DAVINCI ACADEMY OF ARTS AND SCIENCE
HAM LAKE, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
June 30, 2018

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DAVINCI ACADEMY OF ARTS AND SCIENCE

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DAVINCI ACADEMY OF ARTS AND SCIENCE

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INTRODUCTORY SECTION

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DAVINCI ACADEMY OF ARTS AND SCIENCE

Board of Directors and Administration
as of June 30, 2018

BOARD OF DIRECTORS

	Position
Matthew Manning	Board President
Melanie Persellin	Board Vice President
Valerie Slaymaker	Board Treasurer
Brian Mueggenberg	Board Secretary
Jane Ahlstrom	Board Member
Mark Guy	Board Member
Michelle Ingram	Board Member
Ross Meisner	Board Member
Andrew Wallschlaeger	Board Member

ADMINISTRATION

Debra Lach	Executive Director
Terry Moffatt	Academic Director
Holly Fischer	Director of Operations
Jack Shields	Dean of Students
Jenelle Moehn	Director of Teaching and Learning

BUILDING COMPANY BOARD OF DIRECTORS

Dale Lieb	Board Chair
Richard Reiling	Board Treasurer
Terry Moffatt	Board Clerk

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FINANCIAL SECTION

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management of
DaVinci Academy of Arts and Science and
DaVinci Academy Affiliated Building Company
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 (the Academy) as of and for the year ended June 30, 2018, and the related notes to the 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.

(continued)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Academy as of June 30, 2018, and the respective changes in financial position and the budgetary comparison for the General Fund, the Food Service Special Revenue Fund, and the Community Service Special Revenue 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 and the required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI 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 introductory section and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements.

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

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

(continued)

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 20, 2018 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 20, 2018

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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, 2018. We encourage readers to consider the information presented here in conjunction with the other components of the Academy's annual financial statements.

The financial statements and discussion in this document presented for the Academy refers to both the Academy and the Davinci Academy Affiliated Building Company (the Building Company), unless otherwise specified. The Building Company is a component unit and separate legal entity, which owns the building that the Academy rents for its educational program.

FINANCIAL HIGHLIGHTS

The Academy's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources on the Statement of Net Position at June 30, 2018 by $4,060,631 (deficit net position). The Academy's net position decreased by $848,520 during the fiscal year ended June 30, 2018.

The Academy ended the year with a General Fund balance of 14.8 percent of General Fund expenditures.

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;
- Required supplementary information related to defined benefit pension plans liabilities and contributions; and
- 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, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two entity-wide financial statements report the Academy's *net position* and how it has changed. Net position—the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the Academy's financial health or *position*. Over time, increases or decreases in the Academy's net position are indicators 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 the Academy's buildings and other facilities.

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 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 financial statements provide 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 financial statements that explain the relationship (or differences) between these two types of financial statement presentations.

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

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

Table 1
Summary of Net Position
as of June 30, 2018 and 2017

	2018	2017
Assets		
Current and other assets	$ 2,638,743	$ 2,285,120
Capital assets, net of accumulated depreciation	22,716,389	17,418,035
Restricted assets		
Cash and investments	2,878,074	10,043,031
Total assets	28,233,206	29,746,186
Deferred outflows of resources		
Pension plan deferments	4,005,025	5,221,006
Total assets and deferred outflows of resources	$ 32,238,231	$ 34,967,192
Liabilities		
Current liabilities	$ 2,197,211	$ 3,789,735
Long-term liabilities, including due within one year	32,940,955	34,251,309
Total liabilities	$ 35,138,166	$ 38,041,044
Deferred inflows of resources		
Pension plan deferments	$ 1,160,696	$ 138,259
Net position		
Net investment in capital assets	$ (482,348)	$ 261,495
Restricted	74,779	69,111
Unrestricted	(3,653,062)	(3,542,717)
Total net position	(4,060,631)	(3,212,111)
Total liabilities, deferred inflows of resources, and net position	$ 32,238,231	$ 34,967,192

The Academy's financial position is the product of many factors. For example, determination of the Academy's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. Changes in variables, such as estimated depreciable lives or capitalization policies may produce significant differences in the calculated amounts. Unrestricted net position includes the Academy's long-term liability for pensions, which are not fully funded.

The Academy's total net position decreased by $848,520, mainly the result of the decline in fund balance in the General Fund. Total assets and deferred outflows of resources decreased by $2,728,961, while total liabilities and deferred inflows of resources decreased by $1,880,441. The majority of these changes were due to changes in the Academy's proportionate share of the Public Employees Retirement Association and the Teachers Retirement Association pension plans reported on the entity-wide financial statements.

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

Table 2
Summary of Activities
for the Years Ended June 30, 2018 and 2017

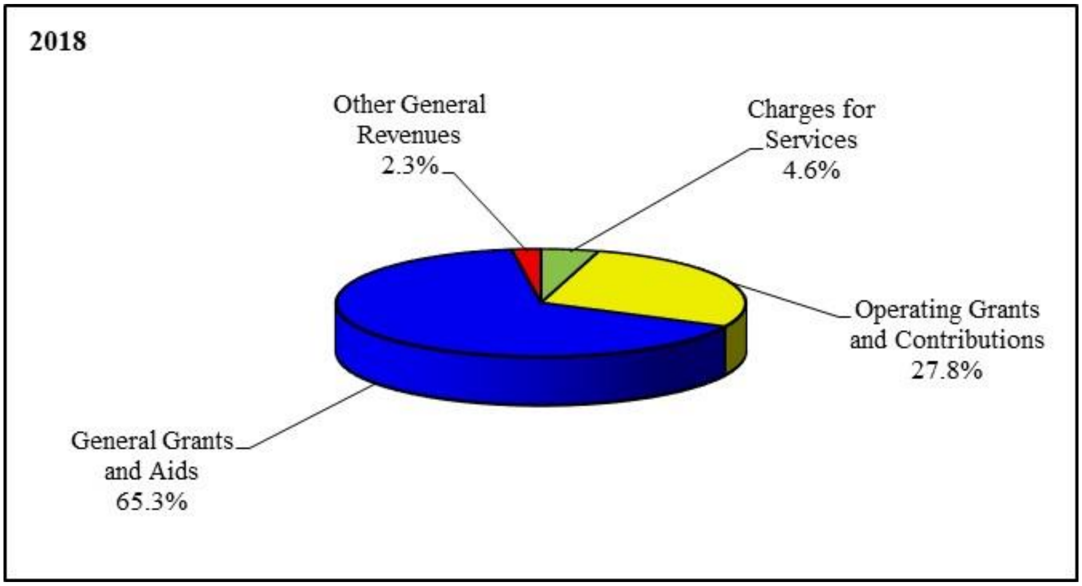
	2018	2017
Revenues		
Program revenues		
Charges for services	$ 383,168	$ 176,559
Operating grants and contributions	2,335,920	1,574,135
Capital grants and contributions	–	20,463
General revenues		
General grants and aids	5,501,307	3,375,844
Other	194,389	124,857
Total revenues	8,414,784	5,271,858
Expenses		
Administration	462,538	395,714
District support services	597,361	439,068
Elementary and secondary regular instruction	3,281,040	2,670,924
Special education instruction	1,894,796	949,555
Instructional support services	409,147	395,308
Pupil support services	346,351	179,964
Sites and buildings	533,045	891,147
Fiscal and other fixed cost programs	21,375	773,375
Food service	327,984	133,095
Community service	149,591	1,183
Interest and fiscal charges	1,240,076	488,021
Total expenses	9,263,304	7,317,354
Change in net position	(848,520)	(2,045,496)
Net position – beginning	(3,212,111)	(1,166,615)
Net position – ending	$ (4,060,631)	$ (3,212,111)

