Instructional support services | 137,030 | 130,324 | 224,317 | 93,993 | 240,539 |
| Pupil support services | 2,041,388 | 2,230,878 | 2,207,050 | (23,828) | 2,023,874 |
| Site, building and equipment | 2,779,194 | 2,769,412 | 2,743,214 | (26,198) | 2,832,919 |
| Fiscal and other fixed costs | 163,000 | 119,000 | 124,878 | 5,878 | 125,905 |
| Capital outlay | 28,000 | 27,250 | 32,908 | 5,658 | 157,012 |
| Total expenditures | 20,455,402 | 20,429,218 | 19,560,594 | (868,624) | 20,842,376 |
| Revenues over (under) expenditures | 233,055 | 96,450 | 790,309 | 693,859 | (313,553) |
| Other financing sources: | | | | | |
| Transfers in | - | - | 74,764 | 74,764 | 75,000 |
| Net change in fund balance | $233,055 | $96,450 | 865,073 | $768,623 | (238,553) |
| Fund balance - beginning | | | 2,286,494 | | 2,525,047 |
| Fund balance - ending | | | $3,151,567 | | $2,286,494 |

**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, 2019
With Comparative Actual Amounts For The Year Ended June 30, 2018

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Budgeted Amounts | | | Variance with | 2018 |
| | Original | Final | Actual Amounts | Final Budget - Over (Under) | Actual Amounts |
| Revenues: | | | | | |
| Local sources | $176,000 | $178,000 | $188,181 | $10,181 | $202,751 |
| State sources | 35,020 | 35,020 | 35,937 | 917 | 35,962 |
| Federal sources | 349,000 | 374,000 | 381,336 | 7,336 | 363,790 |
| Total revenues | 560,020 | 587,020 | 605,454 | 18,434 | 602,503 |
| Expenditures: | | | | | |
| Pupil support services | 635,337 | 697,537 | 650,296 | (47,241) | 629,920 |
| Capital outlay | 8,000 | 35,000 | 16,138 | (18,862) | 8,710 |
| Total expenditures | 643,337 | 732,537 | 666,434 | (66,103) | 638,630 |
| Revenues over (under) expenditures | ($83,317) | ($145,517) | (60,980) | $84,537 | (36,127) |
| Fund balance - beginning | | | 239,806 | | 275,933 |
| Fund balance - ending | | | $178,826 | | $239,806 |

**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, 2019
With Comparative Actual Amounts For The Year Ended June 30, 2018

| | 2019 | | | | |
|---|---|---|---|---|---|
| | Budgeted Amounts | | Actual | Variance with Final Budget - | 2018 Actual |
| | Original | Final | Amounts | Over (Under) | Amounts |
| Revenues: | | | | | |
| Local sources | $ - | $ - | $ - | $ - | $87,372 |
| State sources | - | - | 920 | 920 | 2,130 |
| Total revenues | 0 | 0 | 920 | 920 | 89,502 |
| Expenditures: | | | | | |
| Community education and services | - | - | (49) | (49) | 85,566 |
| Revenues over expenditures | $0 | $0 | 969 | $969 | 3,936 |
| Fund balance - beginning | | | 36,051 | | 32,115 |
| Fund balance - ending | | | $37,020 | | $36,051 |

**DULUTH PUBLIC SCHOOLS ACADEMY**
**CHARTER SCHOOL NO. 4020** **Statement 8**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS
For The Last Ten Years

| | 2019 |
|---|---|
| Total OPEB liability: | |
| Service cost | $69,658 |
| Interest | 17,172 |
| Changes of benefit terms | - |
| Differences between expected and actual experience | - |
| Changes in assumptions | (2,789) |
| Benefit payments | - |
| Net change in total OPEB liability | 84,041 |
| Total OPEB liability - beginning | 412,700 |
| Total OPEB liability - ending | $496,741 |
| Covered-employee payroll | $9,133,822 |
| Total OPEB liability as a percentage of covered-employee payroll | 5.4% |

The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2019 and is intended to show a ten year trend. Additional years will be added as they become available.

See accompanying notes to the required supplementary information.

**DULUTH PUBLIC SCHOOLS ACADEMY**
**CHARTER SCHOOL NO. 4020** **Statement 9**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
For The Year Ended June 30, 2019

| 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 | 7,234,653 | 399.1% | 51.6% |
| June 30, 2018 | June 30, 2019 | 0.1398% | 8,783,819 | 824,791 | 9,608,610 | 7,810,160 | 123.0% | 78.1% |
| **PERA - General Employees Retirement Fund** | | | | | | | | |
| June 30, 2017 | June 30, 2018 | 0.0464% | $2,962,145 | $37,223 | $2,999,368 | $3,207,040 | 93.5% | 75.9% |
| June 30, 2018 | June 30, 2019 | 0.0513% | 2,845,914 | 93,205 | 2,939,119 | 3,360,533 | 87.5% | 79.5% |

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.

See accompanying notes to the required supplementary information.

**DULUTH PUBLIC SCHOOLS ACADEMY**
**CHARTER SCHOOL NO. 4020** **Statement 10**
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
For The Year Ended June 30, 2019

| 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 | 7.50% |
| June 30, 2016 | 492,385 | 492,385 | - | 6,565,133 | 7.50% |
| June 30, 2017 | 542,599 | 542,599 | - | 7,234,653 | 7.50% |
| June 30, 2018 | 585,762 | 585,762 | - | 7,810,160 | 7.50% |
| June 30, 2019 | 583,802 | 583,802 | - | 7,572,010 | 7.71% |
| **PERA - General Employees Retirement Fund** | | | | | |
| June 30, 2017 | $240,528 | $240,528 | $ - | $3,207,040 | 7.50% |
| June 30, 2018 | 252,040 | 252,040 | - | 3,360,533 | 7.50% |
| June 30, 2019 | 233,577 | 233,577 | - | 3,114,360 | 7.50% |

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.

