

**St. Paul City School
Charter School No. 4029
Minneapolis, Minnesota**

Financial Statements

June 30, 2018



**St. Paul City School
Charter School No. 4029
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**St. Paul City School
Charter School No. 4029
Board of Directors and Administration
June 30, 2018**

<u>Board of Directors</u>	<u>Position</u>
Emmanuel Donaby	Chair
Jen Bettencourt	Vice Chair
Maisee Moua	Secretary
Michael Dorner	Treasurer
Catherine Neuner	Member
Joel Martinez	Member
Tia Tanzer	Member
Rachel Robinson	Member
Erika Sanchez	Member
<u>Administration</u>	
Nancy Dana	Ex-Officio / Executive Director
Justin Tiarks	Principal

**Charter School Property Inc.
Board of Directors and Administration
June 30, 2018**

<u>Board of Directors</u>	<u>Position</u>
Walt Stull	Chair
Bryan Toft	Treasurer
Brad Linville	Secretary
Craig Kepler	Member



Independent Auditor's Report

To the Board of Directors
St. Paul City School
St. Paul, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of St. Paul City School, St. Paul, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the School'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 School'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 School'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.



Basis for Qualified Opinion on Government Type Activities and Building Company Fund

As explained in Note 8 to the financial statements, an art collection acquired by gift is not recorded in the financial statements. Accounting principles generally accepted in the United States of America require gifts of art collections held for resale to be recorded at its fair value at the date of receipt. The effects on the accompanying financial statements of the failure to record the art collection acquired by gift has not been determined.

Qualified Opinion on Government Type Activities and Building Company Fund

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion on Government Type Activities and Building Company Fund paragraph, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and the Building Company Fund of St. Paul City School as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion on the General Fund and Community Service Fund

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund and Community Service Fund of St. Paul City School, St. Paul, Minnesota, as of June 30, 2018, and the changes in financial position thereof, and the respective budgetary comparison for the General Fund and Community Service Fund 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, which follows this report letter, and the Required Supplementary 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 (GASB), 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 Matters (Continued)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information identified in the Table of Contents is the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2018, on our consideration of the School's internal control over financial reporting and 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 the School'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 the School's internal control over financial reporting and compliance.

BerganKDV Ltd.

Minneapolis, Minnesota
October 11, 2018

**St. Paul City School
Charter School No. 4029
Management's Discussion and Analysis**

This section of the School's annual financial report presents a discussion and analysis of the School's financial performance during the fiscal year ended on June 30, 2018. Please read it in conjunction with the School's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-2018 fiscal year include the following:

- Total net position at June 30, 2018, was \$(3,513,665).
- Overall General Fund revenues were \$7,165,663, as compared to \$7,284,829 of expenditures.
- The school's Fund Balance decreased by \$88,773 to \$1,204,308 in 2018 from \$1,293,081 in 2017.

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 Management's Discussion and Analysis (MD&A) this section, the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.

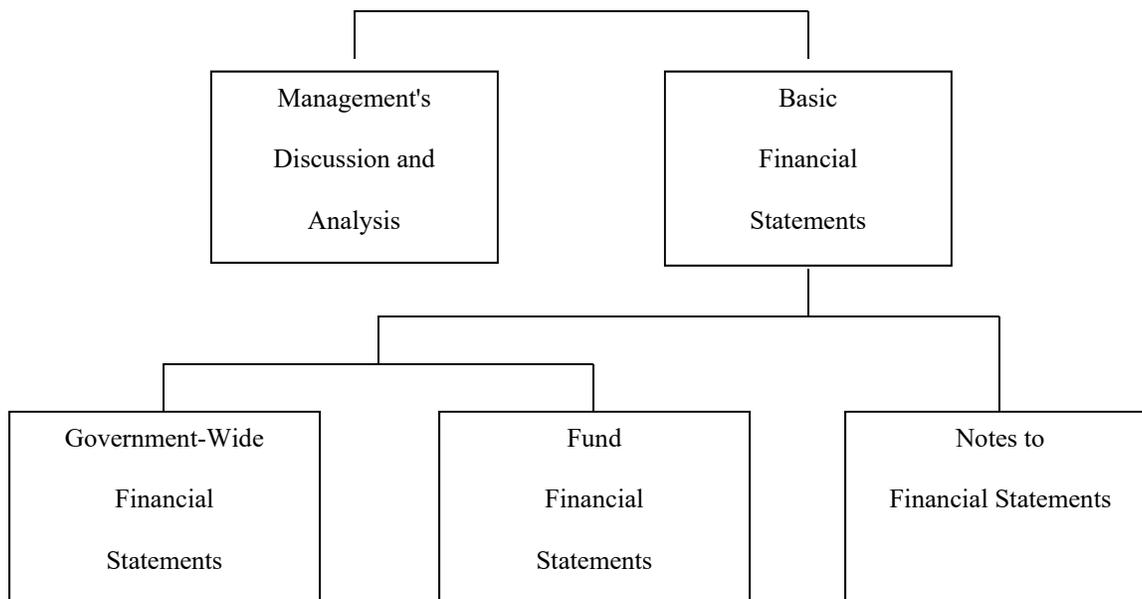
The governmental fund statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements. The diagram on the following page shows how the various parts of this annual report are arranged and relate to one another.

**St. Paul City School
Charter School No. 4029
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS

**Required Components of Annual Financial Report
Figure A-1**



The major features of the School's financial statements include the portion of the School's activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

Fund Financial Statements		
	Government-Wide Statements	Governmental Funds
Scope	Entire School	The activities of the School
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial focus.
Type of assets/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally, the assets that are expected to be used up and the liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.

**St. Paul City School
Charter School No. 4029
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS

Basic Financial Statements

The first two statements of the basic financial statements are the government-wide financial statements. They provide both short and long-term information about the School's financial status.

The next statements are the fund financial statements. These statements focus on the activities of the individual parts of the School's government. These statements provide more detail than the government-wide statements.

The next section of the basic financial statements is the notes to financial statements. The notes to financial statements explain in detail some of the data contained in those statements. After the notes, supplementary information is provided to show details about the School's individual funds.

Government-Wide Statements

The government-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, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 government-wide statements report the School's net position and how they have changed. Net position, or the difference between the School's assets and deferred outflows of resources, liabilities and deferred inflows of resources, is one way to measure the School's financial health or position.

- Over time, increases or decreases in the School's net position is an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the School, you need to consider additional nonfinancial factors such as changes in the School's credit worthiness and the condition of School's buildings and other facilities.