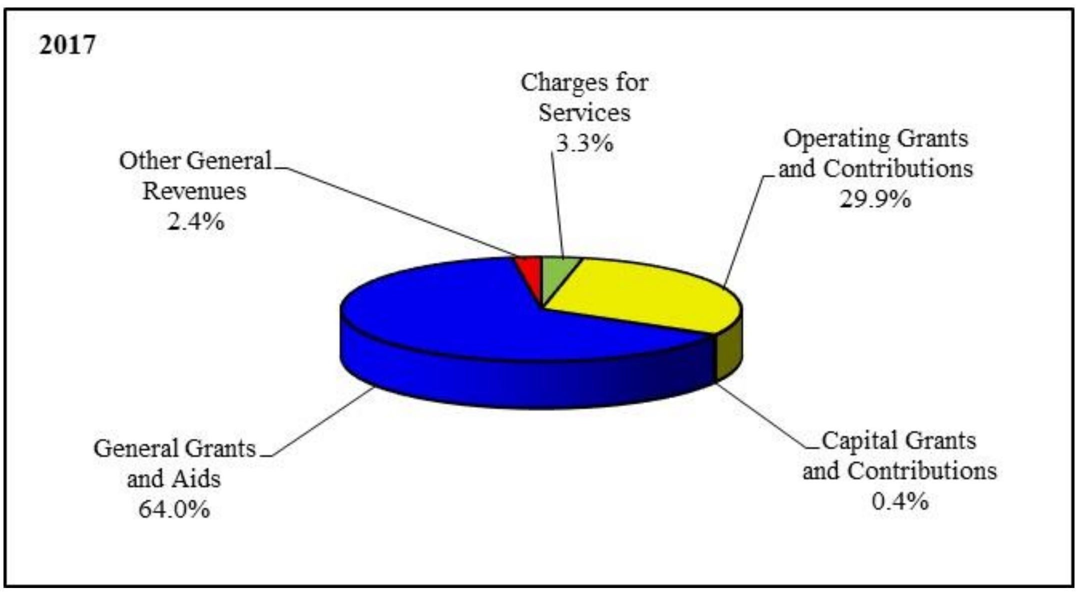
General grants and aids increased due to the increase in average daily membership in the current year as a result of the new school opening. Expense increases were mainly in salaries, benefits, and purchased services, due to an increase in staffing needs to accommodate the additional students.

This format is presented on an accrual basis of accounting and it includes all of the Academy's governmental activities. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal, if any.

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

Figure A – Sources of Revenue for Fiscal Years 2018 and 2017

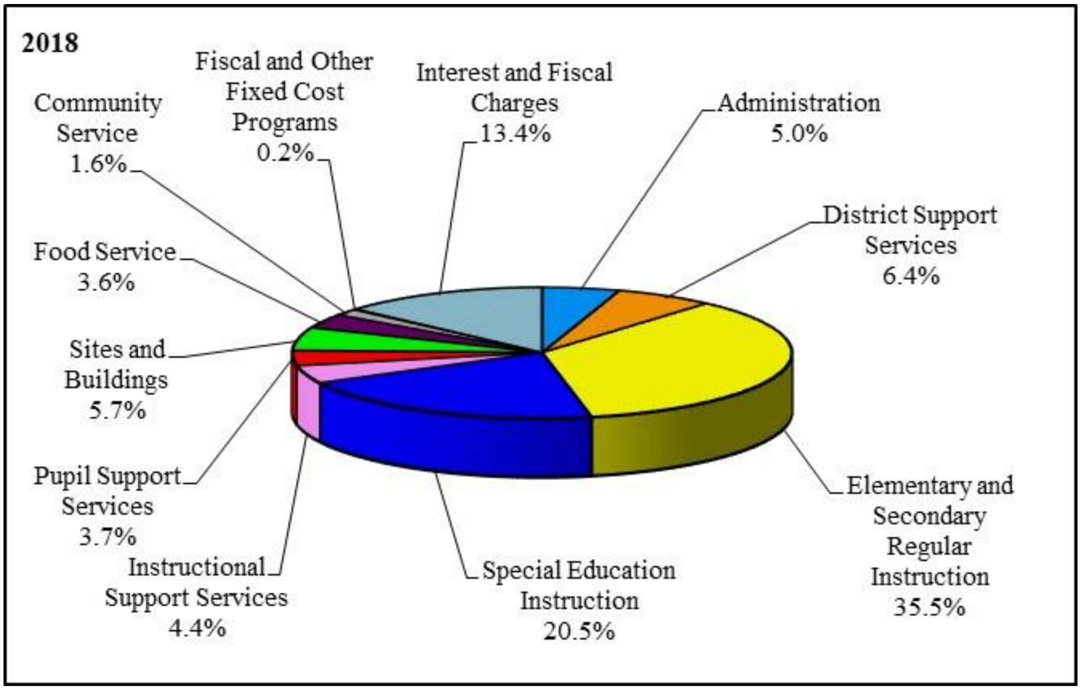


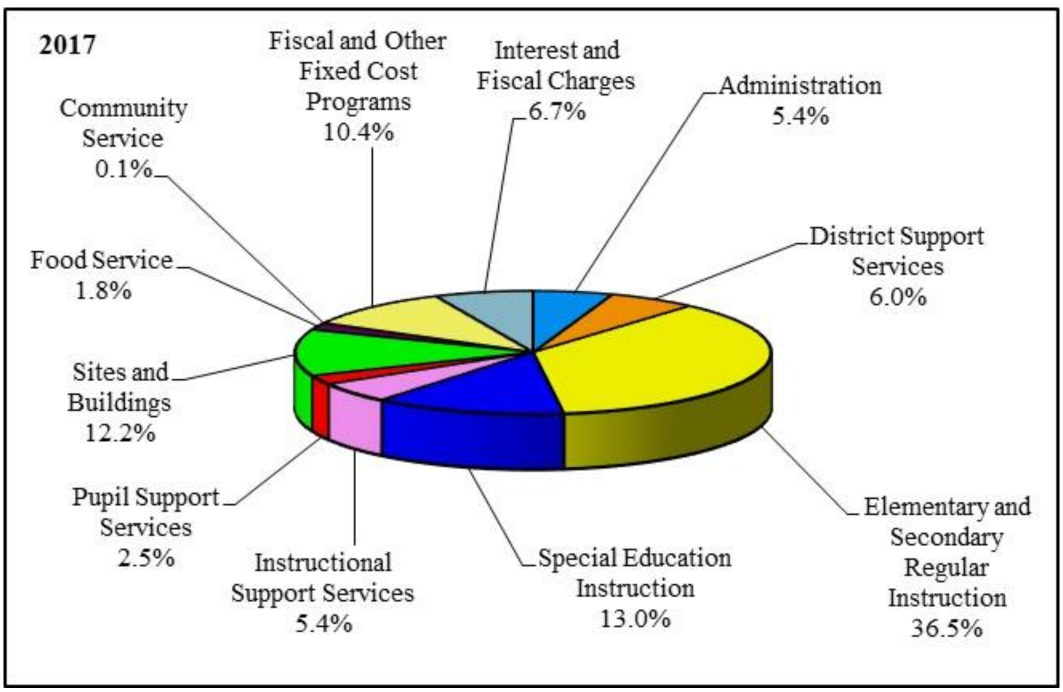


The largest share of the Academy's revenue is received from the state, including most of the operating and general grants. This significant reliance on the state for funding has placed tremendous pressures on local schools as a result of unpredictable and inconsistent funding from the state.

The Academy's total governmental revenues were $8,414,784 for the year ended June 30, 2018, which is an increase of $3,142,926 from the previous year, due to additional state aid received at the Academy.

Figure B – Expenses for Fiscal Years 2018 and 2017





The Academy's expenses are predominately related to educating students. Approximately 60.3 percent of the Academy's expenses for 2018 were in categories directly related to providing instruction, which includes: elementary and secondary regular instruction, special education instruction, and instructional support services.

The combined cost of all of the Academy's governmental activities for 2018 was $9,263,304, which was an increase of $1,945,950 from the prior year. The main increases were in elementary and secondary regular instruction, special education instruction, and interest and fiscal charges.

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, 2018 and 2017

	2018	2017
Governmental funds		
General Fund	$ 1,249,511	$ 1,743,771
Food Service Special Revenue Fund	–	8,282
Community Service Special Revenue Fund	74,779	60,829
Building Company	2,623,649	7,350,395
Total governmental funds	$ 3,947,939	$ 9,163,277

Analysis of the General Fund

Table 4 summarizes the operating results of the General Fund:

Table 4
General Fund
Operating Results
for the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget Amount	Over (Under) Final Budget Percent	Over (Under) Prior Year Amount	Over (Under) Prior Year Percent
Revenue and sale of assets	$ 7,416,066	$ 7,947,100	$ 7,978,467	$ 31,367	0.4%	$ 2,945,213	58.5%
Expenditures	7,387,414	8,397,916	8,450,845	$ 52,929	0.6%	$ 3,540,606	72.1%
Transfers (out)	(5,050)	(11,433)	(21,882)	$ (10,449)	91.4%	$ (21,882)	100.0%
Net change in fund balances	$ 23,602	$ (462,249)	$ (494,260)				

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, 2018, the Academy adjusted its budget mainly for changes anticipated in state revenues and additional costs needed for additional students.

