

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185  
Blaine, Minnesota**

**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2015**



**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**Charter School No. 4185**

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**DAVINCI ACADEMY OF ARTS AND SCIENCE  
Charter School No. 4185**

**BOARD OF DIRECTORS AND ADMINISTRATION  
For the Year Ended June 30, 2015**

<u>Board of Directors</u>	<u>Position</u>
Ross Meisner	President
Stacey Persons	Vice President
Erin Nelson	Secretary
Doug Hiatt	Treasurer
Nicole Brown	Member
Valerie Slaymaker	Member
Matthew Manning	Member
Andy Wallschlaeger	Member
<u>Administration</u>	
Debra Lach	Executive Director
Terry Moffatt	Academic Director
Holly Fischer	Director of Operations



## INDEPENDENT AUDITOR'S REPORT

BerganKDV, Ltd.

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

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### 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, Blaine, Minnesota, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the School's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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



## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of DaVinci Academy of Arts and Science, Blaine, Minnesota, as of June 30, 2015, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Implementation of GASB 68 and GASB 71

As discussed in Note 7 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, the Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability GERS Retirement Funds on page 50, Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability TRA Retirement Funds on page 50, Schedule of District Contributions of GERS Retirement Funds on page 51 and Schedule of District Contributions of TRA Retirement Funds on page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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



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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2015, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

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

BerganKDV, Ltd.  
Minneapolis, Minnesota  
October 13, 2015

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2015**

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, 2015. We encourage readers to consider the information presented here in conjunction with the other components of the Academy's annual financial statements.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2014-2015 fiscal year include the following:

- The Academy's ending Unrestricted Fund Balance for fiscal year 2015 is \$ 1,307,733, which is an increase of 59,474.
- A change in accounting principle for GASB 68 was introduced during fiscal year 2015.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

**Entity-Wide Financial Statements**

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

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

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2015**

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

**Fund Financial Statements**

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

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

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

The Academy maintains the following kinds of funds:

**Governmental Funds** – The Academy's basic services are reported in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provides a detailed *short-term* view that helps determine whether there are more or less financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the entity-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2015**

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

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

**Table A-1**  
**Net Position**

	2015	June 30 2014	Change
<b>ASSETS:</b>			
Current and Other Assets	\$ 1,870,589	\$ 1,712,582	\$ 158,007
Net Capital Assets	<u>106,926</u>	<u>109,135</u>	<u>(2,209)</u>
Total Assets	<u><u>\$ 1,977,515</u></u>	<u><u>\$ 1,821,717</u></u>	<u><u>\$ 155,798</u></u>
<b>Deferred Outflow of Resources</b>	<u><u>\$ 391,277</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (391,277)</u></u>
<b>LIABILITIES:</b>			
Current Liabilities	\$ 342,824	\$ 288,805	\$ 54,019
Noncurrent Liabilities	<u>1,874,182</u>	<u>-</u>	<u>1,874,182</u>
Total Liabilities	<u><u>\$ 2,217,006</u></u>	<u><u>\$ 288,805</u></u>	<u><u>\$ 1,928,201</u></u>
<b>Deferred Inflows of Resources</b>	<u><u>\$ 570,749</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (570,749)</u></u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	\$ 106,926	\$ 109,135	\$ (2,209)
Restricted	86,424	85,878	546
Unrestricted	<u>(612,313)</u>	<u>1,337,899</u>	<u>(1,950,212)</u>
Total Net Position	<u><u>\$ (418,963)</u></u>	<u><u>\$ 1,532,912</u></u>	<u><u>\$ (1,951,875)</u></u>

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

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

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2015**

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

**Table A-2**  
**Changes in Net Position**

	June 30		
	2015	2014	Change
<b>REVENUES:</b>			
Program Revenues:			
Charges for Services	\$ 157,660	\$ 183,855	\$ (26,195)
Operating Grants and Contributions	1,360,675	1,211,866	148,809
General Revenues:			-
Local Sources	55,596	42,523	13,073
State Sources	2,943,266	2,770,454	172,812
Total Revenue	<u>4,517,197</u>	<u>4,208,698</u>	<u>308,499</u>
<b>EXPENSES:</b>			
Administration	241,130	235,986	5,144
School Support Services	242,220	221,514	20,706
Regular Instruction	1,685,242	1,508,894	176,348
Special Education Instruction	722,789	602,820	119,969
Instructional Support Services	296,090	319,396	(23,306)
Pupil Support Services	195,217	210,171	(14,954)
Sites, Building and Equipment	866,759	802,074	64,685
Fiscal and Other Fixed Costs	4,515	11,829	(7,314)
Food Service	113,824	111,933	1,891
Community Education and Services	19,329	52,402	(33,073)
Total Expenses	<u>4,387,115</u>	<u>4,077,019</u>	<u>310,096</u>
Change in Net Position	130,082	131,679	(1,597)
<b>NET POSITION:</b>			
Beginning, as Previously Stated	<u>1,532,912</u>	<u>1,401,233</u>	<u>131,679</u>
Change in Accounting Principle	<u>(2,081,957)</u>	<u>-</u>	<u>(2,081,957)</u>
Beginning, as Restated	<u>(549,045)</u>	<u>1,401,233</u>	<u>(1,950,278)</u>
Ending	<u><u>\$ (418,963)</u></u>	<u><u>\$ 1,532,912</u></u>	<u><u>\$ (1,951,875)</u></u>