In the government-wide financial statements, the School's activities are shown in one category:

- **Governmental Activities** – All of the School's basic services are included here, such as School support services, regular and special education, instructional support services, pupil support services, and building and equipment expenses. State and federal aids finance most of these activities.

**St. Paul City School
Charter School No. 4029
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS

Fund Financial Statements

The fund financial statements provide more detailed information about the School's funds, focusing on its most significant or "major" funds, not the School as a whole. 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. In other words, funds are accounting devices the School uses to keep track of specific resources of funding and spending on particular programs. The School has one kind of fund:

- Governmental Funds – Most of the School's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental 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. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional reconciliations to explain the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's total net position was \$(3,513,665) and \$(2,238,270) at June 30, 2018 and 2017, respectively. (See Table A-1).

**St. Paul City School
Charter School No. 4029
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (CONTINUED)

Net Position

**Table A-1
Net Position**

	2018	2017
Assets		
Current and other assets	\$ 3,121,848	\$ 3,023,682
Capital assets (net of accumulated depreciation)	4,886,181	4,956,575
Total assets	\$ 8,008,029	\$ 7,980,257
 Deferred Outflows of Resources	 \$ 5,493,529	 \$ 7,019,403
 Liabilities		
Current liabilities	\$ 782,809	\$ 731,559
Noncurrent liabilities	14,388,961	16,377,893
Total liabilities	\$15,171,770	\$17,109,452
 Deferred Inflows of Resources	 \$ 1,843,453	 \$ 128,478
 Net Position		
Net investment in capital assets	\$ (136,187)	\$ (5,338)
Restricted for building corporation	781,102	445,955
Unrestricted	(4,158,580)	(2,678,887)
Total net position	\$ (3,513,665)	\$ (2,238,270)

**St. Paul City School
Charter School No. 4029
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS

Change in Net Position

Net position decreased by \$1,275,395 from the prior year.

Expenses remained stable and close to projections throughout the year. A summary of the revenue and expenses is presented in Table A-2

Table A-2

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2018</u>	<u>2017</u>	
Revenues			
Program revenues			
Charges for services	\$ -	\$ 1	\$ (1)
Operating grants and contributions	1,443,916	1,450,418	(6,502)
Capital grants and contributions	625,359	590,278	35,081
General revenues			
Unrestricted federal and state aid	4,967,021	4,888,927	78,094
Investment earnings	6,108	418	5,690
Other	141,259	160,893	(19,634)
Total revenues	<u>7,183,663</u>	<u>7,090,935</u>	<u>92,728</u>
Expenditures			
Administration	380,537	407,439	(26,902)
District support services	631,797	490,628	141,169
Elementary and secondary regular instruction	3,997,168	3,875,930	121,238
Special education instruction	1,268,385	1,201,924	66,461
Instructional support services	234,937	176,606	58,331
Pupil support services	933,078	969,089	(36,011)
Sites and buildings	665,918	885,372	(219,454)
Fiscal and other fixed cost programs	27,585	19,734	7,851
Community education and services	55,460	133,636	(78,176)
Interest and fiscal charges	264,193	319,818	(55,625)
Total expenditures	<u>8,459,058</u>	<u>8,480,176</u>	<u>(21,118)</u>
Change in net position	(1,275,395)	(1,389,241)	113,846
Net Position			
Beginning of year	<u>(2,238,270)</u>	<u>(849,029)</u>	<u>(1,389,241)</u>
End of year	<u>\$ (3,513,665)</u>	<u>\$ (2,238,270)</u>	<u>\$ (1,275,395)</u>

The total cost of all programs and services including interest and fiscal charges was \$8,459,058.

**St. Paul City School
Charter School No. 4029
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds as well. As the School completed the year, its governmental funds reported a combined fund balance of \$2,672,148. Of this amount, the School had a fund balance in the General Fund of \$1,204,308.

Revenues for the School's governmental funds were \$7,901,059 while total expenditures were \$7,856,122.

General Fund

The General Fund includes the primary operations of the School in providing educational services to students including pupil transportation.

In fiscal year 2018, the School generated state revenue, representing 93.1% of total revenue, local revenues generating 2.0% and federal grants made up the remaining 4.9%. Table A-3 presents a summary of General Fund revenues.

**Table A-3
General Fund Revenues**

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Local Sources			
Other local revenues	\$ 147,284	\$ 152,450	\$ (5,166)
State sources	6,666,283	6,442,738	223,545
Federal sources	<u>352,096</u>	<u>327,761</u>	<u>24,335</u>
 Total General Fund revenue	 <u>\$ 7,165,663</u>	 <u>\$ 6,922,949</u>	 <u>\$ 242,714</u>

**St. Paul City School
Charter School No. 4029
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS (CONTINUED)

Of the total expenditures, about 42% were regular instruction. Table A-4 presents a summary of General Fund expenditures.

**Table A-4
General Fund Expenditures**

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Salaries	\$ 3,961,010	\$ 3,528,920	\$ 432,090
Employee benefits	909,939	792,786	117,153
Purchased services	2,078,245	2,112,057	(33,812)
Supplies and materials	224,248	143,041	81,207
Capital expenditures	65,382	25,951	39,431
Other expenditures	<u>46,005</u>	<u>83,060</u>	<u>(37,055)</u>
 Total expenditures	 <u><u>\$ 7,284,829</u></u>	 <u><u>\$ 6,685,815</u></u>	 <u><u>\$ 599,014</u></u>

In 2018, General Fund expenditures and other financing uses exceeded revenues and other financing sources by \$88,773, decreasing the fund balance to \$1,204,308. The main reason for the fund balance decrease is an increase in general education programming to meet student need.

General Fund Budgetary Highlights

Following approval of the budget, the School can revise the annual operating budget mid-year. These budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants and reinstating unexpended funds being carried over from the prior fiscal year.
- Legislation passed subsequent to budget adoption, changes necessitated by employment agreements and increases in appropriations for significant unbudgeted costs.

**St. Paul City School
Charter School No. 4029
Management's Discussion and Analysis**

CAPITAL ASSETS

By the end of 2018, the School along with the affiliated building corporation had invested \$4,886,181 in capital assets, including computers, equipment, leasehold improvements, and buildings. (see Table A-5). More detailed information about capital assets can be found in Note 4 in the financial statements.

