

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Ham Lake, Minnesota**

**Financial Statements**

**June 30, 2017**



**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
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**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Board of Directors and Administration  
June 30, 2017**

<u>Board of Directors</u>	<u>Position</u>
Ross Meisner	President
Matthew Manning	Vice President
Melanie Persellin	Secretary
Valerie Slaymaker	Treasurer
Michele Ingram	Member
Brian Mueggenberg	Member
Andy Wallschlaeger	Member
Mark Guy	Member
<u>Administration</u>	
Debra Lach	Executive Director
Terry Moffatt	Academic Director
Holly Fischer	Director of Operations

**Affiliated Building Company  
Board of Directors  
June 30, 2017**

<u>Board of Directors</u>	<u>Position</u>
Dale Lieb	Member
Sean Nelson	Member
Richard Reiling	Member

## **Independent Auditor's Report**

To the School Board  
DaVinci Academy of Arts and Science  
Ham Lake, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of DaVinci Academy of Arts and Science, Ham Lake, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the Academy's basic financial statements as listed in the Table of Contents.

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

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Academy'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 Academy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to in the first paragraph above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of DaVinci Academy of Arts and Science, Ham Lake, Minnesota, as of June 30, 2017, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund and Food 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 Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy'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 were 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 23, 2017, on our consideration of the Academy'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

*Bergan KDV Ltd.*

Minneapolis, Minnesota  
October 23, 2017

## **DaVinci Academy of Arts and Science Management's Discussion and Analysis**

This section of DaVinci Academy of Arts and Science's (the Academy) annual financial statements presents management's discussion and analysis of the Academy's financial performance during the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the other components of the Academy's annual financial statements.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2016-2017 fiscal year include the following:

- The Academy's ending unassigned Fund Balance for fiscal year 2017 is \$1,641,735, which is an increase of \$169,838.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual financial statements consists of the following parts:

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic financial statements, including the entity-wide financial statements, fund financial statements, and the notes to basic financial statements
- Supplemental information, which includes the individual fund statements and schedules.

The following explains the two types of statements included in the basic financial statements:

#### **Entity-Wide Financial Statements**

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

The two entity-wide financial statements report the Academy's *net position* and how they have changed. Net position—the difference between assets and liabilities—is one way to measure the Academy's financial health or *position*. Over time, increases, or decreases in the Academy's net position is an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the Academy requires consideration of additional nonfinancial factors, such as changes in the Academy's student population and the condition of school buildings and other facilities.

## DaVinci Academy of Arts and Science Management's Discussion and Analysis

### OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

In the entity-wide financial statements, the Academy's activities are all shown in one category titled "governmental activities." All of the Academy's basic services are included here, such as regular and special education instruction, transportation, and administration. Federal and state aid and grants finance most of these activities.

#### **Fund Financial Statements**

The fund financial statements provide more detailed information about the Academy's *funds*, focusing on its most significant or "major" funds, rather than the Academy as a whole.

Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law or by debt covenants.
- The Academy may establish other funds to control and manage money for particular purposes.

The Academy maintains the following kinds of funds:

**Governmental Funds** – The Academy's basic services are reported 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 provides a detailed *short-term* view that helps determine whether there are more or less financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the entity-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.



**DaVinci Academy of Arts and Science  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE**

Table 1 is a summarized view of the Academy's Statement of Net Position:

**Table A-1  
Net Position**

	2017	2016	Change
<b>Assets</b>			
Current and other assets	\$ 12,328,151	\$ 23,171,451	\$ (10,843,300)
Net capital assets	17,418,035	4,593,041	12,824,994
Total assets	<u>29,746,186</u>	<u>27,764,492</u>	<u>1,981,694</u>
<b>Deferred Outflow of Resources</b>	<u>5,221,006</u>	<u>480,570</u>	<u>(4,740,436)</u>
<b>Liabilities</b>			
Current liabilities	3,789,735	759,545	3,030,190
Noncurrent liabilities	34,251,309	28,351,386	5,899,923
Total liabilities	<u>38,041,044</u>	<u>29,110,931</u>	<u>8,930,113</u>
<b>Deferred Inflows of Resources</b>	<u>138,259</u>	<u>300,746</u>	<u>162,487</u>
<b>Net Position</b>			
Net investment in capital assets	261,495	(682,517)	944,012
Restricted	69,111	66,551	2,560
Unrestricted	<u>(3,542,717)</u>	<u>(550,649)</u>	<u>(2,992,068)</u>
Total net position	<u>\$ (3,212,111)</u>	<u>\$ (1,166,615)</u>	<u>\$ (2,045,496)</u>

Implementation of GASB 68 requires Governmental entities to recognize the unfunded liabilities of various pension agencies. The result of that standard has drastically affected the net position of the Academy.

In addition, the Academy's financial position is the product of many factors. For example, determination of the Academy's investment in capital assets involves assumptions and estimates, such as current and accumulated depreciation amounts. Actual results could differ from these assumptions and estimates.

**DaVinci Academy of Arts and Science  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (CONTINUED)**

Table 2 is a summarized view of the Academy's Statement of Activities:

**Table A-2  
Changes in net position**

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Revenues			
Program revenues			
Charges for services	\$ 176,559	\$ 169,637	\$ 6,922
Operating grants and contributions	1,574,135	1,480,394	93,741
Capital grants and contributions	20,463	-	20,463
General revenues			
Local sources	124,857	55,803	69,054
State sources	3,375,844	3,202,892	172,952
Total revenue	<u>5,271,858</u>	<u>4,908,726</u>	<u>363,132</u>
Expenses			
Administration	395,714	266,915	128,799
School support services	439,068	330,768	108,300
Regular instruction	2,670,924	1,892,230	778,694
Special education instruction	949,555	740,378	209,177
Instructional support services	395,308	261,527	133,781
Pupil support services	179,964	206,740	(26,776)
Sites, building and equipment	891,147	1,716,564	(825,417)
Fiscal and other fixed costs	773,375	890	772,485
Food service	133,095	122,202	10,893
Community education and services	1,183	1,386	(203)
Interest on Long-Term Debt	488,021	116,778	371,243
Total expenses	<u>7,317,354</u>	<u>5,656,378</u>	<u>1,660,976</u>
Change in net position	(2,045,496)	(747,652)	(1,297,844)
Net position			
Beginning, as previously stated	<u>(1,166,615)</u>	<u>(418,963)</u>	<u>(747,652)</u>
Change in accounting principle	<u>-</u>	<u>-</u>	<u>-</u>
Beginning, as restated	<u>(1,166,615)</u>	<u>(418,963)</u>	<u>(747,652)</u>
Ending	<u>\$ (3,212,111)</u>	<u>\$ (1,166,615)</u>	<u>\$ (2,045,496)</u>

General grants and aids mainly increased due to the increase in general education state aid formula in the current year and an increase in students attending the Academy. Expense increases were mainly in salaries and benefits due to raises for current staff.