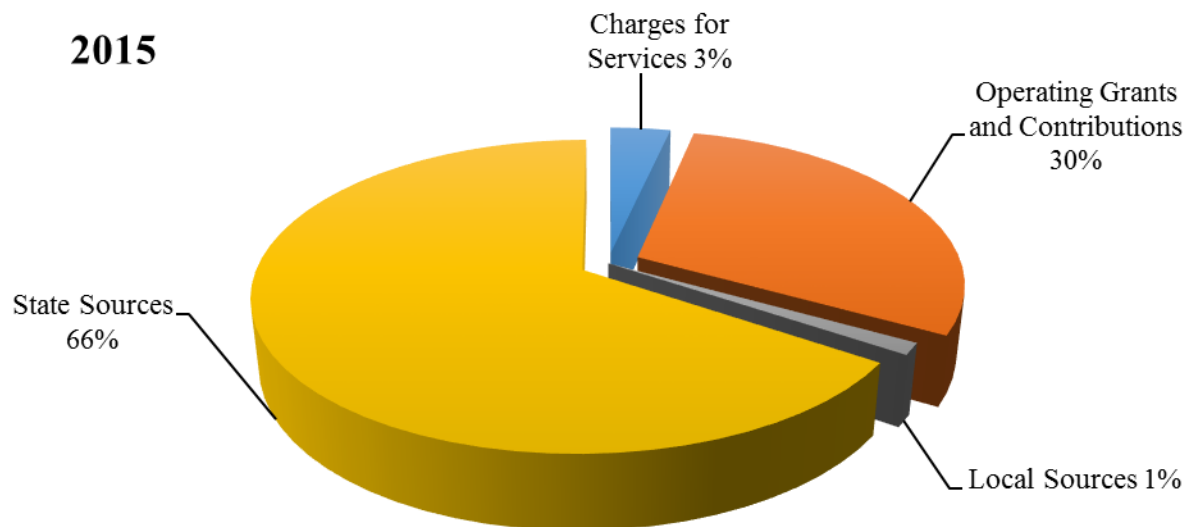
**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2015**

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

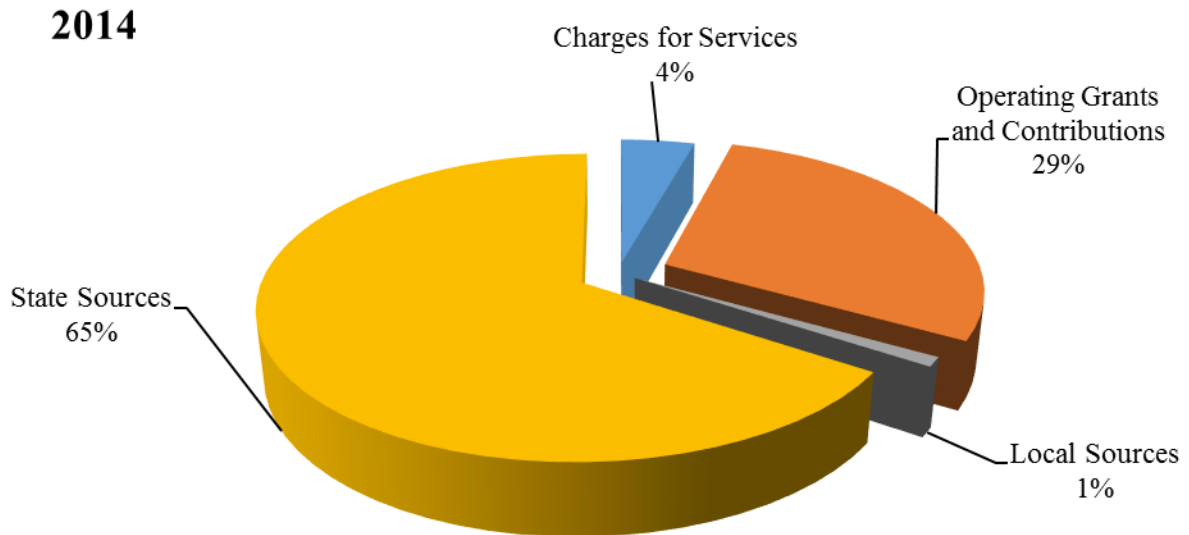
This statement is presented on an accrual basis of accounting and includes all of the Academy's governmental activities. This statement includes depreciation expense, but excludes capital asset purchase costs.