**Table A-5
Capital Assets**

	<u>2018</u>	<u>2017</u>
Charter School Property, Inc.		
Land	\$ 160,000	\$ 160,000
Building	6,957,816	6,891,434
Furniture and equipment	119,407	150,162
St. Paul City School		
Leasehold improvements	557,578	557,578
Equipment	239,610	277,502
Less accumulated depreciation	<u>(3,148,230)</u>	<u>(3,080,101)</u>
 Total	 <u>\$ 4,886,181</u>	 <u>\$ 4,956,575</u>

**St. Paul City School
Charter School No. 4029
Management's Discussion and Analysis**

LONG TERM LIABILITIES

The St. Paul City School Affiliated Building Company which is a blended component unit of the School issued debt to finance the purchase of a building (see Table A-6). More detailed information about this debt can be found in Note 5 in the financial statements.

**Table A-6
Long Term Liabilities**

	2018	2017
Charter School Property, Inc.		
Lease revenue bonds	\$5,515,000	\$5,650,000
St. Paul City School		
Lease payable	62,606	-
 Total	 \$ 5,577,606	 \$ 5,650,000
 Long-term liabilities		
Due within one year	\$ 201,609	\$ 135,000
Due in more than one year	5,375,997	5,515,000
 Total	 \$ 5,577,606	 \$ 5,650,000

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The School will strive to meet its commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

The School has analyzed this data and continues its recruitment efforts to increase enrollment in order to maintain expenditure levels and remain operable in view of increased competition.

**St. Paul City School
Charter School No. 4029
Management's Discussion and Analysis**

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our constituents, state oversight agencies, lenders, customers, legislative leaders, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, St. Paul City School, 260 Edmund Avenue, St. Paul MN 55103.

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BASIC FINANCIAL STATEMENTS

**St. Paul City School
Charter School No. 4029
Statement of Net Position
June 30, 2018**

	Governmental Activities
Assets	
Cash and investments	\$ 1,347,086
Cash with fiscal agent	1,069,022
Accounts receivable	26,390
Due from Department of Education	448,358
Due from Federal Government through Department of Education	218,910
Prepaid items	12,082
Capital assets	
Land	160,000
Buildings	6,957,816
Leasehold improvements	557,578
Equipment	359,017
Less accumulated depreciation	<u>(3,148,230)</u>
Total assets	<u>8,008,029</u>
 Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	<u>5,493,529</u>
 Total assets and deferred outflows of resources	 <u><u>\$ 13,501,558</u></u>
 Liabilities	
Accounts payable	\$ 58,695
Salaries payable	391,005
Interest payable	131,500
Bond principal payable	
Payable within one year	190,000
Payable after one year	5,325,000
Capital lease payable	
Payable within one year	11,609
Payable after one year	50,997
Net pension liability	<u>9,012,964</u>
Total liabilities	<u>15,171,770</u>
 Deferred Inflows of Resources	
Deferred inflows of resources related to pensions	<u>1,843,453</u>
 Net Position	
Net investment in capital assets	(136,187)
Restricted for	
Building corporation	781,102
Unrestricted	<u>(4,158,580)</u>
Total net position	<u>(3,513,665)</u>
 Total liabilities, deferred inflows of resources, and net position	 <u><u>\$ 13,501,558</u></u>

**St. Paul City School
Charter School No. 4029
Statement of activities
Year Ended June 30, 2018**

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		Governmental Activities
Governmental activities					
Administration	\$ 380,537	\$ -	\$ -	\$ -	\$ (380,537)
District support services	631,797	-	-	-	(631,797)
Elementary and secondary regular instruction	3,997,168	-	362,329	-	(3,634,839)
Special education instruction	1,268,385	-	1,067,990	-	(200,395)
Instructional support services	234,937	-	-	-	(234,937)
Pupil support services	933,078	-	-	-	(933,078)
Sites and buildings	665,918	-	-	625,359	(40,559)
Fiscal and other fixed cost programs	27,585	-	-	-	(27,585)
Community education and services	55,460	-	13,597	-	(41,863)
Interest and fiscal charges on long-term debt	264,193	-	-	-	(264,193)
Total governmental activities	<u>\$ 8,459,058</u>	<u>\$ -</u>	<u>\$ 1,443,916</u>	<u>\$ 625,359</u>	(6,389,783)
General revenues					
State aid-formula grants					4,967,021
Other general revenues					141,259
Investment income					6,108
Total general revenues					<u>5,114,388</u>
Change in net position					(1,275,395)
Net position - beginning					<u>(2,238,270)</u>
Net position - ending					<u>\$ (3,513,665)</u>

See notes to financial statements.

**St. Paul City School
Charter School No. 4029
Balance Sheet - Governmental Funds
June 30, 2018**

	General	Community Service	Building Company	Total Governmental Funds
Assets				
Cash and investments	\$ 1,071,055	\$ 8,094	\$ 267,937	\$ 1,347,086
Cash with fiscal agent	-	-	1,069,022	1,069,022
Accounts receivable	26,390	-	-	26,390
Due from Department of Education	446,452	1,906	-	448,358
Due from federal government through Department of Education	218,910	-	-	218,910
Due From Other Funds	85,881	-	216,762	302,643
Prepaid items	12,082	-	-	12,082
Total assets	\$ 1,860,770	\$ 10,000	\$ 1,553,721	\$ 3,424,491
Liabilities				
Accounts payable	\$ 48,695	\$ 10,000	\$ -	\$ 58,695
Salaries payable	391,005	-	-	391,005
Due to other funds	216,762	-	85,881	302,643
Total liabilities	656,462	10,000	85,881	752,343
Fund Balances				
Nonspendable	12,082	-	-	12,082
Restricted	-	-	1,467,840	1,467,840
Unassigned	1,192,226	-	-	1,192,226
Total fund balances	1,204,308	-	1,467,840	2,672,148
Total liabilities and fund balances	\$ 1,860,770	\$ 10,000	\$ 1,553,721	\$ 3,424,491

**St. Paul City School
Charter School No. 4029
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2018**

Total fund balances - governmental funds	\$ 2,672,148
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	8,034,411
Less accumulated depreciation	(3,148,230)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(5,515,000)
Capital lease payable	(62,606)
Net pension liability	(9,012,964)

Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.

Deferred outflows of resources related to pensions	5,493,529
Deferred inflows of resources related to pensions	(1,843,453)

Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.