Increases in revenue and expenditures over the prior year relate to serving more students described earlier in this report.

Food Service Special Revenue Fund

The Food Service Special Revenue Fund is used to account for the Academy's child nutrition program. Expenditures exceeded revenues by $30,164 in the Food Service Special Revenue Fund. A transfer from the General Fund of $21,882 was made to eliminate a deficit fund balance.

Community Service Special Revenue Fund

The Community Service Special Revenue Fund is used to account for the Academy's after-school program, DaVinci Den. Revenues exceeded expenditures by $13,950 in the Community Service Special Revenue Fund.

Building Company Special Revenue Fund

The Building Company is a Minnesota nonprofit organization classified by the Internal Revenue Service as a 501(c)(3) tax-exempt organization by reason of its function as a "supporting organization" of the Academy. The Building Company is being operated exclusively in support of the Academy and, in particular, to purchase, own, and construct a public schoolhouse on real estate for lease to the Academy.

Expenditures exceeded revenue by $4,726,746 in the Building Company Special Revenue Fund. The Building Company received building rental payments of $1,201,640 from the school during the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Table 5 shows the Academy's capital assets as of June 30, 2018 and 2017. The table also shows the total depreciation expense for fiscal years ending June 30, 2018 and 2017.

Table 5
Capital Assets
as of June 30, 2018 and 2017

	2018	2017
Building Company		
Construction in progress	$ 21,897,377	$ 17,193,278
Academy		
Building improvements	519,497	44,355
Computer equipment	130,834	143,006
Furniture	23,968	5,494
Other equipment	219,359	128,616
Less accumulated depreciation	(74,646)	(96,714)
Total	$ 22,716,389	$ 17,418,035
Depreciation expense	$ 50,187	$ 27,041

The increase in capital assets relates to the construction of a new school building over the past two years.

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

Debt Administration

Table 6 illustrates the components of the Academy's long-term liabilities, together with the change from the prior year:

Table 6
Outstanding Long-Term Liabilities
as of June 30, 2018 and 2017

	2018	2017	Change
Academy			
Net pension liability	$ 6,864,144	$ 8,154,436	$ (1,290,292)
Building Company			
Revenue bonds payable	25,495,000	25,495,000	–
Discount on bonds payable	581,811	601,873	(20,062)
Total	$ 32,940,955	$ 34,251,309	$ (1,310,354)

Additional details on the Academy's long-term debt activity 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 general education program is the method by which charter schools receive the majority of their financial support. This source of funding is primarily state aid and, as such, charter schools rely heavily on the state of Minnesota for educational resources. The Legislature has added $124, or 2 percent, per pupil to the basic general education funding formula for fiscal year 2019.

The amount of aid a charter school receives is also dependent on the number of students it serves, meaning attracting and retaining students is critical to the Academy's financial well-being.

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 Boulevard Northeast, Ham Lake, Minnesota 55304.

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BASIC FINANCIAL STATEMENTS

DAVINCI ACADEMY OF ARTS AND SCIENCE

Statement of Net Position
as of June 30, 2018

	Governmental Activities
Assets	
Cash and temporary investments	$ 1,325,162
Receivables	
Accounts	123,209
Due from other governmental units	1,118,742
Prepaid items	71,630
Restricted assets – temporarily restricted	
Cash and investments for capital purposes	518,075
Cash and investments for debt service	2,359,999
Total restricted assets – temporarily restricted	2,878,074
Capital assets	
Not depreciated	21,897,377
Depreciated, net of accumulated depreciation	819,012
Total capital assets, net of depreciation	22,716,389
Total assets	28,233,206
Deferred outflows of resources	
Pension plan deferments	4,005,025
Total assets and deferred outflows of resources	$ 32,238,231
Liabilities	
Salaries and benefits payable	$ 540,223
Accounts and contracts payable	1,019,499
Accrued interest payable	628,333
Unearned revenue	9,156
Long-term liabilities	
Due in more than one year	32,940,955
Total liabilities	35,138,166
Deferred inflows of resources	
Pension plan deferments	1,160,696
Net position	
Net investment in capital assets	(482,348)
Restricted for	
Community service	74,779
Unrestricted	(3,653,062)
Total net position	(4,060,631)
Total liabilities, deferred inflows of resources, and net position	$ 32,238,231

See notes to basic financial statements

DAVINCI ACADEMY OF ARTS AND SCIENCE

Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities				
Administration	$ 462,538	$ –	$ –	$ (462,538)
District support services	597,361	–	–	(597,361)
Elementary and secondary regular instruction	3,281,040	108,158	32,359	(3,140,523)
Special education instruction	1,894,796	–	1,210,638	(684,158)
Instructional support services	409,147	–	–	(409,147)
Pupil support services	346,351	–	–	(346,351)
Sites and buildings	533,045	–	961,465	428,420
Fiscal and other fixed cost programs	21,375	–	–	(21,375)
Food service	327,984	133,345	131,458	(63,181)
Community service	149,591	141,665	–	(7,926)
Interest and fiscal charges	1,240,076	–	–	(1,240,076)
Total governmental activities	$ 9,263,304	$ 383,168	$ 2,335,920	(6,544,216)
General revenues				
General grants and aids				5,501,307
Other general revenues				160,757
Investment earnings				33,632
Total general revenues				5,695,696
Change in net position				(848,520)
Net position – beginning				(3,212,111)
Net position – ending				$ (4,060,631)

DAVINCI ACADEMY OF ARTS AND SCIENCE

Balance Sheet
Governmental Funds
as of June 30, 2018

	General Fund	Food Service Special Revenue Fund	Community Service Special Revenue Fund	Building Company Special Revenue Fund	Total Governmental Funds
Assets					
Cash and temporary investments	$ 1,243,641	$ 4,859	$ 76,662	$ –	$ 1,325,162
Cash and investments held by trustee	–	–	–	2,878,074	2,878,074
Receivables					
Accounts	6,883	3,471	–	112,855	123,209
Due from other governmental units	1,111,745	6,997	–	–	1,118,742
Due from other funds	–	–	–	570,258	570,258
Prepaid items	71,630	–	–	–	71,630
Total assets	$ 2,433,899	$ 15,327	$ 76,662	$ 3,561,187	$ 6,087,075
Liabilities					
Salaries and benefits payable	$ 536,354	$ 2,310	$ 1,559	$ –	$ 540,223
Accounts and contracts payable	77,776	3,861	324	937,538	1,019,499
Unearned revenue	–	9,156	–	–	9,156
Due to other funds	570,258	–	–	–	570,258
Total liabilities	1,184,388	15,327	1,883	937,538	2,139,136
Fund balances					
Nonspendable for prepaid items	71,630	–	–	–	71,630
Restricted for community service	–	–	74,779	–	74,779
Restricted for Building Company	–	–	–	2,623,649	2,623,649
Unassigned	1,177,881	–	–	–	1,177,881
Total fund balances	1,249,511	–	74,779	2,623,649	3,947,939
Total liabilities and fund balances	$ 2,433,899	$ 15,327	$ 76,662	$ 3,561,187	$ 6,087,075

DAVINCI ACADEMY OF ARTS AND SCIENCE

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2018

Total fund balances – governmental funds	$	3,947,939
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets		22,791,035
Accumulated depreciation		(74,646)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issue discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
Bonds payable		(25,495,000)
Unamortized premium on bonds payable		(581,811)
Net pension liability		(6,864,144)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plan deferments		4,005,025
Deferred inflows – pension plan deferments		(1,160,696)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.		(628,333)
Total net position – governmental activities	$	(4,060,631)