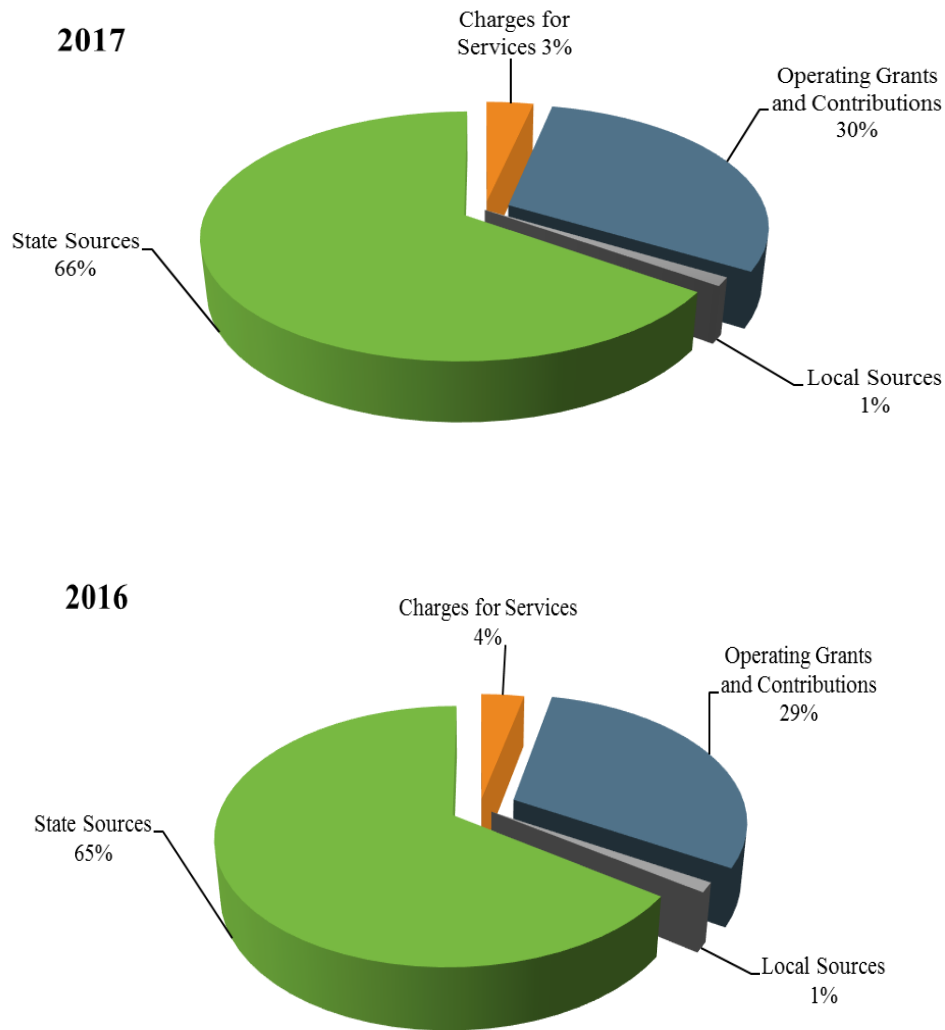
This statement is presented on an accrual basis of accounting and includes all of the Academy's governmental activities. This statement includes depreciation expense, but excludes capital asset purchase costs.

Figures A and B show further analysis of these revenue sources and expense functions

**DaVinci Academy of Arts and Science  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (CONTINUED)**

**Figure A – Sources of Revenue for Fiscal Years 2017 and 2016**



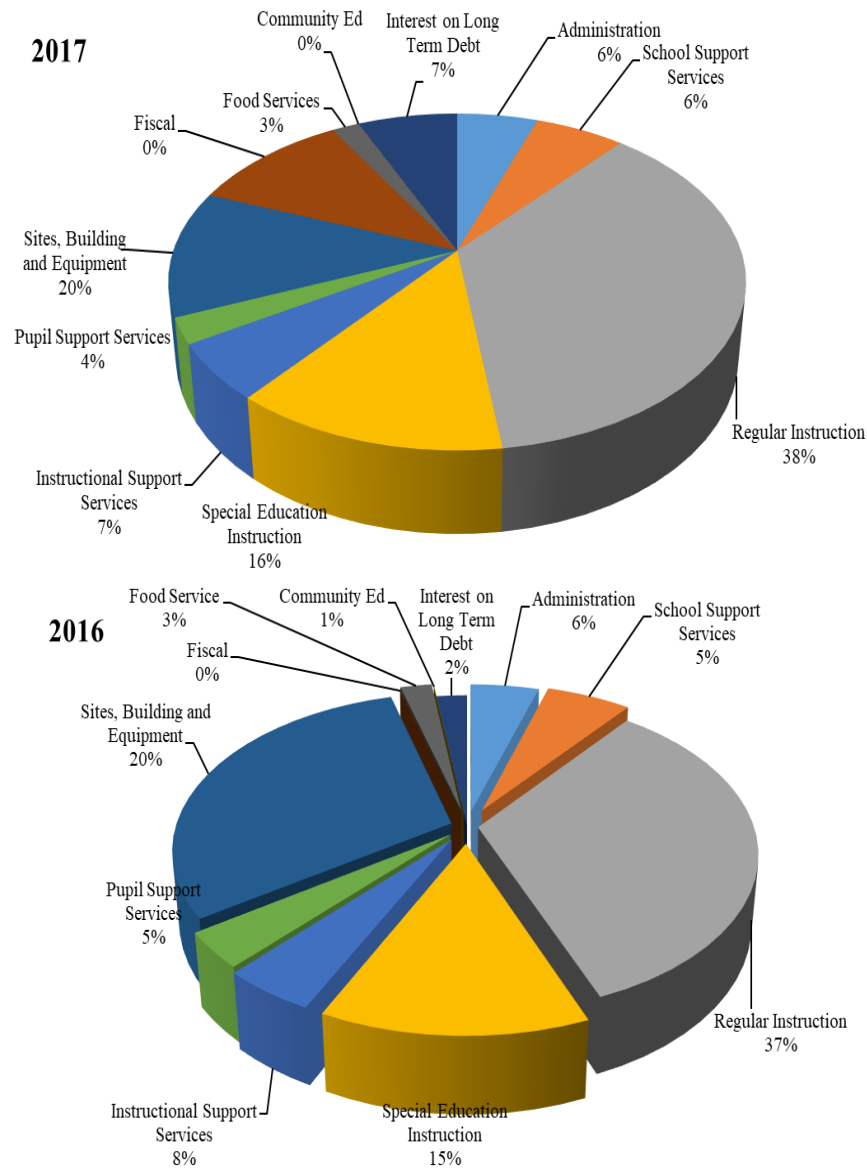
The largest share of the Academy's revenue is received from the state, including most of the operating and general grants. This significant reliance on the state for funding has placed tremendous pressures on local schools as a result of unpredictable and inconsistent funding from the state.