	<u>(131,500)</u>
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Total net position - governmental activities	<u><u>\$ (3,513,665)</u></u>
--	------------------------------

**St. Paul City School
Charter School No. 4029
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2018**

	General	Community Service	Building Company	Total Governmental Funds
Revenues				
Other local revenues	\$ 147,284	\$ -	\$ 721,799	\$ 869,083
Revenue from state sources	6,666,283	13,597	-	6,679,880
Revenue from federal sources	352,096	-	-	352,096
Total revenues	<u>7,165,663</u>	<u>13,597</u>	<u>721,799</u>	<u>7,901,059</u>
Expenditures				
Current				
Administration	254,580	-	-	254,580
District support services	608,460	-	-	608,460
Regular instruction	3,087,549	-	-	3,087,549
Special education instruction	1,082,068	-	-	1,082,068
Instructional support services	161,679	-	-	161,679
Pupil support services	850,493	-	-	850,493
Sites and buildings	1,143,064	-	13,794	1,156,858
Fiscal and other fixed cost programs	27,585	-	-	27,585
Community education and services	-	48,586	-	48,586
Capital outlay				
Pupil support services	65,382	-	-	65,382
Sites and buildings	-	-	107,707	107,707
Debt service				
Principal	2,776	-	135,000	137,776
Interest and fiscal charges	1,193	-	266,206	267,399
Total expenditures	<u>7,284,829</u>	<u>48,586</u>	<u>522,707</u>	<u>7,856,122</u>
Excess of revenues over (under) expenditures	(119,166)	(34,989)	199,092	44,937
Other Financing Sources (Uses)				
Proceeds from capital leases	65,382	-	-	65,382
Transfers in	-	34,989	-	34,989
Transfers out	(34,989)	-	-	(34,989)
Total other financing sources (uses)	<u>30,393</u>	<u>34,989</u>	<u>-</u>	<u>65,382</u>
Net change in fund balances	(88,773)	-	199,092	110,319
Fund Balances				
Beginning of year	<u>1,293,081</u>	<u>-</u>	<u>1,268,748</u>	<u>2,561,829</u>
End of year	<u>\$ 1,204,308</u>	<u>\$ -</u>	<u>\$ 1,467,840</u>	<u>\$ 2,672,148</u>

**St. Paul City School
Charter School No. 4029
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
Year Ended June 30, 2018**

Net change in fund balances - total governmental funds	\$ 110,319
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlay is reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlay	145,437
Depreciation expense	(196,854)
Loss on disposal	(18,977)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position on the Statement of Activities.	
	137,776
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	
	3,206
Governmental funds recognize pension contributions as expenditures at the time of payment whereas in the funds whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	
	(1,390,920)
Proceeds from long-term debt are recognized as an other financing source in the governmental funds but as a decrease in net assets in the statement of activities	
	<u>(65,382)</u>
Change in net position - governmental activities	<u><u>\$ (1,275,395)</u></u>

**St. Paul City School
Charter School No. 4029
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Other local revenues	\$ 76,209	\$ 92,159	\$ 147,284	\$ 55,125
Revenue from state sources	6,431,954	6,619,157	6,666,283	47,126
Revenue from federal sources	298,912	357,690	352,096	(5,594)
Total revenues	<u>6,807,075</u>	<u>7,069,006</u>	<u>7,165,663</u>	<u>96,657</u>
Expenditures				
Current				
Administration	329,409	269,642	254,580	(15,062)
District support services	497,063	585,542	608,460	22,918
Regular instruction	2,663,691	2,652,484	3,087,549	435,065
Special education instruction	1,104,100	1,319,266	1,082,068	(237,198)
Instructional support services	118,988	292,070	161,679	(130,391)
Pupil support services	758,881	844,667	850,493	5,826
Sites and buildings	1,044,161	1,089,728	1,143,064	53,336
Fiscal and other fixed cost programs	20,000	27,300	27,585	285
Capital outlay				
Pupil support services	-	-	65,382	65,382
Debt service				
Principal	6,821	-	2,776	2,776
Interest and fiscal charges	2,476	-	1,193	1,193
Total expenditures	<u>6,545,590</u>	<u>7,080,699</u>	<u>7,284,829</u>	<u>204,130</u>
Excess of revenues over (under) expenditures	261,485	(11,693)	(119,166)	(107,473)
Other Financing Uses				
Proceeds from capital leases	-	-	65,382	65,382
Transfers out	(46,166)	(162,397)	(34,989)	127,408
Total other financing sources (uses)	<u>(46,166)</u>	<u>(162,397)</u>	<u>30,393</u>	<u>192,790</u>
Net change in fund balance	<u>\$ 215,319</u>	<u>\$ (174,090)</u>	(88,773)	<u>\$ 85,317</u>
Fund Balance				
Beginning of year			<u>1,293,081</u>	
End of year			<u>\$ 1,204,308</u>	

**St. Paul City School
Charter School No. 4029
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Revenue from state sources	\$ -	\$ 21,000	\$ 13,597	\$ (7,403)
Expenditures				
Current				
Community education and services	46,166	183,397	48,586	(134,811)
Excess of revenues over (under) expenditures	(46,166)	(162,397)	(34,989)	127,408
Other Financing Uses				
Transfers in	46,166	162,397	34,989	(127,408)
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance				
Beginning of year			-	
End of year			<u>\$ -</u>	

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**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School is a nonprofit corporation that was formed and began operating January 1997, in accordance with *Minnesota Statutes* 317A. The School is authorized by Innovative Quality Schools and operates under an authorizer agreement that extends through June 30, 2020. The primary objective of the School is to provide an excellent education to a low-income and racially mixed area of St. Paul. The governing body consists of a Board of Directors composed of not less than three, but not exceeding 15, members elected by votes of the general membership of the School to serve a three-year term.

The accounting policies of the School conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The financial statements present the School and its component units. The School includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the School are financially accountable and are included within the financial statements of the School because of the significance of their operational or financial relationships with the School.

The School is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the School.

As a result of applying the component unit definition criteria above, it has been determined a certain organization has been defined and is presented in this report as follows:

Blended Component Units – Reported as if they were part of the School.

Blended Component Unit

The building company, Charter School Property, Inc. meets the criteria to be included as a blended component unit in the basic financial statements as services are provided exclusively to the primary government. The component unit's total debt outstanding is expected to be repaid entirely with resources of the school. Repayment generally occurs through a rent payment by the school to the building company that, in turn, pledges those payments as the primary source of repayment for its debt. Separate financial statements are not prepared for the affiliated building company.

The building company, Charter School Property, Inc., owns the building that is leased by the school for operations. The Affiliated Building Company is governed by a three member board appointed by the School's board.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

Aside from its role as authorizer, Project for Pride in Living has no authority, control, power, or administrative responsibilities over the School. Therefore, the School is not considered a component unit of Project for Pride in Living.

The School does not have any student activity accounts.

B. Basic Financial Statement Information

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the School.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State aids and other items not properly included among program revenues are reported instead as general revenues.

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Interest on long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner.