DAVINCI ACADEMY OF ARTS AND SCIENCE

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

	General Fund	Food Service Special Revenue Fund	Community Service Special Revenue Fund	Building Company Special Revenue Fund	Total Governmental Funds
Revenue					
Federal sources	$ 354,228	$ 105,146	$ –	$ –	$ 459,374
State sources	7,351,997	26,736	–	–	7,378,733
Local sources					
Rent	–	–	–	1,201,640	1,201,640
Investment earnings	1,253	–	–	32,379	33,632
Other	268,990	133,345	141,665	–	544,000
Total revenue	7,976,468	265,227	141,665	1,234,019	9,617,379
Expenditures					
Current					
Administration	283,110	–	–	–	283,110
District support services	445,819	–	–	–	445,819
Elementary and secondary regular instruction	3,081,263	–	–	–	3,081,263
Special education instruction	1,558,466	–	–	–	1,558,466
Instructional support services	406,045	–	–	–	406,045
Pupil support services	373,627	–	–	–	373,627
Sites and buildings	2,281,140	–	–	–	2,281,140
Fiscal and other fixed cost programs	21,375	–	–	–	21,375
Food service	–	295,391	–	–	295,391
Community service	–	–	127,715	–	127,715
Capital outlay	–	–	–	4,704,099	4,704,099
Debt service					
Interest and fiscal charges	–	–	–	1,256,666	1,256,666
Total expenditures	8,450,845	295,391	127,715	5,960,765	14,834,716
Excess (deficiency) of revenue over expenditures	(474,377)	(30,164)	13,950	(4,726,746)	(5,217,337)
Other financing sources (uses)					
Sale of assets	1,999	–	–	–	1,999
Transfers in	–	21,882	–	–	21,882
Transfers (out)	(21,882)	–	–	–	(21,882)
Total other financing sources (uses)	(19,883)	21,882	–	–	1,999
Net change in fund balances	(494,260)	(8,282)	13,950	(4,726,746)	(5,215,338)
Fund balances					
Beginning of year	1,743,771	8,282	60,829	7,350,395	9,163,277
End of year	$ 1,249,511	$ –	$ 74,779	$ 2,623,649	$ 3,947,939

DAVINCI ACADEMY OF ARTS AND SCIENCE

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2018

Total net change in fund balances – governmental funds	$ (5,215,338)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.	
Capital outlays	5,436,227
Depreciation expense	(50,187)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(87,686)
Debt issuance premiums are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing source.	20,062
Certain expenses are included in change in net position, but do not require the use of current funds, and are not included in change in fund balances.	
Net pension liability	1,290,292
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	(3,472)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.	
Deferred outflows – pension plan deferments	(1,215,981)
Deferred inflows – pension plan deferments	(1,022,437)
Change in net position – governmental activities	$ (848,520)

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DAVINCI ACADEMY OF ARTS AND SCIENCE

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2018

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Federal sources	$ 309,086	$ 383,655	$ 354,228	$ (29,427)
State sources	6,929,580	7,323,245	7,351,997	28,752
Local sources				
Investment earnings	1,900	1,900	1,253	(647)
Other	175,500	236,300	268,990	32,690
Total revenue	7,416,066	7,945,100	7,976,468	31,368
Expenditures				
Current				
Administration	301,699	293,030	283,110	(9,920)
District support services	413,381	458,983	445,819	(13,164)
Elementary and secondary regular instruction	3,067,540	3,098,755	3,081,263	(17,492)
Special education instruction	965,636	1,376,326	1,558,466	182,140
Instructional support services	337,752	417,506	406,045	(11,461)
Pupil support services	365,305	433,631	373,627	(60,004)
Sites and buildings	1,898,101	2,280,485	2,281,140	655
Fiscal and other fixed cost programs	38,000	39,200	21,375	(17,825)
Total expenditures	7,387,414	8,397,916	8,450,845	52,929
Excess (deficiency) of revenue over expenditures	28,652	(452,816)	(474,377)	(21,561)
Other financing sources (uses)				
Sale of capital assets	–	2,000	1,999	(1)
Transfers (out)	(5,050)	(11,433)	(21,882)	(10,449)
Total other financing sources (uses)	(5,050)	(9,433)	(19,883)	(10,450)
Net change in fund balances	$ 23,602	$ (462,249)	(494,260)	$ (32,011)
Fund balances				
Beginning of year			1,743,771	
End of year			$ 1,249,511	

See notes to basic financial statements

DAVINCI ACADEMY OF ARTS AND SCIENCE

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Food Service Special Revenue Fund
Year Ended June 30, 2018

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Federal sources	$ 52,028	$ 92,337	$ 105,146	$ 12,809
State sources	8,433	24,350	26,736	2,386
Local sources				
Other	92,865	140,000	133,345	(6,655)
Total revenue	153,326	256,687	265,227	8,540
Expenditures				
Current				
Food service	158,518	268,120	295,391	27,271
Excess (deficiency) of revenue over expenditures	(5,192)	(11,433)	(30,164)	(18,731)
Other financing sources				
Transfers in	5,192	11,433	21,882	10,449
Net change in fund balances	$ –	$ –	(8,282)	$ (8,282)
Fund balances				
Beginning of year			8,282	
End of year			$ –	

DAVINCI ACADEMY OF ARTS AND SCIENCE

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Community Service Special Revenue Fund
Year Ended June 30, 2018

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Local sources				
Other	$ –	$ 130,000	$ 141,665	$ 11,665
Expenditures				
Current				
Community service	–	128,082	127,715	(367)
Net change in fund balances	$ –	$ 1,918	13,950	$ 12,032
Fund balances				
Beginning of year			60,829	
End of year			$ 74,779	

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

DaVinci Academy of Arts and Science (the Academy) is a nonprofit corporation that was formed and began operating in July 2007. The Academy's financial statements include all funds, departments, agencies, boards, commissions, and other organizations for which the Academy is considered to be financially accountable.

Component units are legally separate entities for which the Academy (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there is one organization considered to be a component unit of the Academy. DaVinci Academy Affiliated Building Corporation (the Building Company) is a Minnesota nonprofit organization classified by the Internal Revenue Service (IRS) as a 501(c)(3) tax-exempt organization by reason of its function as a "supporting organization" of the Academy. The Building Company owns the real estate and building that is, in turn, leased by the Academy for its operations. The building is leased to the Academy under the terms of a long-term operating lease agreement. All capital assets related to the school site presented in these financial statements are the responsibility of, and are owned by, the Building Company. The Internal Revenue Code (IRC) requires that to be granted tax-exempt status as a "supporting organization," an organization must meet a three-part test. One test is whether the supporting organization is "operated, supervised, or controlled by" the organization it supports. To meet this test, members of the Building Company's Board of Directors are appointed by the Academy's Board of Directors. The Building Company has been reported as a blended component unit of the Academy, with its balances and transactions reported as funds of the Academy. The Building Company does not issue separate financial statements.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation

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

C. Entity-Wide Financial Statement Presentation

The entity-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all financial activities of the Academy. Generally, the effect of material interfund activity has been removed from the entity-wide financial statements. The Statement of Activities demonstrates the degree to which direct expenses of a given function or segment 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 operational or capital requirements of a particular function or segment. Other internally directed revenues are reported instead as general revenues.

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

The Academy applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Academy generally considers revenues to be available if they are collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to the funding formulas established by Minnesota Statutes. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met. Proceeds of long-term debt are reported as other financing sources.

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, the Food Service and Community Service Special Revenue Funds, and capital outlay expenditures are included within the applicable functional areas.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Funds

The existence of the various school funds has been established by the MDE. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund – The General Fund is the general operating fund of the Academy. The General Fund accounts for all financial resources except those required to be accounted for in another fund.

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used to account for the Academy's child nutrition program.

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

Building Company Special Revenue Fund – This fund was established to account for all activities of the Building Company. This includes the receipt and use of resources borrowed to finance the purchase and improvement of the school site, the receipt of lease payments from the Academy, and the debt service payments required under the terms of the related long-term loans.

E. 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 amounts and disclosures in these financial statements. Actual results could differ from those estimates.

F. Income Taxes

The Academy and the Building Company are exempt from income taxes under IRC § 501(c)(3). Both are subject to a tax on income from any unrelated business.

The Academy and the Building Company are subject to the recognition requirements for uncertain income tax positions as required by the Financial Accounting Standards Board Accounting Standards Codification 740-10. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Academy and the Building Company have analyzed tax positions taken for filing with the IRS and state jurisdiction where they operate, and believe that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on their respective financial condition, results of operations, or cash flows. Accordingly, the Academy and the Building Company have not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at year-end.