The Academy's total governmental revenues were \$5,271,858 for the year ended June 30, 2017, which is an increase of \$363,132 from the previous year due to additional state aid received at the Academy. The Academy received approximately 96% of its revenues from state and federal sources.

# **DaVinci Academy of Arts and Science Management's Discussion and Analysis**

## **FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (CONTINUED)**

**Figure B – Expenses for Fiscal Years 2017 and 2016**



The Academy's expenses are predominately related to educating students. Approximately 61% of the Academy's expenses for 2017 were in categories directly related to providing instruction, which includes: elementary and secondary regular instruction, special education instruction, and instructional support services. An additional 20% of the Academy's costs are related to leasing and maintaining its school site.

The combined cost of all of the Academy's governmental activities for 2017 was \$7,317,354 which was an increase of \$1,660,976 from the prior year. The main increases were in sites, building and equipment, and elementary and secondary regular instruction due to pension accounting.

**DaVinci Academy of Arts and Science  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS**

The financial performance of the Academy as a whole is also reflected in its governmental funds. Table 3 shows the total fund balances of each of the Academy's governmental funds:

**Table 3  
Governmental Fund Balances  
as of June 30, 2017 and 2016**

	2017	2016
<b>Governmental Funds</b>		
General fund	\$ 1,743,771	\$ 1,620,745
Food service special revenue fund	8,282	5,722
Community service special revenue fund	60,829	60,829
Building company	7,350,395	20,841,377
	<hr/>	<hr/>
Total governmental funds	\$ 9,163,277	\$ 22,528,673
	<hr/>	<hr/>

**Analysis of the General Fund**

Table 4 summarizes the operating results of the General Fund:

**Table 4  
General Fund  
Operating Results  
For the Years Ended June 30, 2017 and 2016**

				Over (Under) Final Budget		Over (Under) Prior Year	
	Original Budget	Final Budget	Actual	Amount	Percent	Amount	Percent
Revenue	\$ 4,531,961	\$ 4,866,490	\$ 5,033,254	\$ 166,764	3.4%	\$251,825	5.0%
Expenditures	4,471,409	4,925,813	4,910,239	(15,574)	-0.3%	308,223	6.3%
Transfers (out)	(5,050)	(5,050)	-	(5,050)	100.0%	-	
Net change in fund balances	\$ 55,502	\$ (64,373)	\$ 123,015				

**DaVinci Academy of Arts and Science  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS (CONTINUED)**

**Analysis of the General Fund (Continued)**

The Academy is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. The Academy has the ability to amend that budget for known significant changes in circumstances, such as: updated enrollment estimates, legislation changes, new or additional funding, staffing changes, employee contract settlements, adjustments to health insurance premiums, special education tuition changes, or utility rate changes. During the year ended June 30, 2017, the Academy adjusted its budget changes anticipated in state revenue and to anticipated expenditures related to the new school building

Revenues were higher than budget by \$166,764, mainly due to higher than projected general education aid and state special education aid. Revenue and expenditure increases over the prior year relate to items described earlier in this report.

Expenditures were lower than budget by \$15,574, mainly related conservative budgeting on certain expenditures.

**Food Service Special Revenue Fund**

The Food Service Special Revenue Fund is used to account for the Academy's child nutrition program. Revenues exceeded expenditures by \$2,560 in the Food Service Special Revenue Fund.

**Community Service Special Revenue Fund**

The Community Service Special Revenue Fund is used to account for the Academy's intersession programing. Previously this fund contained all-day kindergarten revenue. The state is now providing funding for all-day kindergarten. The plan is to spend this fund down over the next few years.

**DaVinci Academy of Arts and Science  
Management's Discussion and Analysis**

**CAPITAL ASSETS ADMINISTRATION**

Table 5 shows the Academy's capital assets and depreciation expense:

**Table 5  
Capital Assets**

	<u>2017</u>	<u>2016</u>
Construction in progress	\$ 17,193,278	\$ 4,448,967
Building improvements	56,284	56,284
Computer equipment	137,239	62,422
Furniture	5,494	5,494
Other equipment	122,454	116,018
Less accumulated depreciation	<u>(96,714)</u>	<u>(96,144)</u>
 Total	 <u><u>\$ 17,418,036</u></u>	 <u><u>\$ 4,593,041</u></u>
 Depreciation expense	 <u><u>\$ 27,041</u></u>	 <u><u>\$ 15,394</u></u>

Additional details of the Academy's capital assets can be found in the notes to basic financial statements.

**FACTORS BEARING ON THE ACADEMY'S FUTURE**

The Academy is dependent on the state of Minnesota for much of its revenue. In recent years, legislated revenue increases have made it difficult to meet the instructional program needs and increased costs due to inflation for Minnesota charter schools.

The basic general education revenue for all Minnesota charter schools was \$6,067 per pupil unit for 2017. The Academy's ability to attract and retain students will determine the amount of state aid it earns.

For the 2017-2018 school year the Academy moved to a new location which has allowed them to increase enrollment and expand programming.

**CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT**

These financial statements are designed to provide our stakeholders with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about these statements or need additional financial information, contact DaVinci Academy of Arts and Science, 532 Bunker Lake Blvd NE, Ham Lake, Minnesota, 55304

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## **BASIC FINANCIAL STATEMENTS**

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Statement of Net Position**  
**June 30, 2017**

	Governmental Activities
<b>Assets</b>	
Cash	\$ 1,278,180
Cash with fiscal agent	10,043,031
Accounts receivable	527
Due from other governmental units	904,377
Prepaid items	102,036
Capital assets (net of accumulated depreciation)	
Construction in progress	17,193,278
Furniture and equipment	224,757
Total assets	<u>29,746,186</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows related to pensions	<u>5,221,006</u>
 Total assets and deferred outflows of resources	 <u><u>\$ 34,967,192</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 2,788,535
Salaries and benefits payable	371,486
Interest payable	624,861
Unearned revenue	4,853
Bonds payable	
Payable after one year	26,096,873
Net pension liability	8,154,436
Total liabilities	<u>38,041,044</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows related to pensions	138,259
<b>Net Position</b>	
Net investment in capital assets	261,495
Restricted for	
Food service	8,282
Community service	60,829
Unrestricted	<u>(3,542,717)</u>
Total net position	<u>(3,212,111)</u>
 Total liabilities, deferred inflows of resources, and net position	 <u><u>\$ 34,967,192</u></u>