1. Revenue Recognition

Revenue is recognized when it becomes 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 generally recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule is that interest and principal expenditures in the Building Company Fund are recognized when payment is due.

The School applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the School applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

Description of Funds

As required by state statute, the School operates as a nonprofit corporation under *Minnesota Statutes* 317A. However, state law also requires the School comply with Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota school Schools which mandates the use of a governmental fund accounting structure. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

Descriptions of the funds included in this report are as follows:

Major Funds

General Fund – This fund is the basic operating fund of the School and is used to account for all financial resources except those required to be accounted for in another fund.

Community Service Special Revenue – This fund is used to account for services provided in the areas of community education, school readiness, and other similar services.

Building Company Fund – This fund accounts for all activities of Charter School Property, Inc. Primary revenue sources in the Building Company are rent received and interest earnings.

D. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings are allocated to the funds.

Cash and investments at June 30, 2018, were comprised of deposits and money market accounts.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Minnesota Statutes requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Minnesota Statutes authorizes the School to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase, and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days.

E. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

F. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the School as assets with an initial individual cost of more than \$500 for machinery and equipment and an initial individual cost of more than \$1,000 for land, buildings, and improvements. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives.

G. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The School has one item that qualifies for reporting in this category. Deferred outflow related to pension, reported in the government-wide Statement of Net Position. A deferred outflow relating to pension activity is recorded for various estimate differences that will be amortized and recognized over future years.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School has one type of item which qualifies for reporting in this category. A deferred inflow of resources relating to pensions is recorded on the government wide statements for various estimate differences that will be amortized and recognized over future years.

H. Long-Term Obligations

In the government-wide financial statements long-term debt and other long term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, 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. Issuance costs, whether or not withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

I. Pensions

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

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

J. Risk Management

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the School carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the School's insurance coverage during the year ending June 30, 2018.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity

In the fund financial statements, governmental funds report various levels of spending constraints.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include prepaid items.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.
- Committed Fund Balances – The government's highest level of decision making authority is the School Board. The formal action to establish or modify a commitment is by resolution approved by the board.
- Assigned Fund Balances – The School Board passed a resolution authorizing the Executive Director and Finance Committee to assign fund balances and their intended uses.
- Minimum Fund Balance Policy – It is the School's policy to strive to maintain a minimum unassigned fund balance of 20% of the annual general fund expenditures.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment 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 government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

N. Tax Status

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The School is also exempt from Minnesota franchise or income tax.

The School is required to assess whether an uncertain tax position exists and if there should be recognition of a related benefit or liability in the financial statements. The School has determined there are not amounts to record as assets or liabilities related to uncertain tax positions.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Budgetary Information

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the Executive Director submits to the School's Board of Directors, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Executive Director is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School's Board of Directors.
3. Formal budgetary integration is employed as a management control device during the year for the General Fund and Community Service Fund.
4. Budgets for all funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School's Board of Directors. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the School maintains deposits at depository banks authorized by the School's Board of Directors.

As of June 30, 2018, the School's bank balance was exposed to custodial credit risk because the Building Company funds were not all covered by FDIC and collateral pledged by the depository, \$17,937 was exposed.

Deposits	
Checking	\$ 444,206
Sweep Account	902,880
	902,880
Total	\$ 1,347,086

B. Investments

Investments at June 30, 2018, were comprised of the following:

Investment	Type	Maturity	Fair Value	Less Than One year	Rating	Percentage of Total Investments
Building Corporation non pooled First American Treasury Obligations	MMA	Various	<u>\$ 1,069,022</u>	<u>\$ 1,069,022</u>	N/A	100.0%

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The School also does not have a policy in place to address credit risk, concentration of credit risk, custodial credit risk or interest rate risk for investments.

C. Summary of Deposits and Investments

Summary of cash, deposits, and investments as of June 30, 2018:

Total deposits and investments	
Deposits (Note 3. A.)	\$ 1,347,086
Investments	<u>1,069,022</u>
Total	<u><u>\$ 2,416,108</u></u>

Deposits and investments are presented in the Statement of Net Position at June 30, 2018, as follows:

Statement of Net Position	
Cash and investments	\$ 1,347,086
Cash with fiscal agent	<u>1,069,022</u>
Total	<u><u>\$ 2,416,108</u></u>

NOTE 3 – INTERFUND ACTIVITY

A. Interfund Transfers

The General Fund transferred \$34,989 to the Community Service Fund to cover deficit fund activity during the year.

B. Due To/Due From

As of June 30, 2018, the following amounts were due to/ due from other funds:

<u>Due from Other Fund</u>	<u>Due to Other Funds</u>	<u>Amount</u>
General Fund	Building Company Fund	\$ 85,881
Building Company Fund	General Fund	<u>216,762</u>
Total		<u><u>\$ 302,643</u></u>

The amount due to the Building Company Fund is to cover rent payments. The amount due to the General Fund is to reimburse for building costs originally paid for by the General Fund.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 4 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 160,000	\$ -	\$ -	\$ 160,000
Capital assets being depreciated				
Building	6,891,434	76,252	9,870	6,957,816
Leasehold improvements	557,578	-	-	557,578
Equipment	427,664	69,185	137,832	359,017
Total capital assets, being depreciated	<u>7,876,676</u>	<u>145,437</u>	<u>147,702</u>	<u>7,874,411</u>
Less accumulated depreciation for				
Building	2,549,841	147,631	2,467	2,695,005
Leasehold improvements	195,513	26,965	-	222,478
Equipment	334,747	22,258	126,258	230,747
Total accumulated depreciation	<u>3,080,101</u>	<u>196,854</u>	<u>128,725</u>	<u>3,148,230</u>
Total capital assets being depreciated, net	<u>4,796,575</u>	<u>(51,417)</u>	<u>18,977</u>	<u>4,726,181</u>
Total capital assets	<u>\$ 4,956,575</u>	<u>(51,417)</u>	<u>\$ 18,977</u>	<u>\$ 4,886,181</u>

Depreciation expense for the year ended June 30, 2018, was charged to the following functions:

Administration	\$ 1,733
Elementary and secondary regular instruction	4,654
Special education instruction	183
Community education and services	657
Instructional support services	82
Pupil support services	10,560
Sites, buildings, and equipment	<u>178,985</u>
 Total depreciation expense	 <u>\$ 196,854</u>