The Academy and the Building Company are subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgeting

The budget for each fund is prepared on the modified accrual basis of accounting. The Academy's Board of Directors adopts an annual budget for the following fiscal year for all governmental funds except for the Building Company Special Revenue Fund. No budget is adopted for the Building Company Special Revenue Fund as it follows approved project plans. Legal budgetary control is at the fund level. Budgeted amounts are as amended by the Board of Directors. Budgeted expenditure appropriations lapse at year-end. Expenditures exceeded budgeted amounts in the General Fund by $52,929 and the Food Service Special Revenue Fund by $27,271.

H. Cash and Investments

Cash and temporary investments 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 respective funds on the basis of cash balance participation by each fund. Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Building Company Special Revenue Fund, this represents cash and investments held in escrow accounts as required by debt covenants. Earnings from these investments are allocated directly to that fund.

Investments are generally stated at fair value, except for investments in external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The Academy categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. 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; and Level 3 inputs are significant unobservable inputs. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the Academy's recurring fair value measurements as of year-end.

I. Receivables

When necessary, the Academy utilizes an allowance for uncollectible accounts to value its receivables. However, all current receivables are considered collectible.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenses/expenditures when consumed.

K. Restricted Assets

Restricted assets are cash and investments whose use is limited by legal requirements such as a debt indenture. Restricted assets are reported only in the entity-wide financial statements. In the fund financial statements these assets are reported as "cash and investments held by trustee."

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their acquisition value at the date of donation. The Academy defines capital assets as those with an initial, individual cost of $1,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

Capital assets are recorded in the entity-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public purposes by the Academy, no salvage value is taken into consideration for depreciation purposes. Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 5 to 20 years for building improvements, computer equipment, furniture, and other equipment. Construction in progress is not depreciated.

M. Interfund Transactions

During the 2018 fiscal year, the General Fund made a transfer of $21,882 to support the operations of the Food Service Special Revenue Fund. Such interfund transfers are reported in the fund financial statements, but eliminated in the entity-wide financial statements.

The General Fund has a payable of $570,258 at year-end due to the Building Company Special Revenue Fund representing the Academy's portion of expenditures paid for by the Building Company.

N. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, a statement of financial position will sometimes report separate sections for deferred outflows/inflows of resources. These separate financial statement elements represent a consumption/acquisition of net position that applies to a future period, which will not be recognized as an outflow of resources (expense/expenditure) or inflow of resources (revenue) until then. The Academy has one type of item that qualifies for reporting in these categories, deferred outflows/inflows of resources related to pensions, which are reported in the entity-wide Statement of Net Position. These deferred outflows/inflows result from differences between expected and actual experience, changes of assumptions, changes in proportion, the difference between projected and actual earnings on pension plan investments, and contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

O. Long-Term Obligations

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize debt proceeds equal to the par amount of debt issued as other financing sources in the year of issue. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

P. Compensated Absences

Since teachers are not eligible for vacation pay and amounts accrued to other employees are insignificant, no liability for unused vacation pay has been recorded. Substantially all of the Academy's employees are entitled to sick leave at various rates. Employees are not compensated for unused sick leave upon termination of employment; therefore, no liability for unused sick leave has been recorded.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. State-Wide Pension Plans

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the 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.

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association in 2015.

The PERA has a special funding situation created by a direct aid contribution made by the state of Minnesota. The direct aid is a result of the merger of the Minneapolis Employees Retirement Fund into the PERA on January 1, 2015.

R. 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 workers' compensation. The Academy carries commercial insurance for these risks. Settled claims have not exceeded coverage in the past three fiscal years. There were no significant reductions in insurance coverage in the current year.

S. Net Position

In the entity-wide financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Unrestricted Net Position** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

- **Committed** – Consists of internally imposed constraints that are established by resolution of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the Board of Directors itself or by an official to which the governing body delegates the authority.

- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the Academy's policy to first use restricted resources, then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the Academy's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

Deposits and investments are presented in these financial statements as follows:

	Deposits	Investments	Total
Cash and temporary investments			
Academy	$ 1,325,162	$ –	$ 1,325,162
Restricted – cash and investments			
Building Company	–	2,878,074	2,878,074
Total	$ 1,325,162	$ 2,878,074	$ 4,203,236

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Deposits

In accordance with applicable Minnesota Statutes, the Academy maintains deposits at depository banks authorized by the Board of Directors. The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The Academy's deposit policies do not further limit its depository choices.

At year-end, the Academy had a carrying amount of deposits of $1,325,162, while the balance on the bank records was $1,388,349. At June 30, 2018, all of the Academy's deposits were covered by federal deposit insurance or by pledged collateral held by the Academy's agent in the Academy's name.

C. Investments

At June 30, 2018, the Academy had $2,878,074 invested in First American Government Obligation Fund, which was rated AAAm by Standard & Poor's and valued using Level 2 for fair value measurement. This investment has no maturity date.

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the Academy would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the Academy's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The Academy's investment policies do not limit the maturities of investments; however, when purchasing investments, the Academy considers such things as interest rates and cash flow needs.

Concentration Risk – This is the risk associated with investing a significant portion of the Academy's investments (considered 5 percent or more) in the securities of a single-issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The Academy's investment policies do not address concentration risk.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the Academy's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The Academy's investment policies do not further restrict investing in specific financial instruments.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated				
Building Company				
Construction in progress	$ 17,193,278	$ 4,704,099	$ –	$ 21,897,377
Capital assets, depreciated				
Academy				
Building improvements	44,355	519,497	(44,355)	519,497
Computer equipment	143,006	8,484	(20,656)	130,834
Furniture	5,494	18,474	–	23,968
Other equipment	128,616	185,673	(94,930)	219,359
Total capital assets, depreciated	321,471	732,128	(159,941)	893,658
Less accumulated depreciation for				
Academy				
Building improvements	(6,210)	(11,644)	10,157	(7,697)
Computer equipment	(34,000)	(27,224)	15,570	(45,654)
Furniture	(1,811)	(737)	–	(2,548)
Other equipment	(54,693)	(10,582)	46,528	(18,747)
Total accumulated depreciation	(96,714)	(50,187)	72,255	(74,646)
Net capital assets, depreciated	224,757	681,941	(87,686)	819,012
Capital assets, net of accumulated depreciation	$ 17,418,035	$ 5,386,040	$ (87,686)	$ 22,716,389

NOTE 3 – CAPITAL ASSETS (CONTINUED)

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

Administration	$	291
District support services		1,214
Elementary and secondary regular instruction		26,004
Special education instruction		255
Instructional support services		2,759
Pupil support services		257
Sites and buildings		18,816
Community education and services		591
Total depreciation expense	$	50,187

NOTE 4 – LONG-TERM DEBT

A. Lease Revenue Bonds

In May 2016, the Building Company issued Charter School Revenue Bonds, Series 2016A totaling $22,805,000, and Series 2016B totaling $2,690,000. The interest rates on these bonds range from 4.0 percent to 5.5 percent, and the bonds mature on July 1, 2047 and July 1, 2025, respectively.

The Academy, in turn, entered into an operating lease agreement to rent the school site from the Building Company. The lease term commenced on May 1, 2016, and will end on June 30, 2051. The Academy's lease payments are essentially equal to the bond payments the Building Company is required to make on the bonds discussed above.

B. Future Minimum Debt Payments

The following is a schedule of the minimum future loan principal and interest payments due on the Academy's long-term debt:

Year Ending	Lease Revenue Bonds	
June 30,	Principal	Interest
2019	$ –	$ 1,256,665
2020	140,000	1,253,515
2021	255,000	1,244,309
2022	375,000	1,228,878
2023	495,000	1,207,128
2024–2028	2,870,000	5,632,139
2029–2033	3,575,000	4,906,875
2034–2038	4,555,000	3,898,875
2039–2043	5,815,000	2,609,375
2044–2048	7,415,000	963,125
	$ 25,495,000	$ 24,200,884

NOTE 4 – LONG-TERM DEBT (CONTINUED)

C. Other Long-Term Liabilities

The Academy offers a number of benefits to its employees, including pensions and compensated absences. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are financed primarily from the General Fund.

The Academy's employees participate in two state-wide defined benefit pension plans. The Academy's proportionate shares of the unfunded pension liabilities for these plans are reported as liabilities on the entity-wide financial statements.