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Statement of Activities**  
**Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital Grants	Revenues and
		Services	Grants and	and	Changes in
			Contributions	Contributions	Net position
					Governmental
					Activities
Governmental activities					
Administration	\$ 395,714	\$ 19,263	\$ -	\$ -	\$ (376,451)
District support services	439,068	-	-	-	(439,068)
Elementary and secondary regular instruction	2,670,924	82,860	37,293	-	(2,550,771)
Special education instruction	949,555	-	791,424	-	(158,131)
Instructional support services	395,308	-	-	-	(395,308)
Pupil support services	179,964	-	-	-	(179,964)
Sites and buildings	891,147	-	683,159	20,463	(187,525)
Fiscal and other fixed cost programs	773,375	-	-	-	(773,375)
Food service	133,095	74,436	62,259	-	3,600
Community education and services	1,183	-	-	-	(1,183)
Interest and fiscal charges on long-term debt	488,021	-	-	-	(488,021)
Total governmental activities	<u>\$ 7,317,354</u>	<u>\$ 176,559</u>	<u>\$ 1,574,135</u>	<u>\$ 20,463</u>	(5,546,197)
General revenues					
State aid-formula grants					3,375,844
Other general revenues					114,795
Investment income					10,062
Total general revenues					<u>3,500,701</u>
Change in net position					(2,045,496)
Net position - beginning, as restated					<u>(1,166,615)</u>
Net position - ending					<u>\$ (3,212,111)</u>

See notes to financial statements.

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Balance Sheet - Governmental Funds**  
**June 30, 2017**

	General	Food Service	Community Service	Building Company	Total Governmental Funds
<b>Assets</b>					
Cash	\$ 1,190,618	\$ 26,733	\$ 60,829	\$ -	\$ 1,278,180
Cash with fiscal agent	-	-	-	10,043,031	10,043,031
Accounts receivable	-	527	-	-	527
Due from other governmental units	901,738	2,639	-	-	904,377
Prepaid items	102,036	-	-	-	102,036
Total assets	<u>\$ 2,194,392</u>	<u>\$ 29,899</u>	<u>\$ 60,829</u>	<u>\$ 10,043,031</u>	<u>\$ 12,328,151</u>
<b>Liabilities</b>					
Accounts payable	\$ 79,528	\$ 16,371	\$ -	\$ 2,692,636	\$ 2,788,535
Salaries and benefits payable	371,093	393	-	-	371,486
Unearned revenue	-	4,853	-	-	4,853
Total liabilities	<u>450,621</u>	<u>21,617</u>	<u>-</u>	<u>2,692,636</u>	<u>3,164,874</u>
<b>Fund Balances</b>					
Nonspendable	102,036	-	-	-	102,036
Restricted	-	8,282	60,829	7,350,395	7,419,506
Unassigned	1,641,735	-	-	-	1,641,735
Total fund balances	<u>1,743,771</u>	<u>8,282</u>	<u>60,829</u>	<u>7,350,395</u>	<u>9,163,277</u>
Total liabilities and fund balances	<u>\$ 2,194,392</u>	<u>\$ 29,899</u>	<u>\$ 60,829</u>	<u>\$ 10,043,031</u>	<u>\$ 12,328,151</u>

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Reconciliation of the Balance Sheet to  
the Statement of Net Position - Governmental Funds  
June 30, 2017**

Total fund balances - governmental funds	\$ 9,163,277
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	17,514,749
Less accumulated depreciation	(96,714)
Long-term liabilities, including bonds payable, 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	(25,495,000)
Unamortized premium on bonds payable	(601,873)
Net pension liability	(8,154,436)
Deferred outflows related to pension liability	5,221,006
Deferred inflows related to pension liability	(138,259)
Governmental funds do not report a liability for accrued interest on bonds until due and payable.	<u>(624,861)</u>
Total net position - governmental activities	<u><u>\$ (3,212,111)</u></u>

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2017**

	General	Food Service	Community Service	Building Company	Total Governmental Funds
<b>Revenues</b>					
Other local revenues	\$ 166,266	\$ -	\$ -	\$ 8,561	\$ 174,827
Revenue from state sources	4,614,074	10,433	-	-	4,624,507
Revenue from federal sources	200,761	51,826	-	-	252,587
Sales and Other Conversion of Assets	52,153	74,436	-	-	126,589
Total revenues	<u>5,033,254</u>	<u>136,695</u>	<u>-</u>	<u>8,561</u>	<u>5,178,510</u>
<b>Expenditures</b>					
Current					
Administration	269,255	-	-	-	269,255
District support services	379,744	-	-	-	379,744
Elementary and secondary regular					
Instruction	1,942,008	-	-	-	1,942,008
Special education instruction	811,342	-	-	-	811,342
Instructional support services	287,535	-	-	-	287,535
Pupil support services	178,732	-	-	-	178,732
Sites and buildings	883,632	-	-	538,246	1,421,878
Fiscal and other fixed cost programs	19,376	-	-	753,999	773,375
Food service	-	133,059	-	-	133,059
Capital outlay					
Administration	1,922	-	-	-	1,922
District support services	12,141	-	-	-	12,141
Elementary and secondary regular					
Instruction	118,726	-	-	-	118,726
Special education instruction	466	-	-	-	466
Sites and buildings	5,360	-	-	12,207,298	12,212,658
Food service	-	1,076	-	-	1,076
Total expenditures	<u>4,910,239</u>	<u>134,135</u>	<u>-</u>	<u>13,499,543</u>	<u>18,543,917</u>
Excess of revenues over (under) expenditures	123,015	2,560	-	(13,490,982)	(13,365,407)
<b>Fund Balances</b>					
Beginning of year	<u>1,620,756</u>	<u>5,722</u>	<u>60,829</u>	<u>20,841,377</u>	<u>22,528,684</u>
End of year	<u>\$ 1,743,771</u>	<u>\$ 8,282</u>	<u>\$ 60,829</u>	<u>\$ 7,350,395</u>	<u>\$ 9,163,277</u>

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances  
to the Statement of Activities - Governmental Funds  
Year Ended June 30, 2017**

Net change in fund balances - total governmental funds	\$ (13,365,407)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are 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 outlays	12,852,035
Depreciation expense	(27,041)

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 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.

	(508,083)
--	-----------

Governmental funds report the effects of bond premiums, discounts and issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Bond premium	20,062
--------------	--------

Governmental Funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.