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
2016A Lease Revenue Bond	09/29/16	4.5% - 5.5%	\$ 5,415,000	7/1/2036	\$ 5,415,000	\$ 90,000
2016B Lease Revenue Bond	09/29/16	4.75%	235,000	7/1/2018	100,000	100,000
Capital leases					62,606	11,609
					<u>\$ 5,577,606</u>	<u>\$ 201,609</u>
Total all long-term liabilities					<u>\$ 5,577,606</u>	<u>\$ 201,609</u>

B. Minimum Debt Payments for Bonds and Loans

Minimum annual principal and interest payments required to retire bond liabilities:

Year Ending <u>June 30,</u>	<u>G.O. Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 190,000	\$ 258,600
2020	195,000	249,813
2021	205,000	240,812
2022	215,000	231,363
2023	225,000	221,462
2024-2028	1,280,000	942,950
2029-2033	1,605,000	607,900
2034-2037	1,600,000	165,000
	<u>\$ 5,515,000</u>	<u>\$ 2,917,900</u>
Total	<u>\$ 5,515,000</u>	<u>\$ 2,917,900</u>

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-term liabilities					
Bonds payable	\$ 5,650,000	\$ -	\$ 135,000	\$ 5,515,000	\$ 190,000
Capital leases	-	65,382	2,776	62,606	11,609
	<u>\$ 5,650,000</u>	<u>\$ 65,382</u>	<u>\$ 137,776</u>	<u>\$ 5,577,606</u>	<u>\$ 201,609</u>
Total long-term liabilities	<u>\$ 5,650,000</u>	<u>\$ 65,382</u>	<u>\$ 137,776</u>	<u>\$ 5,577,606</u>	<u>\$ 201,609</u>

The General Fund is used to liquidate capital leases when they are due.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease Obligations

The School entered into a \$32,544 lease purchase agreement to purchase a van. The capital lease agreement monthly installments of principal and interest payments of \$638 through March 9, 2023. The lease has an interest rate of 6.5%.

The School entered into a \$32,838 lease purchase agreement to purchase a van. The capital lease agreement monthly installments of principal and interest payments of \$644 through March 9, 2023. The lease has an interest rate of 6.5%.

The assets purchased with the leases are classified as equipment and totaled \$128,381. The associated accumulated depreciations for these assets is \$49,713 for a net book value of \$78,668.

The future minimum lease obligations and the net present value of these minimum lease payments were as follows:

June 30,		
2019	\$	15,389
2020		15,389
2021		15,389
2022		15,389
2023		11,541
Total minimum lease payments		73,097
Less amount representing interest		(10,491)
Present value of minimum lease payments	\$	62,606

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The School participates in various pension plans, total pension expense for the year ended June 30, 2017, was \$1,680,189. The components of pension expense are noted in the following plan summaries.

Teachers' Retirement Association

A. Plan Description

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

A. Plan Description (Continued)

Teachers employed in Minnesota's public elementary and secondary school, charter schools and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

B. Benefits Provided

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age and a formula multiplier based on years of credit at termination of service.

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

Tier I Benefits

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

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- 3% per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

B. Benefits Provided (Continued)

Tier II Benefits

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

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

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.

C. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2016, June 30, 2017, and June 30, 2018, were:

	Employee	Employer
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

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

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 367,791
Deduct Employer contributions not related to future contribution efforts	810
Deduct TRA's contributions not included in allocation	<u>(456)</u>
Total employer contributions	368,145
Total non-employer contributions	<u>35,588</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u>\$ 403,733</u>

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

D. Actuarial Assumptions

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

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation date	July 1, 2017
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	5.12%, from the single equivalent interest rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85% to 8.85% for ten years and 3.25% to 9.25% thereafter
Cost of living adjustment	2.00%

Mortality Assumption

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 projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

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

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2016 is six years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions", and "Changes in Proportion" use the amortization period of six years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of five years as required by GASB 68.

Changes in actuarial assumptions since the 2016 valuation:

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% 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.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

E. Discount Rate

The discount rate used to measure the total pension liability was 5.12%. This is an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.5%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

F. Net Pension Liability

On June 30, 2018, the School reported a liability of \$7,365,909 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The School's proportionate share was 0.0369% at the end of the measurement period and 0.0387% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the School as its proportionate share of the net pension liability, the direct aid and total portion of the net pension liability that was associated with the School were as follows:

School's proportionate share of net pension liability	\$ 7,365,909
State's proportionate share of the net pension liability associated with the School	712,619

For the year ended June 30, 2018, the School recognized pension expense of \$1,346,365. It recognized \$14,404 as an increase to this pension expense for the support provided by direct aid.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability(Continued)

On June 30, 2018, the School had deferred resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 53,025	\$ 51,734
Net difference between projected and actual earnings on plan investments	-	42,705
Changes in assumptions	4,188,801	1,031,848
Changes in proportion	273,947	357,786
School's contribution to TRA subsequent to the measurement date	<u>152,542</u>	<u> </u>
Total	<u>\$ 4,668,315</u>	<u>\$ 1,484,073</u>

\$152,542 reported as deferred outflows of resources related to pensions resulting from School contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

2019	\$ 845,818
2020	957,593
2021	833,668
2022	682,852
2023	<u>(288,231)</u>
Total	<u>\$ 3,031,700</u>

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

G. Pension Liability Sensitivity

The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 5.12% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower and 1 percent higher than the current rate.

District proportionate share of NPL		
1% decrease (4.12%)	Current (5.12%)	1% increase (6.12%)
\$ 9,721,581	\$ 7,365,909	\$ 5,379,792

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

H. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That can be obtained at www.MinnesotaTRA.org, or by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000, or by calling (651) 296-2409 or (800) 657-3669.

Public Employees' Retirement Association

A. Plan Description

The School participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the School other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

General Employees Plan Benefits

General Employees Plan 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. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. Contributions

Minnesota Statutes Chapter 353 set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2018. The School was required to contribute 7.5% for Coordinated Plan members in fiscal year 2018. The School's contributions to the General Employees Fund for the year ended June 30, 2018, were \$140,135. The School's contributions were equal to the required contributions as set by state statute.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2018, the School reported a liability of \$1,647,055 for its proportionate share of the General Employees Fund's net pension liability. The School's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the School totaled \$20,727. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the School's proportion was 0.0258%, which was an increase of 0.0057% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the School recognized pension expense of \$333,824 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the School recognized an additional \$1,566 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

At June 30, 2018, the School reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 54,282	\$ 80,372
Changes in actuarial assumptions	213,034	165,117
Changes in proportionate share	417,763	-
Difference between projected and actual investments earnings	-	113,891
School's contributions to GERS subsequent to the measurement due	<u>140,135</u>	<u>-</u>
 Total	 <u><u>\$ 825,214</u></u>	 <u><u>\$ 359,380</u></u>

\$140,135 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
<u> </u>	<u> </u>
2019	\$ 132,051
2020	195,768
2021	67,795
2022	<u>(69,915)</u>
 Total	 <u><u>\$ 325,699</u></u>

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Assumptions	GERF
Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

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

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

The following changes in actuarial assumptions occurred in 2017:

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

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

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rates

The discount rate used to measure the total pension liability in 2017 was 7.5%. 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 these assumptions, 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.