D. Changes in Long-Term Liabilities

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year	Due Within One Year
Academy					
Net pension liability	$ 8,154,436	$ 169,171	$ 1,459,463	$ 6,864,144	$ –
Building Company					
Revenue bonds payable	25,495,000	–	–	25,495,000	–
Premium on bonds payable	601,873	–	20,062	581,811	–
Total Building Company	26,096,873	–	20,062	26,076,811	–
	$ 34,251,309	$ 169,171	$ 1,479,525	$ 32,940,955	$ –

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

The Academy participates in the following cost-sharing, multiple-employer defined benefit pension plans administered by the PERA and the TRA. The PERA's and the TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes. The PERA's and the TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the IRC.

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the City of 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 Minnesota State Colleges 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 administered by MnSCU.

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

- **PERA** – 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 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.

- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually through 2018, and 1.00 percent thereafter.

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.

1. GERF Benefits

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 the PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent of average salary 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 age 66.

2. TRA Benefits

The 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 Statutes 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 the 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

Step-Rate Formula	Percentage per Year
Basic Plan	
First 10 years	2.2 %
All years after	2.7 %
Coordinated Plan	
First 10 years if service years are prior to July 1, 2006	1.2 %
First 10 years if service years are July 1, 2006 or after	1.4 %
All other years of service if service years are prior to July 1, 2006	1.7 %
All other years of service if service years are July 1, 2006 or after	1.9 %

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) Three percent per year early retirement reduction factor for all years under normal retirement age.

(c) 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 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statutes. 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.

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

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2018; the Academy was required to contribute 7.5 percent for Coordinated Plan members. The Academy's contributions to the GERF for the year ended June 30, 2018, were $68,810. The Academy's contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

Minnesota Statutes, Chapter 354 sets the contribution rates for employer and employee contributions. Rates for each fiscal year were:

	Year Ended June 30,			
	2017		2018	
	Employee	Employer	Employee	Employer
Basic Plan	11.0 %	11.5 %	11.0 %	11.5 %
Coordinated Plan	7.5 %	7.5 %	7.5 %	7.5 %

The Academy's contributions to the TRA for the plan's fiscal year ended June 30, 2018, were $185,748. The Academy's contributions were equal to the required contributions for each year as set by state statutes.

The following is a reconciliation of employer contributions in the TRA's Comprehensive Annual Financial Report (CAFR) Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Nonemployer Pension Allocations:

	in thousands
Employer contributions reported in the TRA's CAFR Statement of Changes in Fiduciary Net Position	$ 367,791
Add employer contributions not related to future contribution efforts	810
Deduct the TRA's contributions not included in allocation	(456)
Total employer contributions	368,145
Total nonemployer contributions	35,588
Total contributions reported in the Schedule of Employer and Nonemployer Pension Allocations	$ 403,733

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. The TRA has rounded percentage amounts to the nearest ten thousandths.

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

D. Pension Costs

1. GERF Pension Costs

At June 30, 2018, the Academy reported a liability of $536,249 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of the PERA's participating employers. The Academy's proportionate share was 0.0084 percent at the end of the measurement period and 0.0076 percent for the beginning of the period.

The Academy's net pension liability reflected a reduction due to the state of Minnesota's contribution of $6 million to the fund. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. 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 the net pension liability	$	536,249
State's proportionate share of the net pension liability associated with the Academy	$	6,735

For the year ended June 30, 2018, the Academy recognized pension expense of $63,260 for its proportionate share of the GERF's pension expense. In addition, the Academy recognized an additional $195 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of $6 million to the GERF.

At June 30, 2018, the Academy reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 17,673	$ 31,997
Changes in actuarial assumptions	80,549	53,759
Difference between projected and actual investment earnings	–	30,302
Changes in proportion	46,919	27,305
Academy's contributions to the GERF subsequent to the measurement date	68,810	–
Total	$ 213,951	$ 143,363

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

A total of $68,810 reported as deferred outflows of resources related to pensions resulting from academy contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,		Pension Expense Amount
2019	$	(9,305)
2020	$	30,481
2021	$	3,738
2022	$	(23,136)

1. TRA Pension Costs

At June 30, 2018, the Academy reported a liability of $6,327,895 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The Academy's proportionate share was 0.0317 percent at the end of the measurement period and 0.0316 percent for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to the 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 the net pension liability	$	6,327,895
State's proportionate share of the net pension liability associated with the Academy	$	612,325

For the year ended June 30, 2018, the Academy recognized pension expense of $1,094,995. It also recognized $11,744 as an increase to pension expense for the support provided by direct aid.

At June 30, 2018, the Academy reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 47,281	$ 44,435
Changes in actuarial assumptions	3,412,621	886,439
Difference between projected and actual investment earnings	–	58,476
Changes in proportion	145,424	27,983
Academy's contributions to the TRA subsequent to the measurement date	185,748	–
Total	$ 3,791,074	$ 1,017,333

A total of $185,748 reported as deferred outflows of resources related to pensions resulting from academy contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2019	$ 700,505
2020	$ 804,095
2021	$ 697,872
2022	$ 595,474
2023	$ (209,953)

E. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.50% per year	
Price inflation		2.50%
Wage growth rate		2.85% for 10 years, and 3.25% thereafter
Active member payroll	3.25% per year	2.85% to 8.85% for 10 years, and 3.25% to 9.25% thereafter
Investment rate of return	7.50%	5.12%

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 1.0 percent per year for the GERF through 2044, and then 2.5 percent thereafter, and 2.0 percent per year for all future years for the TRA.

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

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

The following changes in actuarial assumptions occurred in 2017:

1. **GERF**

   - The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.

   - The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years, to 1.00 percent per year through 2044, and 2.50 percent per year thereafter.

2. **TRA**

   - The cost of living adjustment (COLA) was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.

   - The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.

   - Adjustments were made to the CSA loads. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested inactive load increased from 4.00 percent to 9.00 percent.

   - The investment return assumption was changed from 8.00 percent to 7.50 percent.

   - The price inflation assumption was lowered from 2.75 percent to 2.50 percent.

   - The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.

   - The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for 10 years, followed by 3.25 percent thereafter.

   - The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

   - The single discount rate changed from 4.66 percent to 5.12 percent.

The long-term expected rate of return on pension plan investments is 7.50 percent for the GERF and 5.12 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, 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.

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

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

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

F. Discount Rate

1. GERF

The discount rate used to measure the total pension liability in 2017 was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF 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.

2. TRA

The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

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

G. 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	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
Academy's proportionate share of the GERF net pension liability	$ 831,764	$ 536,249	$ 294,319
TRA discount rate	4.12%	5.12%	6.12%
Academy's proportionate share of the TRA net pension liability	$ 8,351,602	$ 6,327,895	$ 4,621,664

H. Pension Plan Fiduciary Net Position

Pension Benefit Reforms – The 2018 pension bill included a number of reforms to the various defined benefit pension plans across the state, including the plans administered by the PERA and the TRA. The reforms include several changes, including modifications in future COLA and contribution rates.

Detailed information about the GERF's fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the PERA website at www.mnpera.org; by writing to the PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103; or by calling (651) 296-7460 or (800) 652-9026.

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

NOTE 6 – COMMITMENTS AND CONTINGENCIES

A. Building Company Lease

The educational site owned by the Building Company (lessor and component unit) is leased to the Academy under the terms of the long-term agreement. Under the terms of the lease agreement, the lease term is for the period beginning May 1, 2016, and ending June 30, 2051. The Academy has an option to extend the initial lease term for 10 additional 5-year lease periods either on the same lease terms or as agreed upon with the Building Company.

The lease calls for monthly base rental payments of the greater of minimum base rent or the lease aid maximum amount. The net annual base rent for the term of the lease agreement is essentially equal to the loan payments sufficient to meet the scheduled loan payments described in Note 4. In addition, the Academy is to pay a proportionate share of all expenses associated with the operation of the building, including utility costs.

NOTE 6 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

During the year ended June 30, 2018, the Academy had lease expenditures of $1,201,640 on this lease.

For fiscal 2018, the Academy qualified for state charter school lease aid, which equaled an estimated $961,465 based on the statutory cap of per adjusted pupil unit served.

The Academy's ability to make payments under this lease agreement is dependent on its ability to generate revenues, which in turn is 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 Building Company believes the Academy's enrollment and aid entitlement will be sufficient to meet the lease obligations as they become due. It is expected that the Academy will need to receive charter school lease aid in order to meet its lease payments.