	(1,017,062)
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Change in net position - governmental activities	\$ (2,045,496)
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**Davinci Academy of Arts and Science  
Charter School No. 4185  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance -  
Budget and Actual - General Fund  
Year Ended June 30, 2017**

	Budgeted amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
<b>Revenues</b>				
Other local revenues	\$ 86,900	\$ 187,900	\$ 166,266	\$ (21,634)
Revenue from state sources	4,236,573	4,477,869	4,614,074	136,205
Revenue from federal sources	193,488	191,721	200,761	9,040
Sales and other conversion of assets	15,000	9,000	52,153	43,153
Total revenues	<u>4,531,961</u>	<u>4,866,490</u>	<u>5,033,254</u>	<u>166,764</u>
<b>Expenditures</b>				
Current				
Administration	265,095	273,340	269,255	(4,085)
District support services	363,263	387,812	379,744	(8,068)
Elementary and secondary regular				
Instruction	1,710,249	1,906,922	1,942,008	35,086
Special education instruction	701,481	681,478	811,342	129,864
Instructional support services	257,716	324,371	287,535	(36,836)
Pupil support services	227,961	191,130	178,732	(12,398)
Sites and buildings	887,314	944,970	883,632	(61,338)
Fiscal and other fixed cost programs	1,000	25,000	19,376	(5,624)
Capital outlay				
Administration	-	1,520	1,922	402
District support services	7,200	10,900	12,141	1,241
Elementary and secondary regular				
Instruction	48,130	91,010	118,726	27,716
Special education instruction	-	-	466	466
Instructional support services	-	80,000	-	(80,000)
Sites and buildings	2,000	7,360	5,360	(2,000)
Total expenditures	<u>4,471,409</u>	<u>4,925,813</u>	<u>4,910,239</u>	<u>(15,574)</u>
Excess of revenues over (under) expenditures	60,552	(59,323)	123,015	182,338
<b>Other Financing Uses</b>				
Transfers out	<u>(5,050)</u>	<u>(5,050)</u>	<u>-</u>	<u>5,050</u>
Net change in fund balance	<u>\$ 55,502</u>	<u>\$ (64,373)</u>	123,015	<u>\$ 187,388</u>
<b>Fund Balance</b>				
Beginning of year			<u>1,620,756</u>	
End of year			<u>\$ 1,743,771</u>	

See notes to financial statements.



**Davinci Academy of Arts and Science  
Charter School No. 4185  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance -  
Budget and Actual - Food Service Fund  
Year Ended June 30, 2017**

	Budgeted amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
<b>Revenues</b>				
Revenue from state sources	\$ 6,050	\$ 8,200	\$ 10,433	\$ 2,233
Revenue from federal sources	38,222	50,600	51,826	1,226
Sales and other conversion of assets	-	-	-	-
Total revenues	<u>44,272</u>	<u>58,800</u>	<u>62,259</u>	<u>3,459</u>
<b>Expenditures</b>				
Current				
Food service	114,172	134,568	133,059	(1,509)
<b>Capital outlay</b>				
Food service	-	-	1,076	1,076
Total expenditures	<u>114,172</u>	<u>134,568</u>	<u>134,135</u>	<u>(433)</u>
Excess of revenues over (under) expenditures	(69,900)	(75,768)	(71,876)	3,892
<b>Other Financing Sources</b>				
Transfers in	<u>5,000</u>	<u>5,050</u>	<u>-</u>	<u>(5,050)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (70,718)</u>	(71,876)	<u>\$ (1,158)</u>
<b>Fund Balance</b>				
Beginning of year			<u>5,722</u>	
End of year			<u>\$ (66,154)</u>	

**Davinci Academy of Arts and Science  
Charter School No. 4185  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance -  
Budget and Actual - Community Service Fund  
Year Ended June 30, 2017**

	Budgeted amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
<b>Revenues</b>				
Other local revenues	\$ -	\$ -	\$ -	\$ -
<b>Expenditures</b>				
Current				
Community education and services	-	-	-	-
Excess of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
<b>Fund Balance</b>				
Beginning of year			<u>60,829</u>	
End of year			<u>\$ 60,829</u>	

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Academy is a nonprofit corporation that was formed and began operating in July 2007 in accordance with *Minnesota Statutes* 317A. The Academy is authorized by Friends of Education, a nonprofit organization. The Academy is a public school which served Kindergarten through 8<sup>th</sup> grade in the 2016-2017 school year. The mission of the Academy is to awaken a passion for learning through an enriched and individualized approach to education. Students, parents, and teachers will work together to ensure positive character development and building a strong foundation for higher education. The governing body consists of a Board of Directors composed of a President, Vice President, Secretary, Treasurer, and other members.

The accounting policies of the Academy 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 Academy and its component units. The Academy 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 appointed officials of the Academy are financially accountable and are included within the financial statements of the Academy because of the significance of their operational or financial relationships with the Academy.

The Academy 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 Academy.

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 Academy.

**1. Blended Component Unit**

The DaVinci Academy Affiliated Building Company 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 Academy. Repayment generally occurs through a rent payment by the Academy 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 DaVinci Academy Affiliated Building Company.

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Reporting Entity (Continued)**

**1. Blended Component Unit (Continued)**

The DaVinci Academy Affiliated Building Company was organized to operate exclusively in support of the Academy and in particular to purchase, own and/or construct a school house for lease to the Academy. The Affiliated Building Company is governed by a three member board appointed by the Academy's board.

Aside from its authorizing, Friends of Education has no authority, control, power, or administrative responsibilities over the Academy. Therefore, the Academy is not considered a component unit of Friends of Education.

Any student activities the Academy may have are accounted for in the General Fund.

**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 Academy.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are 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. 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. 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.

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

**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 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. Grants and similar revenues are recognized when all eligibility requirement imposed by the provider have been met. Other revenue is considered available if collected within 60 days.

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt or compensated absences, if any, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General fund, capital outlay expenditures are included within the applicable functional areas. The Academy applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the Academy 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 Academy operates as a nonprofit corporation under *Minnesota Statutes* 317A. However, state law also requires the Academy comply with Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota School Districts 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 on following page.

**Major Funds:**

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

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for the Academy's after school program revenues and expenditures.

Affiliated Building Company Fund – This fund is used to account for the financial activity of the affiliated building company, including debt service in outstanding bonds.

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The Academy categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

Cash with fiscal agent represents dollars held by others on behalf of the building company. Interest earnings are restricted to the funds that generate them.

Cash and investments at June 30, 2017, were comprised of deposits and brokered money markets.

*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 Academy 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 Academy as assets with an initial individual cost of more than \$1,000. 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 its acquisition value at the date of donation.

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Capital Assets (Continued)**

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. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the Academy, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 5 to 20 years for furniture, building improvements, computer equipment, and other equipment.

**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 Academy has one item that qualifies for reporting in this category. A deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

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 Academy has one item which qualifies for reporting in this category. A deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

**H. 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 Teacher's Retirement Fund Association (DTRFA) in 2015.

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Vacation Pay and Sick Leave**

Substantially all Academy employees are entitled to vacation pay and sick leave at various rates. Employees are not compensated for unused vacation pay and sick leave upon termination of employment. No long-term liability for unused vacation pay and sick leave has been recorded.