G. Pension Liability Sensitivity

The following table presents the School's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
District's proportionate share of the PERA net pension liability	\$ 2,554,705	\$ 1,647,055	\$ 903,979

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

H. Pension Plan Fiduciary Net Position

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

NOTE 7 – COMMITMENTS

A. Lease Commitments and Terms

In November 2002, the School signed a lease with Charter School Property, Inc., Minneapolis, Minnesota, expiring on June 30, 2032. Annual rent on this space is paid in 12 equal installments. A portion of the lease payments will go towards a Repair and Replacement Reserve Fund.

For 2018, the School qualified for state charter school lease aid which equaled the lesser of 90% of the approved lease costs or \$1,314 per pupil unit served, or \$590,016. Greater enrollment is needed to maximize the aid available in support of the amount paid for the lease.

The School's ability to make payments under the lease agreement is dependent on its revenues which are, in turn, largely dependent on sufficient enrollment being served at the School and sufficient state aids per student being authorized and received from the State of Minnesota. The School believes its enrollments and aid entitlements will be sufficient to meet the lease obligations as they become due.

**NOTE 8 – DONATION OF ART COLLECTION TO CHARTER SCHOOL PROPERTY, INC.
(THE BUILDING COMPANY)**

In November 2012, the Building Company accepted the donation of a Congo artifact collection from a benefactor. The collection is currently in storage and is being evaluated for the best method of disposing of the pieces making up the collection. While the collection had been appraised for tax purposes by the donor, a value has not been recorded on the books of the Building Company or reflected in the financial statements.

NOTE 9 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending June 30, 2020.

**St. Paul City School
Charter School No. 4029
Notes to Financial Statements**

NOTE 9 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED (CONTINUED)

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

**St. Paul City School
Charter School No. 4029
Schedule of School's and Non-Employer Proportionate Share
of Net Pension Liability
Last Ten Years GERS Retirement Fund**

For Fiscal Year Ended June 30	School's Proportion of the Net Pension Liability (Asset)	School's Proportionate Share of the Net Pension Liability (Asset)	School's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	School's Proportionate Share of the Net Pension Liability and School's Share of the State of Minnesota's Share of the Net Pension of Liability	School's Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	School's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll
2014	0.0171%	\$ 803,272	\$ -	\$ 803,272	\$ 899,890	89.3%	78.75%
2015	0.0176%	912,123	-	912,123	1,018,160	89.6%	78.20%
2016	0.0201%	1,632,020	21,354	1,653,374	1,249,907	130.6%	68.90%
2017	0.0258%	1,647,055	20,727	1,667,782	1,663,413	99.0%	78.90%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of School's and Non-Employer Proportionate Share
of Net Pension Liability
Last Ten Years TRA Retirement Fund**

For Fiscal Year Ended June 30	School's Proportion of the Net Pension Liability (Asset)	School's Proportionate Share of the Net Pension Liability (Asset)	School's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	School's Proportionate Share of the Net Pension Liability and School's Share of the State of Minnesota's Share of the Net Pension of Liability	School's Covered- Employee Payroll	School's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0353%	\$ 1,626,599	\$ 114,480	\$ 1,741,079	\$ 1,609,128	101.1%	81.5%
2015	0.0342%	2,115,608	259,534	2,375,142	1,736,320	121.8%	76.8%
2016	0.0387%	9,230,873	926,877	10,157,750	2,012,813	458.6%	44.9%
2017	0.0369%	7,365,909	712,619	8,078,528	1,986,773	370.7%	51.6%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**St. Paul City School
Charter School No. 4029
Schedule of School Contributions
GERF Retirement Fund
Last Ten Years**

Fiscal Year Ending June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	School's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 65,242	\$ 65,242	\$ -	\$ 899,890	7.25%
2015	76,362	76,362	-	1,018,160	7.5%
2016	93,743	93,743	-	1,249,907	7.5%
2017	124,756	124,756	-	1,663,413	7.5%
2018	140,135	140,135	-	1,868,467	7.5%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of School Contributions
TRA Retirement Fund
Last Ten Years**

Fiscal Year Ending June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	School's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 112,639	\$ 112,639	\$ -	\$ 1,609,128	7.0%
2015	130,224	130,224	-	1,736,320	7.5%
2016	150,961	150,961	-	2,012,813	7.5%
2017	149,008	149,008	-	1,986,773	7.5%
2018	152,542	152,542	-	2,033,893	7.5%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**St. Paul City School
Charter School No. 4029
Notes to the Required Supplementary Information**

TRA Retirement Fund

2017 Changes

Changes in Actuarial Assumptions

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% 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.

2016 Changes

Changes in Actuarial Assumptions

- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the 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.
- The post-retirement mortality assumption was changed to the 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.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

**St. Paul City School
Charter School No. 4029
Notes to the Required Supplementary Information**

TRA Retirement Fund (Continued)