See accompanying notes to the required supplementary information.

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## 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 OPEB INFORMATION

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits. Assumption changes reflect a change in the discount rate from 3.56% as of June 30, 2017 to 3.62% as of June 30, 2018.

## Note C PENSION INFORMATION

### TEACHERS RETIREMENT ASSOCIATION

*2018 Changes*
Changes in actuarial assumptions:

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

*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**

*2018 Changes*
Changes in actuarial assumptions:
- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

*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.

*2016 Changes*
Changes in actuarial assumptions:
- The assumed post-retirement benefit increase rate was changed from 1% per year through 2035 and 2.5% per year thereafter to 1% per year for all future years.
- The assumed investment rate of return and discount rate was reduced from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. Assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

*2015 Changes*
None

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, 2019

| | Audit * | UFARS | Variance |
|---|---|---|---|
| **01 GENERAL FUND** | | | |
| Total Revenue * | $20,425,667 | $20,425,670 | ($3) |
| Total Expenditures | 19,560,594 | 19,560,602 | (8) |
| *Non-Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | 53,192 | 53,192 | - |
| *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 | - | - | - |
| 4.48 Achievement and Integration | - | - | - |
| 4.49 Safe Schools Crime - Crime Levy | - | - | - |
| 4.50 Pre-Kindgergarten | - | - | - |
| 4.51 QZAB Payments | - | - | - |
| 4.52 OPEB Liab Not In Trust | - | - | - |
| 4.53 Unfunded Sev & Retiremt Levy | - | - | - |
| 4.59 Basic Skill Extended Time | - | - | - |
| 4.67 LTFM | - | - | - |
| 4.72 Medical Assistance | 124,665 | 124,665 | - |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | - | - | - |
| 4.75 Title VII Impact Aid | | | |
| 4.76 Payments in Lieu of Taxes | | | |
| *Committed:* | | | |
| 4.18 Committed For Separation | - | - | - |
| 4.61 Committed Fund Balance | - | - | - |
| *Assigned:* | | | |
| 4.62 Assigned Fund Balance | - | - | - |
| *Unassigned:* | | | |
| 4.22 Unassigned Fund Balance | 2,973,710 | 2,973,707 | 3 |
| **02 FOOD SERVICE** | | | |
| Total Revenue | $605,454 | $605,453 | $1 |
| Total Expenditures | 666,434 | 666,432 | 2 |
| *Non-Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | - | - | - |
| *Restricted/Reserve:* | | | |
| 4.52 OPEB Liab Not In Trust | - | - | - |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | 178,826 | 178,825 | 1 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | - | - | - |
| **04 COMMUNITY SERVICE** | | | |
| Total Revenue | $920 | $920 | $ - |
| Total Expenditures | (49) | (49) | - |
| *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 | 37,020 | 37,020 | - |
| *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 $74,764 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, 2019, 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 25, 2019.

**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 25, 2019

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, 2019, 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 25, 2019.

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 25, 2019

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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, 2019. Duluth Public Schools Academy’s major federal programs are identifieSd 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; and 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, 2019.

**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 a 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 a 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 25, 2019

**DULUTH PUBLIC SCHOOLS ACADEMY**
**CHARTER SCHOOL NO. 4020**
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended June 30, 2019

| 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 | $232,649 |
| Supporting Effective Instruction State Grants | 84.367 | None noted | 38,440 |
| Special Education Grants to States (IDEA, Part B) | 84.027 | None noted | 284,311 |
| Special Education Preschool Grants (IDEA Preschool) | 84.173 | None noted | 5,763 |
| Total Special Education Cluster (IDEA) | | | 290,074 |
| Received directly from federal sources: | | | |
| Indian Education Grants to Local Educational Agencies | 84.060 | None noted | 16,331 |
| Total U.S. Department of Education | | | 577,494 |
| **U.S. Department of Agriculture:** | | | |
| Passed through State of Minnesota: | | | |
| School Breakfast Program (SBP) | 10.553 | None noted | 70,283 |
| National School Lunch Program (NSLP) | 10.555 | None noted | 284,626 |
| Total Child Nutrition Cluster | | | 354,909 |
| Child and Adult Care Food Program (CACFP) | 10.558 | None noted | 26,426 |
| Total U.S. Department of Agriculture | | | 381,335 |
| **Total Federal Expenditures** | | | $958,829 |

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. Indirect Costs*

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

*Note 3. Non-Cash Assistance*

*The above schedule includes $40,604 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 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, 2019

## 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 |
|---|---|
| Title I Grants to Local Educational Agencies | 84.010 |

H. Dollar threshold used to distinguish between Type A and Type B programs: $750,000

I. Auditee qualified as a low-risk auditee __X__ Yes ____ No

**DULUTH PUBLIC SCHOOLS ACADEMY**
**CHARTER SCHOOL NO. 4020**
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2019

## 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, 2019

## FOLLOW UP ON PRIOR YEAR FINDINGS

### FINANCIAL AUDIT FINDINGS

None.

### FEDERAL AWARD FINDINGS

None.

### MINNESOTA LEGAL COMPLIANCE FINDINGS

None.

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