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

**Figure A – Sources of Revenue for Fiscal Years 2015 and 2014**



**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2015**

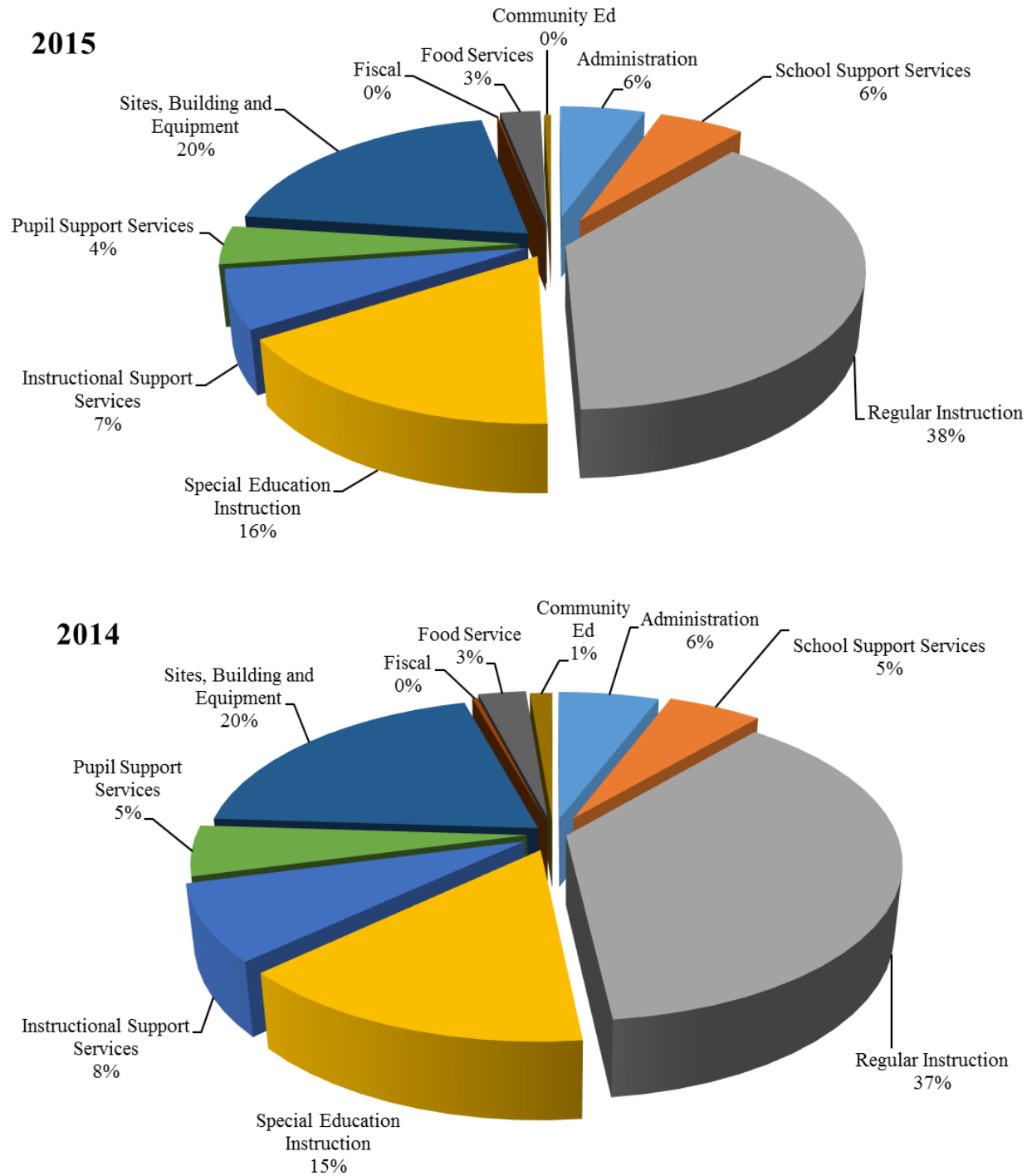


The largest share of the Academy's revenue is received from the state, including most of the operating and general grants. This significant reliance on the state for funding has placed tremendous pressures on local schools as a result of unpredictable and inconsistent funding from the state.

The Academy's total governmental revenues were \$ 4,517,197 for the year ended June 30, 2015, which is an increase of \$ 308,499 from the previous year due to additional state aid received at the Academy. The Academy received approximately 96% of its revenues from state and federal sources.