**J. Risk Management**

The Academy 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 Academy carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions or other significant changes in the Academy's insurance coverage during the year ended June 30, 2017.

**K. Fund Equity**

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

- Nonspendable fund balances – These are amounts that cannot be spent because they are not in spendable form.
- Restricted Fund Balances – These are amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments or b) imposed by law through enabling legislation are classified as restricted fund balances.
- Assigned Fund Balances – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the Board of Trustees (highest level of decision making authority) through resolution are classified as committed fund balances. Amounts that are constrained by the Academy's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances.
- Unassigned Fund Balance – These represent fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.
- Minimum Fund Balance - At June 30, 2017, the Academy did not have a formal policy to maintain a minimum unassigned general fund balance.

**L. Net Position**

Net position represents the difference between assets, deferred outflows of resources, 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.



**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

The Academy 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 Academy has determined there are not amounts to record as assets or liabilities related to uncertain tax positions.

**O. Budgetary Information**

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

1. Prior to July 1, the Director of the Academy submits to the Academy'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. Formal budgetary integration is employed as a management control device during the year for the General, and Food Service Funds.
3. Budgets for the General and Food Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America
4. Budgets are as originally adopted or as amended by the Board of Directors. Budgeted expenditure appropriations lapse at year-end.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

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

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**A. Deposits (Continued)**

**Custodial Credit Risk – Deposits:** This is the risk that, in the event of the failure of a depository financial institution, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. *Minnesota Statutes* requires all deposits be protected by federal depository 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. The Academy's policy states that full collateralization is required on all demand deposit accounts. As of June 30, 2017, the Academy's bank balance was not exposed to custodial credit risk because it was covered by FDIC and collateral pledged. The Academy's deposits had a book balance as follows:

Deposits	\$ 1,278,180
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**B. Investments**

As of June 30, 2017, the Academy had the following investments:

Investment Type	Fair Value	Maturities Less than 1 Year	Credit Rating
Brokered money markets	\$ 10,043,031	\$ 10,043,031	N/A

**Interest Rate Risk:** This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The Academy's investment policy states it will minimize interest rate risk by investing in shorter-term securities and structuring the portfolio so securities mature to meet cash requirements for ongoing operations.

**Credit Risk:** This is the risk an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top two ratings issued by nationally recognized statistical rating organizations. The Academy's investment policy limits its investments to those allowed by state statutes.

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of an investment in a single issuer. The Academy's investment policy states it will diversify its investment portfolio to avoid risk of loss due to over concentration in a specific issuer.

**Custodial Credit Risk – Investments:** This is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy's investment policy requires all investments be held in safekeeping by an independent third-party custodian and all investments shall be fully collateralized.

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

The Academy has the following recurring fair value measurements as of June 30, 2017:

- Brokered Money Markets of \$10,043,031 are valued using quoted market prices (Level 1 Inputs).

**C. Deposits and Investments**

The following is a summary of total deposits and investments:

Deposits	\$ 1,278,180
Investments	<u>10,043,031</u>
Total deposits and investments	<u><u>\$ 11,321,211</u></u>

Deposits and investments are presented in the June 30, 2017, basic financial statements as follows:

Statement of Net Position	
Cash	\$ 1,278,180
Cash with fiscal agent	<u>10,043,031</u>
Total deposits and investments	<u><u>\$ 11,321,211</u></u>

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Construction in progress	\$ 4,448,967	\$ 12,744,311	\$ -	\$ 17,193,278
Capital assets being depreciated				
Furniture and equipment	<u>240,218</u>	<u>107,724</u>	<u>26,471</u>	<u>321,471</u>
Less accumulated depreciation for				
Furniture and equipment	<u>96,144</u>	<u>27,041</u>	<u>26,471</u>	<u>96,714</u>
Total capital assets being depreciated, net	<u>144,074</u>	<u>80,683</u>	<u>-</u>	<u>224,757</u>
Governmental activities, capital assets, net	<u><u>\$ 4,593,041</u></u>	<u><u>\$ 12,824,994</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 17,418,035</u></u>

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Notes to Financial Statements**

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense of \$27,041 for the year ended June 30, 2017, was charged to the following governmental functions:

Administration	\$ 483
District support services	1,274
Elementary and secondary regular instruction	17,468
Community education and services	1,183
Instructional support services	1,523
Food service	36
Sites, buildings, and equipment	<u>5,074</u>
Total depreciation expense	<u><u>\$ 27,041</u></u>

**NOTE 4 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-term liabilities						
Charter School Lease Revenue Bonds, 2016A	05/25/16	4.000% -5.000 %	\$ 22,805,000	07/01/47	\$ 22,805,000	\$ -
Charter School Lease Revenue Bonds, 2016B	05/25/16	4.500% -5.500 %	2,690,000	07/01/25	<u>2,690,000</u>	<u>-</u>
Total lease revenue bonds					25,495,000	-
Premium on bonds					<u>601,873</u>	<u>-</u>
Total all long-term					<u><u>\$ 26,096,873</u></u>	<u><u>\$ -</u></u>

The long-term bonds listed above were issued to finance acquisition and construction of capital facilities.

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**B. Minimum Debt Payments for Bonds**

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

Year Ending June 30,	Charter School Lease Revenue Bonds		
	Principal	Interest	Total
2018	\$ -	\$ 1,256,665	\$ 1,256,665
2019	-	1,256,665	1,256,665
2020	140,000	1,253,515	1,393,515
2021	255,000	1,244,309	1,499,309
2022	375,000	1,228,878	1,603,878
2023-2027	2,740,000	5,765,266	8,505,266
2028-2032	3,415,000	5,072,000	8,487,000
2033-2037	4,340,000	4,121,250	8,461,250
2038-2042	5,535,000	2,893,125	8,428,125
2043-2047	7,065,000	1,325,125	8,390,125
2048	1,630,000	40,750	1,670,750
Total	<u>\$ 25,495,000</u>	<u>\$ 25,457,548</u>	<u>\$ 50,952,548</u>

**C. Changes in Long-Term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	\$ 25,495,000	\$ -	\$ -	\$ 25,495,000
Premium on Bonds	<u>621,935</u>	<u>-</u>	<u>20,062</u>	<u>601,873</u>
Total	<u>\$ 26,116,935</u>	<u>\$ -</u>	<u>\$ 20,062</u>	<u>\$ 26,096,873</u>

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

The Academy participates in various pension plans, total pension expense for the year ended June 30, 2017, was \$1,293,630. The components of pension expense are noted in the following plan summaries.

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**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.

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*

<u>Tier 1</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
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.

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

- 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).