Future minimum base rent payments on this lease are as follows:

Year Ending June 30,	Amount
2019	$ 1,426,665
2020	1,535,365
2021	1,643,253
2022	1,764,503
2023	1,764,753
2024–2028	8,895,513
2029–2033	9,020,750
2034–2038	9,015,000
2039–2043	9,019,000
2044–2047	7,212,750
Total	$ 51,297,552

B. Federal and State Revenues

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time, although the Academy expects such amounts, if any, to be immaterial.

NOTE 7 – NOTES PAYABLE

During the year ended June 30, 2018, the Academy had a $250,000 line of credit through a local bank available to meet its short-term cash flow needs. The line is unsecured, bears an interest rate of 2 percent over the prime lending rate, and matures January 27, 2019.

For the year ended June 30, 2018, there were no draws on the line of credit. Interest expense on the line of credit was $0 for the year ended June 30, 2018.

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REQUIRED SUPPLEMENTARY INFORMATION

DAVINCI ACADEMY OF ARTS AND SCIENCE

Public Employees Retirement Association Pension Benefits Plan
Schedule of Academy's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2018

Academy Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Academy's Proportion of the Net Pension Liability	Academy's Proportionate Share of the Net Pension Liability	Academy's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the Academy's Share of the State of Minnesota's Share of the Net Pension Liability	Academy's Covered Payroll	Academy's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.0089%	$ 418,077	$ –	$ 418,077	$ 469,145	89.11%	78.70%
06/30/2016	06/30/2015	0.0085%	$ 440,514	$ –	$ 440,514	$ 492,160	89.51%	78.20%
06/30/2017	06/30/2016	0.0076%	$ 617,082	$ 8,060	$ 625,142	$ 473,427	130.34%	68.90%
06/30/2018	06/30/2017	0.0084%	$ 536,249	$ 6,735	$ 542,984	$ 542,107	98.92%	75.90%

Public Employees Retirement Association Pension Benefits Plan
Schedule of Academy Contributions
Year Ended June 30, 2018

Academy Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 36,912	$ 36,912	$ –	$ 492,160	7.50%
06/30/2016	$ 35,507	$ 35,507	$ –	$ 473,427	7.50%
06/30/2017	$ 40,658	$ 40,658	$ –	$ 542,107	7.50%
06/30/2018	$ 68,810	$ 68,810	$ –	$ 917,460	7.50%

Note: The Academy implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

Teachers Retirement Association Pension Benefits Plan
Schedule of Academy's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2018

Academy Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	Academy's Proportion of the Net Pension Liability	Academy's Proportionate Share of the Net Pension Liability	Academy's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the Academy's Share of the State of Minnesota's Share of the Net Pension Liability	Academy's Covered Payroll	Academy's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.0316%	$ 1,456,105	$ 102,365	$ 1,558,470	$ 1,443,043	100.91%	81.50%
06/30/2016	06/30/2015	0.0290%	$ 1,793,937	$ 220,333	$ 2,014,270	$ 1,470,080	122.03%	76.80%
06/30/2017	06/30/2016	0.0316%	$ 7,537,354	$ 757,167	$ 8,294,521	$ 1,644,267	458.40%	44.88%
06/30/2018	06/30/2017	0.0317%	$ 6,327,895	$ 612,325	$ 6,940,220	$ 1,735,800	364.55%	51.57%

Teachers Retirement Association Pension Benefits Plan
Schedule of Academy Contributions
Year Ended June 30, 2018

Academy Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 110,256	$ 110,256	$ –	$ 1,470,080	7.50%
06/30/2016	$ 123,320	$ 123,320	$ –	$ 1,644,267	7.50%
06/30/2017	$ 130,185	$ 130,185	$ –	$ 1,735,800	7.50%
06/30/2018	$ 185,748	$ 185,748	$ –	$ 2,476,636	7.50%

Note: The Academy implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

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PERA – GENERAL EMPLOYEES RETIREMENT FUND

2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years, to 1.00 percent per year through 2044, and 2.50 percent per year thereafter.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035, and 2.50 percent per year thereafter, to 1.00 percent per year for all years.

- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.

- 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 percent to 3.25 percent for payroll growth, and 2.50 percent for inflation.

2015 CHANGES IN PLAN PROVISIONS:

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Retirement 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.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030, and 2.50 percent per year thereafter, to 1.00 percent per year through 2035, and 2.50 percent per year thereafter.

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2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The cost of living adjustment (COLA) was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.
- Adjustments were made to the CSA loads. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested inactive load increased from 4.00 percent to 9.00 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for 10 years, followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66 percent to 5.12 percent.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The single discount rate was changed from 8.00 percent to 4.66 percent.

2015 CHANGES IN PLAN PROVISIONS:

- The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The annual COLA for the June 30, 2015 valuation assumed 2.00 percent. The prior year valuation used 2.00 percent, with an increase to 2.50 percent commencing in 2034.
- The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent

SUPPLEMENTAL INFORMATION

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DAVINCI ACADEMY OF ARTS AND SCIENCE

General Fund
Balance Sheet
as of June 30, 2018

Assets		
Cash and temporary investments	$	1,243,641
Receivables		
Accounts		6,883
Due from other governmental units		1,111,745
Prepaid items		71,630
Total assets	$	2,433,899
Liabilities		
Salaries and benefits payable	$	536,354
Accounts and contracts payable		77,776
Due to other funds		570,258
Total liabilities		1,184,388
Fund balances		
Nonspendable for prepaid items		71,630
Unassigned – Medical Assistance restricted account deficit		(771)
Unassigned		1,178,652
Total fund balances		1,249,511
Total liabilities and fund balances	$	2,433,899

DAVINCI ACADEMY OF ARTS AND SCIENCE

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018

	Budget	Actual	Over (Under) Budget
Revenue			
Federal sources	$ 383,655	$ 354,228	$ (29,427)
State sources	7,323,245	7,351,997	28,752
Local sources			
Investment earnings	1,900	1,253	(647)
Other	236,300	268,990	32,690
Total revenue	7,945,100	7,976,468	31,368
Expenditures			
Current			
Administration			
Salaries	208,904	203,888	(5,016)
Employee benefits	44,584	43,901	(683)
Purchased services	5,253	648	(4,605)
Supplies and materials	–	588	588
Capital expenditures	2,500	2,238	(262)
Other expenditures	31,789	31,847	58
Total administration	293,030	283,110	(9,920)
District support services			
Salaries	187,920	189,130	1,210
Employee benefits	84,673	75,163	(9,510)
Purchased services	139,939	136,701	(3,238)
Supplies and materials	37,451	35,254	(2,197)
Capital expenditures	4,500	3,205	(1,295)
Other expenditures	4,500	6,366	1,866
Total district support services	458,983	445,819	(13,164)
Elementary and secondary regular instruction			
Salaries	1,956,230	1,967,188	10,958
Employee benefits	539,851	567,859	28,008
Purchased services	179,236	135,795	(43,441)
Supplies and materials	304,065	293,764	(10,301)
Capital expenditures	117,371	110,636	(6,735)
Other expenditures	2,002	6,021	4,019
Total elementary and secondary regular instruction	3,098,755	3,081,263	(17,492)
Special education instruction			
Salaries	715,601	804,998	89,397
Employee benefits	200,861	237,640	36,779
Purchased services	444,612	478,408	33,796
Supplies and materials	12,376	19,856	7,480
Capital expenditures	2,876	12,833	9,957
Other expenditures	–	4,731	4,731
Total special education instruction	1,376,326	1,558,466	182,140

(continued)

DAVINCI ACADEMY OF ARTS AND SCIENCE

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2018

	Budget	Actual	Over (Under) Budget
Expenditures (continued)			
Current (continued)			
Instructional support services			
Salaries	224,638	247,821	23,183
Employee benefits	48,896	53,204	4,308
Purchased services	96,460	57,902	(38,558)
Supplies and materials	9,075	10,444	1,369
Capital expenditures	38,437	36,265	(2,172)
Other expenditures	–	409	409
Total instructional support services	417,506	406,045	(11,461)
Pupil support services			
Salaries	66,023	21,910	(44,113)
Employee benefits	16,478	3,420	(13,058)
Purchased services	349,130	346,588	(2,542)
Supplies and materials	2,000	1,709	(291)
Total pupil support services	433,631	373,627	(60,004)
Sites and buildings			
Salaries	38,229	38,226	(3)
Employee benefits	12,236	12,135	(101)
Purchased services	1,584,423	1,588,184	3,761
Supplies and materials	35,000	35,161	161
Capital expenditures	610,597	606,659	(3,938)
Other expenditures	–	775	775
Total sites and buildings	2,280,485	2,281,140	655
Fiscal and other fixed cost programs			
Purchased services	39,200	21,375	(17,825)
Total expenditures	8,397,916	8,450,845	52,929
Excess (deficiency) of revenue over expenditures	(452,816)	(474,377)	(21,561)
Other financing sources (uses)			
Sale of capital assets	2,000	1,999	(1)
Transfers (out)	(11,433)	(21,882)	(10,449)
Total other financing sources (uses)	(9,433)	(19,883)	(10,450)
Net change in fund balances	$ (462,249)	(494,260)	$ (32,011)
Fund balances			
Beginning of year		1,743,771	
End of year		$ 1,249,511	