2015 Changes

Changes of Benefit Terms

- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

General Employees Fund

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

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SUPPLEMENTARY INFORMATION

**St. Paul City School
Charter School No. 4029
Uniform Financial Accounting And Reporting Standards
Compliance Table
Year Ended June 30, 2018**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 General Fund							
Total revenue	\$ 7,165,663	\$ 7,165,662	\$ 1		\$ -	\$ -	\$ -
Total expenditures	7,284,829	7,284,829	-		-	-	-
<i>Nonspendable:</i>							
460 Nonspendable fund balance	12,082	12,082	-		-	-	-
<i>Restricted/Reserved:</i>							
403 Staff Development	-	-	-		-	-	-
407 Capital Projects Levy	-	-	-		-	-	-
408 Cooperative Programs	-	-	-		-	-	-
409 Alternative Facility Programs	-	-	-		-	-	-
413 Building Projects Funded by COP/LP	-	-	-		-	-	-
414 Operating Debt	-	-	-		-	-	-
416 Levy Reduction	-	-	-		-	-	-
417 Taconite Building Maintenance	-	-	-		-	-	-
424 Operating Capital	-	-	-		-	-	-
426 \$25 Taconite	-	-	-		-	-	-
427 Disabled Accessibility	-	-	-		-	-	-
428 Learning and Development	-	-	-		-	-	-
434 Area Learning Center	-	-	-		-	-	-
435 Contracted Alternative Programs	-	-	-		-	-	-
436 State Approved Alternative Program	-	-	-		-	-	-
438 Gifted and Talented	-	-	-		-	-	-
441 Basic Skills Programs	-	-	-		-	-	-
445 Career Technical Programs	-	-	-		-	-	-
448 Achievement and Integration Revenue	-	-	-		-	-	-
449 Safe School Crime	-	-	-		-	-	-
450 Transition for Pre-Kindergarten	-	-	-		-	-	-
451 QZAB Payments	-	-	-		-	-	-
452 OPEB Liabilities not in Trust	-	-	-		-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-		-	-	-
459 Basic Skills Extended Time	-	-	-		-	-	-
467 Long-term Facilities Maintenance	-	-	-		-	-	-
472 Medical Assistance	-	-	-		-	-	-
475 Title VII - Impact Aid	-	-	-		-	-	-
476 Payments in Lieu of Taxes	-	-	-		-	-	-
<i>Restricted:</i>							
464 Restricted fund balance	-	-	-		-	-	-
<i>Committed:</i>							
418 Committed for separation	-	-	-		-	-	-
461 Committed	-	-	-		-	-	-
<i>Assigned:</i>							
462 Assigned fund balance	-	-	-		-	-	-
<i>Unassigned:</i>							
422 Unassigned fund balance	1,192,226	1,192,225	1		-	-	-
02 Food Services Fund							
Total revenue	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -
Total expenditures	-	-	-		-	-	-
<i>Nonspendable:</i>							
460 Nonspendable fund balance	-	-	-		-	-	-
<i>Restricted/reserved:</i>							
452 OPEB liabilities not held in trust	-	-	-		-	-	-
<i>Restricted:</i>							
464 Restricted fund balance	-	-	-		-	-	-
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-		-	-	-
04 Community Service Fund							
Total revenue	\$ 13,597	\$ 13,597	\$ -		-	-	-
Total expenditures	48,586	48,586	-		-	-	-
Reserved:							
<i>Nonspendable:</i>							
460 Nonspendable fund balance	-	-	-		-	-	-
<i>Restricted/reserved:</i>							
426 \$25 Taconite	-	-	-		-	-	-
431 Community Education	-	-	-		-	-	-
432 ECFE	-	-	-		-	-	-
440 Teacher Development and Evaluation	-	-	-		-	-	-
444 School Readiness	-	-	-		-	-	-
447 Adult Basic Education	-	-	-		-	-	-
452 OPEB Liabilities not in Trust	-	-	-		-	-	-
<i>Restricted:</i>							
464 Restricted fund balance	-	-	-		-	-	-
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-		-	-	-
06 Building Construction Fund							
Total revenue	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -
Total expenditures	-	-	-		-	-	-
<i>Nonspendable:</i>							
460 Nonspendable fund balance	-	-	-		-	-	-
<i>Restricted/reserved:</i>							
407 Capital Projects Levy	-	-	-		-	-	-
409 Alternative Facility Program	-	-	-		-	-	-
413 Building Projects Funded by COP/LP	-	-	-		-	-	-
<i>Restricted:</i>							
464 Restricted fund balance	-	-	-		-	-	-
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-		-	-	-
07 Debt Service Fund							
Total revenue	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -
Total expenditures	-	-	-		-	-	-
<i>Nonspendable:</i>							
460 Nonspendable fund balance	-	-	-		-	-	-
<i>Restricted/reserved:</i>							
425 Bond refunding	-	-	-		-	-	-
433 Maximum effort loan aid	-	-	-		-	-	-
451 QZAB Payments	-	-	-		-	-	-
<i>Restricted:</i>							
464 Restricted fund balance	-	-	-		-	-	-
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-		-	-	-
08 Trust Fund							
Total revenue	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -
Total expenditures	-	-	-		-	-	-
<i>Unassigned:</i>							
422 Net position	-	-	-		-	-	-
20 Internal Service Fund							
Total revenue	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -
Total expenditures	-	-	-		-	-	-
<i>Unassigned:</i>							
422 Net position	-	-	-		-	-	-
25 OPEB Revocable Trust							
Total revenue	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -
Total expenditures	-	-	-		-	-	-
<i>Unassigned:</i>							
422 Net position	-	-	-		-	-	-
45 OPEB Irrevocable Trust							
Total revenue	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -
Total expenditures	-	-	-		-	-	-
<i>Unassigned:</i>							
422 Net position	-	-	-		-	-	-
47 OPEB Debt Service							
Total revenue	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -
Total expenditures	-	-	-		-	-	-
<i>Nonspendable:</i>							
460 Nonspendable fund balance	-	-	-		-	-	-
<i>Restricted:</i>							
425 Bond refunding	-	-	-		-	-	-
464 Restricted fund balance	-	-	-		-	-	-
<i>Unassigned:</i>							
422 Unassigned fund balance	-	-	-		-	-	-

**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***

Independent Auditor's Report

To the Board of Directors
St. Paul City School
St. Paul, 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 St. Paul City School, St. Paul, MN as of and for the year ending June 30, 2018, and the related notes to financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 11, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 School'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.



Internal Control over Financial Reporting (Continued)

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control, that we consider to be a significant deficiency: 2015-001

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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*.

School's Response to the Findings

The School's response to the findings identified in our audit is described in the Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 11, 2018



Report on Legal Compliance

Independent Auditor's Report

To the Board of Directors
St. Paul City School
St. Paul, 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 St. Paul City School, St. Paul, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements and have issued our report thereon dated October 11, 2018.

The *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to *Minnesota Statute* § 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 the School 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 the School'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.

A handwritten signature in dark ink that reads 'BerganKDV Ltd.' with a period at the end.

Minneapolis, Minnesota
October 11, 2018

St. Paul City School
Schedule of Findings and Corrective Action Plans
on Legal Compliance and Internal Control

CURRENT YEAR INTERNAL CONTROL FINDING:

Significant Deficiency:

Audit Finding 2015-001 - Lack of Segregation of Accounting Duties

The School has a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the School's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The staff accountant is involved with recording receipts and expenditures as well as the bank reconciliation process.
- The client service manager providing oversight also has ability to post journal entries and is involved in determining estimates for year end balances.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Administration will review current segregation of accounting duties to determine if further segregation is possible.
3. Official Responsible for Ensuring CAP
Nancy Dana, Executive Director is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP
The Board of Directors will be monitoring this CAP.