*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 and June 30, 2017, were:

	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**C. Contribution Rate (Continued)**

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.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 354,961,140
Add employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	<u>(442,978)</u>
Total employer contributions	354,544,518
Total non-employer contributions	<u>35,587,410</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 390,131,928</u></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.



**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions**

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

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Key Methods and Assumptions Used in Valuation of Total Pension Liability

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**Actuarial Information**

Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the single equivalent interest rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50-9.50%
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 set rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

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:

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term</u>
Domestic stocks	45 %	5.50 %
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	2	0.50
Total	<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.

**E. Discount Rate**

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

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability**

On June 30, 2017, the Academy reported a liability of \$7,537,354 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy'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. Academy proportionate share was 0.0316% at the end of the measurement period and 0.0290% 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 Academy 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 Academy were as follows:

Academy's proportionate share of net pension liability	\$ 7,537,354
State's proportionate share of the net pension liability associated with the district	757,167

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.

For the year ended June 30, 2017, the Academy recognized pension expense of \$1,233,696. It also recognized \$105,726 as an increase to pension expense for the support provided by direct aid.

On June 30, 2017, the Academy had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 73,710	\$ 210
Net difference between projected and actual earnings on plan investments	314,110	-
Changes of assumptions	4,288,334	-
Changes in proportion	172,730	41,976
Academy's contributions to tra subsequent to measurement date	130,185	-
Total	<u>\$ 4,979,069</u>	<u>\$ 42,186</u>

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability (Continued)**

\$130,185 reported as deferred outflows of resources related to pensions resulting from Academy contributions to TRA subsequent to the measurement date will be recognized as a relation of the net pension liability in the year ended June 30, 2018.

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

2018	\$ 950,437
2019	950,437
2020	1,056,521
2021	986,624
2022	<u>862,679</u>
Total	<u><u>\$ 4,806,698</u></u>

**G. Pension Liability Sensitivity**

The following presents the Academy's proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using 1 percentage point lower and 1 percentage point higher.

Academy proportionate share of NPL		
1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
<u>                    </u>	<u>                    </u>	<u>                    </u>
\$ 9,709,996	\$ 7,537,354	\$ 5,767,808

The Academy'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](http://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.

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association**

**A. Plan Description**

The Academy 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 Academy other than teachers are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**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 and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

General Employees Plan Benefits (Continued)

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in fiscal year 2017. The Academy was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members in fiscal year 2017. The Academy's contributions to the General Employees Fund for the plan's fiscal year ended June 30, 2017, were \$40,658. The Academy's contributions were equal to the required contributions for each year as set by state statute.

**C. Pension Costs**

General Employees Fund Pension Costs

At June 30, 2017, the Academy reported a liability of \$617,082 for its proportionate share of the General Employees Fund's net pension liability. The Academy's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. 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 Academy totaled \$8,060. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Academy's proportion was 0.0076%, which was a decrease of .0009% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Academy recognized pension expense of \$59,934 for its proportionate share of the General Employees Plan's pension expense. In addition, the Academy recognized an additional \$2,403 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.

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**C. Pension Costs (Continued)**

At June 30, 2017, the Academy reported its proportionate share of GERS's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the sources on the following page.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,138	\$ 51,696
Changes in actuarial assumptions	135,188	-
Difference between projected and actual investments earnings	63,954	-
Changes in proportion and differences between contributions made and district's proportion share of contributions	-	44,377
Academy's contributions to PERA subsequent to the measurement date	<u>40,657</u>	<u>-</u>
	<u><u>\$ 241,937</u></u>	<u><u>\$ 96,073</u></u>

\$40,657 reported as deferred outflows of resources related to pensions resulting from Academy contributions to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERS pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2018	\$ 25,192
2019	8,691
2020	49,034
2021	<u>22,290</u>
Total	<u><u>\$ 105,207</u></u>

**DaVinci Academy of Arts and Science  
Charter School No. 4185  
Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

GERF

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. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016, 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 2016:

- 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, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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 on a regular basis 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.



**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

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

Asset Class	Target Allocation	Long-Term
Domestic stocks	45 %	5.50 %
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50
	<hr/>	
Total	100 %	
	<hr/>	

**E. Discount Rates**

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. 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.

**F. Pension Liability Sensitivity**

The following table presents the Academy'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 Academy'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:

	1% Decrease in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
	<hr/>	<hr/>	<hr/>
Academy's proportionate share of the PERA net pension liability	\$ 876,440	\$ 617,082	\$ 403,442

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**G. 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](http://www.mnpera.org).

**NOTE 6 – COMMITMENTS**

**A. Lease Commitments and Terms**

The Academy entered into a lease agreement for office and classroom space for a period of ten years beginning August 1, 2008. The Academy paid rent of \$691,563 under this agreement during the year ended June 30, 2017. On May 1, 2016, the academy entered into a new lease agreement for office and classroom space for a period of thirty-five years. Future minimum lease payments on this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 1,201,640
2019	1,426,665
2020	1,535,365
2021	1,643,253
2022	1,764,503
2023-2027	8,858,766
2028-2032	9,018,000
2033-2037	9,017,750
2038-2042	9,019,750
2043-2047	<u>9,013,500</u>
Total	<u><u>52,499,192</u></u>

For 2017, the Academy qualified for state charter school lease aid which equaled the lesser of 90% of the approved lease cost or \$1,314 per pupil units served, or \$600,524.

The Academy'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 Academy and sufficient state aids per student being authorized and received from the State of Minnesota. The Academy believes its enrollments and aid entitlements will be sufficient to meet the lease obligations as they become due.

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to Financial Statements**

**NOTE 6 – COMMITMENTS (CONTINUED)**

**B. Construction Commitments**

At June 30, 2017, the Academy had commitments for various construction contracts in the Building Company Fund with a remaining balance of \$5,203,468.