DAVINCI ACADEMY OF ARTS AND SCIENCE

Food Service Special Revenue Fund
Balance Sheet
as of June 30, 2018

Assets		
Cash and temporary investments	$	4,859
Receivables		
Accounts		3,471
Due from other governmental units		6,997
Total assets	$	15,327
Liabilities		
Salaries and benefits payable	$	2,310
Accounts and contracts payable		3,861
Unearned revenue		9,156
Total liabilities		15,327
Fund balances		
Restricted for food service		–
Total liabilities and fund balances	$	15,327

DAVINCI ACADEMY OF ARTS AND SCIENCE

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018

	Budget	Actual	Over (Under) Budget
Revenue			
Federal sources	$ 92,337	$ 105,146	$ 12,809
State sources	24,350	26,736	2,386
Local sources			
Other – primarily meal sales	140,000	133,345	(6,655)
Total revenue	256,687	265,227	8,540
Expenditures			
Current			
Salaries and wages	66,585	74,073	7,488
Employee benefits	9,788	10,819	1,031
Purchased services	144,918	167,158	22,240
Supplies and materials	33,729	34,314	585
Other expenditures	2,100	2,402	302
Capital outlay	11,000	6,625	(4,375)
Total expenditures	268,120	295,391	27,271
Excess (deficiency) of revenue over expenditures	(11,433)	(30,164)	(18,731)
Other financing sources			
Transfers in	11,433	21,882	10,449
Net change in fund balances	$ –	(8,282)	$ (8,282)
Fund balances			
Beginning of year		8,282	
End of year		$ –	

DAVINCI ACADEMY OF ARTS AND SCIENCE

Community Service Special Revenue Fund
Balance Sheet
as of June 30, 2018

Assets		
Cash and temporary investments	$	76,662
Liabilities		
Salaries and benefits payable	$	1,559
Accounts and contracts payable		324
Total liabilities		1,883
Fund balances		
Restricted for community service		74,779
Total liabilities and fund balances	$	76,662

DAVINCI ACADEMY OF ARTS AND SCIENCE

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018

	Budget	Actual	Over (Under) Budget
Revenue			
Other – primarily program fees	$ 130,000	$ 141,665	$ 11,665
Expenditures			
Current			
Salaries and wages	52,054	54,280	2,226
Employee benefits	5,028	5,417	389
Purchased services	9,000	6,339	(2,661)
Supplies and materials	2,000	1,679	(321)
Total expenditures	128,082	127,715	(367)
Net change in fund balances	$ 1,918	13,950	$ 12,032
Fund balances			
Beginning of year		60,829	
End of year		$ 74,779	

DAVINCI ACADEMY OF ARTS AND SCIENCE

Building Company Special Revenue Fund
Balance Sheet
as of June 30, 2018

Assets		
Cash and investments held by trustee	$	2,878,074
Receivables		
Accounts and interest receivable		112,855
Due from other funds		570,258
Total assets	$	3,561,187
Liabilities		
Accounts and contracts payable	$	937,538
Fund balances		
Restricted for debt service		2,359,999
Restricted for capital purposes		263,650
Total fund balance		2,623,649
Total liabilities and fund balances	$	3,561,187

DAVINCI ACADEMY OF ARTS AND SCIENCE

Building Company Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2018

Revenue		
Local sources		
Rent	$	1,201,640
Investment earnings		32,379
Total revenue		1,234,019
Expenditures		
Capital outlay		
Purchased services		212,693
Sites and buildings		4,491,406
Debt service		
Interest and fiscal charges		1,256,666
Total expenditures		5,960,765
Net change in fund balances		(4,726,746)
Fund balances		
Beginning of year		7,350,395
End of year	$	2,623,649

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OTHER REQUIRED REPORTS

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MMKR
CERTIFIED PUBLIC
ACCOUNTANTS

PRINCIPALS
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA

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

To the Board of Directors and Management of
DaVinci Academy of Arts and Science and
DaVinci Academy Affiliated Building Company
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 (the Academy) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 20, 2018.

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 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.

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.

(continued)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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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 report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 20, 2018

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
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INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the Board of Directors and Management of
DaVinci Academy of Arts and Science and
DaVinci Academy Affiliated Building Company
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 (the Academy) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated October 20, 2018.

MINNESOTA LEGAL COMPLIANCE

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. Our audit considered both of the listed categories.

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.

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 20, 2018

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DAVINCI ACADEMY OF ARTS AND SCIENCE

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2018

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		$ 7,976,468	$ 7,976,468	$ –
Total expenditures		$ 8,450,845	$ 8,450,845	$ –
Nonspendable				
460	Nonspendable fund balance	$ 71,630	$ 71,630	$ –
Restricted				
403	Staff development	$ –	$ –	$ –
406	Health and safety	$ –	$ –	$ –
407	Capital projects levy	$ –	$ –	$ –
408	Cooperative revenue	$ –	$ –	$ –
413	Project funded by COP	$ –	$ –	$ –
414	Operating debt	$ –	$ –	$ –
416	Levy reduction	$ –	$ –	$ –
417	Taconite building maintenance	$ –	$ –	$ –
423	Certain teacher programs	$ –	$ –	$ –
424	Operating capital	$ –	$ –	$ –
426	$25 taconite	$ –	$ –	$ –
427	Disabled accessibility	$ –	$ –	$ –
428	Learning and development	$ –	$ –	$ –
434	Area learning center	$ –	$ –	$ –
435	Contracted alternative programs	$ –	$ –	$ –
436	State approved alternative program	$ –	$ –	$ –
438	Gifted and talented	$ –	$ –	$ –
440	Teacher development and evaluation	$ –	$ –	$ –
441	Basic skills programs	$ –	$ –	$ –
445	Career and technical programs	$ –	$ –	$ –
448	Achievement and integration	$ –	$ –	$ –
449	Safe schools levy	$ –	$ –	$ –
450	Pre-Kindergarten	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
453	Unfunded severance and retirement levy	$ –	$ –	$ –
459	Basic skills extended time	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
472	Medical Assistance	$ (771)	$ (771)	$ –
464	Restricted fund balance	$ –	$ –	$ –
475	Title VII – Impact Aid	$ –	$ –	$ –
476	PILT	$ –	$ –	$ –
Committed				
418	Committed for separation	$ –	$ –	$ –
461	Committed fund balance	$ –	$ –	$ –
Assigned				
462	Assigned fund balance	$ –	$ –	$ –
Unassigned				
422	Unassigned fund balance	$ 1,178,652	$ 1,178,652	$ –
Food Service				
Total revenue		$ 265,227	$ 265,227	$ –
Total expenditures		$ 295,391	$ 295,391	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
452	OPEB liability not in trust	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Community Service				
Total revenue		$ 141,665	$ 141,665	$ –
Total expenditures		$ 127,715	$ 127,715	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
426	$25 taconite	$ –	$ –	$ –
431	Community education	$ –	$ –	$ –
432	ECFE	$ –	$ –	$ –
440	Teacher development and evaluation	$ –	$ –	$ –
444	School readiness	$ –	$ –	$ –
447	Adult basic education	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
464	Restricted fund balance	$ 74,779	$ 74,779	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

DAVINCI ACADEMY OF ARTS AND SCIENCE

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2018

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
407	Capital projects levy	$ –	$ –	$ –
413	Project funded by COP	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Debt Service				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
433	Max effort loan	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Trust				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
Internal Service				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Revocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Irrevocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Debt Service Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

Note 1: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

Note 2: This table reflects only the activity and balances of DaVinci Academy of Arts and Science (the primary government). The activity and balances of DaVinci Academy Affiliated Building Company (the blended component unit) are not included.

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