**NOTE 7 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**Davinci Academy of Arts and Science**  
**Schedule of Academy's and Non-employer Proportionate Share**  
**of Net Pension Liability**  
**Last Ten Years GERS Retirement Funds**

For Fiscal Year Ended June 30,	Academy's Proportion of the Net Pension Liability (Asset)	Academy's Proportionate Share of the Net Pension Liability (Asset)	Academy's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	Academy's Proportionate Share of the Net Pension Liability and Academy's Share of the State of Minnesota's Share of the Net Pension of Liability	Academy's Covered- Employee Payroll	Academy'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
2015	0.0089%	\$ 418,077	\$ -	\$ 418,077	\$ 469,145	89.1%	78.7%
2016	0.0085%	440,514	-	440,514	492,160	89.5%	78.2%
2017	0.7600%	617,082	8,060	625,142	473,427	130.3%	68.9%

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

**Schedule of Academy's and Non-employer Proportionate Share**  
**of Net Pension Liability**  
**Last Ten Years TRA Retirement Funds**

For Fiscal Year Ended June 30,	Academy's Proportion of the Net Pension Liability (Asset)	Academy's Proportionate Share of the Net Pension Liability (Asset)	Academy's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	Academy's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	Academy's Covered- Employee Payroll	Academy'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
2015	0.0316%	\$ 1,456,105	\$ 102,365	\$ 1,558,470	\$ 1,443,043	100.9%	81.5%
2016	0.0290%	1,793,937	220,333	2,014,270	1,470,080	122.0%	76.8%
2017	0.0316%	7,537,354	757,167	8,294,521	1,644,267	458.4%	44.9%

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

**Davinci Academy of Arts and Science  
Schedule of Academy Contributions  
GERF Retirement Funds  
Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Academy's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 34,013	\$ 34,013	\$ -	\$ 469,145	7.25%
2015	36,912	36,912	-	492,160	7.50%
2016	35,507	35,507	-	473,427	7.50%
2017	40,658	40,658	-	542,107	7.50%

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

**Schedule of Academy Contributions  
TRA Retirement Funds  
Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Academy's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 101,013	\$ 101,013	\$ -	\$ 1,443,043	7.00%
2015	110,256	110,256	-	1,470,080	7.50%
2016	123,320	123,320	-	1,644,267	7.50%
2017	130,185	130,185	-	1,735,800	7.50%

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

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to the Required Supplementary Information**

**TRA Retirement Funds**

**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.

**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**

**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%.



**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2016 Changes (Continued)**

- 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**

**DaVinci Academy of Arts and Science**  
**Charter School No. 4185**  
**Uniform Financial Accounting and Reporting Standards**  
**Compliance Table**  
**Year Ended June 30, 2017**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 General Fund</b>				<b>06 Building Construction Fund</b>			
Total revenue	\$ 5,033,254	\$ 5,033,255	\$ (1)	Total revenue	\$ -	\$ -	\$ -
Total expenditures	4,910,239	4,910,240	(1)	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	102,036	102,036	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	-	-	-	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted fund balance	-	-	-
409 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
413 Building Projects Funded by COP/LP	-	-	-	463 Unassigned fund balance	-	-	-
414 Operating Debt	-	-	-				
416 Levy Reduction	-	-	-	<b>07 Debt Service Fund</b>			
417 Taconite Building Maintenance	-	-	-	Total revenue	\$ -	\$ -	\$ -
424 Operating Capital	-	-	-	Total expenditures	-	-	-
426 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable fund balance	-	-	-
428 Learning and Development	-	-	-	<i>Restricted/reserved:</i>			
434 Area Learning Center	-	-	-	425 Bond refunding	-	-	-
435 Contracted Alternative Programs	-	-	-	451 QZAB and QSCB payments	-	-	-
436 State Approved Alternative Program	-	-	-	<i>Restricted:</i>			
438 Gifted and Talented	-	-	-	464 Restricted fund balance	-	-	-
440 Teacher Development and Evaluation	-	-	-	<i>Unassigned:</i>			
441 Basic Skills Programs	-	-	-	463 Unassigned fund balance	-	-	-
445 Career Technical Programs	-	-	-				
446 First Grade Preparedness	-	-	-	<b>08 Trust Fund</b>			
448 Achievement and Integration Revenue	-	-	-	Total revenue	\$ -	\$ -	\$ -
449 Safe School Crime	-	-	-	Total expenditures	-	-	-
450 Transition for Pre-kindergarten	-	-	-	<i>Unassigned:</i>			
451 QZAB and QCSB Payments	-	-	-	422 Unassigned fund balance (net position)	-	-	-
452 OPEB Liabilities Not Held in Trust	-	-	-				
453 Unfunded Severance and Retirement Levy	-	-	-	<b>20 Internal Service Fund</b>			
<i>Restricted:</i>				Total revenue	\$ -	\$ -	\$ -
464 Restricted fund balance	-	-	-	Total expenditures	-	-	-
<i>Committed:</i>				<i>Unassigned:</i>			
418 Committed for separation	-	-	-	422 Unassigned fund balance (net position)	-	-	-
461 Committed	-	-	-				
<i>Assigned:</i>				<b>25 OPEB Revocable Trust</b>			
462 Assigned fund balance	-	-	-	Total revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total expenditures	-	-	-
422 Unassigned fund balance (net position)	1,641,735	1,641,734	1	<i>Unassigned:</i>			
				422 Unassigned fund balance (net position)	-	-	-
<b>02 Food Services Fund</b>							
Total revenue	\$ 136,695	\$ 136,695	\$ -	<b>45 OPEB Irrevocable Trust</b>			
Total expenditures	134,135	134,132	3	Total revenue	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total expenditures	-	-	-
460 Nonspendable fund balance	-	-	-	<i>Unassigned:</i>			
<i>Restricted/reserved:</i>				422 Unassigned fund balance (net position)	-	-	-
452 OPEB liabilities not held in trust	-	-	-				
<i>Restricted:</i>				<b>47 OPEB Debt Service</b>			
464 Restricted fund balance	8,282	8,282	-	Total revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total expenditures	-	-	-
463 Unassigned fund balance	-	-	-	<i>Nonspendable:</i>			
				460 Nonspendable fund balance	-	-	-
<b>04 Community Service Fund</b>				<i>Restricted:</i>			
Total revenue	\$ -	\$ -	\$ -	425 Bond refundings	-	-	-
Total expenditures	-	-	-	464 Restricted fund balance	-	-	-
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable fund balance	-	-	-	463 Unassigned fund balance	-	-	-
<i>Restricted/reserved:</i>							
426 \$25 taconite	-	-	-				
431 Community education	-	-	-				
432 ECCE	-	-	-				
440 Teacher Development and Evaluation	-	-	-				
444 School Readiness	-	-	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted fund balance	60,829	60,829	-				
<i>Unassigned:</i>							
463 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 School Board  
DaVinci Academy of Arts and Science  
Ham Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund of DaVinci Academy of Arts and Science, Ham Lake, Minnesota, as of and for the year ending June 30, 2017, and the related notes to financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 23, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Academy'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**

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Academy's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in dark ink that reads 'BerganKDV Ltd.' followed by a period.

Minneapolis, Minnesota  
October 23, 2017

## Report on Legal Compliance

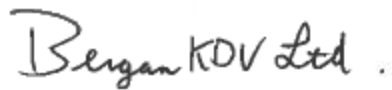
To the Board of Directors  
DaVinci Academy of Arts and Science  
Ham Lake, Minnesota

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 DaVinci Academy of Arts and Science, Ham Lake, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated October 23, 2017.

The *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 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 Academy failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Academy's noncompliance with the above referenced provisions.

The purpose of this report is 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.



Minneapolis, Minnesota  
October 23, 2017