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2015**

**Figure B – Expenses for Fiscal Years 2015 and 2014**



**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2015**

The Academy's expenses are predominately related to educating students. Approximately 61% of the Academy's expenses for 2015 were in categories directly related to providing instruction, which includes: elementary and secondary regular instruction, special education instruction and instructional support services. An additional 20% of the Academy's costs are related to leasing and maintaining its school site.

The combined cost of all of the Academy's governmental activities for 2015 was \$ 4,387,115 which was an increase of \$ 310,096 from the prior year. The main increases were in elementary and secondary regular instruction.

**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, 2015 and 2014**

	2015	2014
Governmental Funds		
General Fund	\$ 1,441,341	\$ 1,337,899
Food Service Special Revenue Fund	1,845	-
Community Service Special Revenue Fund	84,579	85,878
	<hr/>	<hr/>
Total governmental funds	\$ 1,527,765	\$ 1,423,777
	<hr/> <hr/>	<hr/> <hr/>

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2015**

**Analysis of the General Fund**

Table 4 summarizes the operating results of the General Fund:

**Table 4**  
**General Fund**  
**Operating Results**  
**For the Years Ended June 30, 2015 and 2014**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget		Over (Under) Prior Year	
				Amount	Percent	Amount	Percent
Revenue	\$ 4,051,982	\$ 4,069,910	\$ 4,379,870	\$ 309,960	7.6%	\$ 333,985	8.2%
Expenditures	3,989,142	4,003,330	4,276,428	273,098	6.8%	333,328	8.5%
Transfers (out)	-	(7,500)	-	(7,500)	100.0%	-	0.0%
Net change in fund balances	<u>\$ 62,840</u>	<u>\$ 59,080</u>	<u>\$ 103,442</u>				

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, 2015, the Academy adjusted its budget mainly for changes anticipated in state revenues.

Revenues were higher than budget by \$ 309,960, mainly due to higher than projected general education aid and state special education aid. Revenue and expenditure increases over the prior year relate to items described earlier in this report.

Expenditures were higher than budget by \$ 273,098, mainly related to staff on leave and special education expenses.

**Food Service Special Revenue Fund**

The Food Service Special Revenue Fund is used to account for the Academy's child nutrition program. Revenues exceeded expenditures by \$ 1,845 in the Food Service Special Revenue Fund.

**Community Service Special Revenue Fund**

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

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2015**

**CAPITAL ASSETS ADMINISTRATION**

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

**Table 5**  
**Capital Assets**

	<u>2015</u>	<u>2014</u>
Building Improvements	\$ 52,420	\$ 44,355
Computer Equipment	48,659	52,301
Furniture	5,494	5,494
Other Equipment	81,103	74,466
Less accumulated depreciation	<u>(80,750)</u>	<u>(67,481)</u>
Total	<u><u>\$ 106,926</u></u>	<u><u>\$ 109,135</u></u>
Depreciation Expense	<u><u>\$ 13,269</u></u>	<u><u>\$ 21,980</u></u>

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

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2015**

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

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

The basic general education revenue for all Minnesota charter schools was \$ 5,831 per pupil unit for 2015. The Academy's ability to attract and retain students will determine the amount of state aid it earns.

The school is in the process of replicating its educational program in another location. The success of that program could impact the future of the school.

**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, 13001 Central Avenue Northeast, Blaine, Minnesota 55434.

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## **BASIC FINANCIAL STATEMENTS**

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**Charter School No. 4185**

**STATEMENT OF NET POSITION**  
**June 30, 2015**

	Governmental Activities
<b>ASSETS</b>	
Cash	\$ 1,295,071
Accounts Receivable	756
Due from Other Governmental Units	441,154
Prepaid Items	133,608
Capital Assets (Net of Accumulated Depreciation):	
Furniture and Equipment	106,926
	<hr/>
Total Assets	1,977,515
	<hr/>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Outflows Related to Pensions	391,277
	<hr/>
Total Assets and Deferred Outflows of Resources	\$ 2,368,792
	<hr/> <hr/>
<b>LIABILITIES</b>	
Accounts Payable	\$ 30,802
Salaries and Benefits Payable	307,900
Unearned Revenue	4,122
Net Pension Liability	1,874,182
	<hr/>
Total Liabilities	2,217,006
	<hr/> <hr/>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Inflows Related to Pensions	570,749
	<hr/>
<b>NET POSITION</b>	
Net Investment in Capital Assets	106,926
Restricted for:	
Food Service	1,845
Community Service	84,579
Unrestricted	(612,313)
	<hr/>
Total Net Position	(418,963)
	<hr/> <hr/>
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 2,368,792
	<hr/> <hr/>

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**Charter School No. 4185**

**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital Grants	Revenues and
		Services	Grants and	and	Changes in
			Contributions	Contributions	Net Position
<b>Governmental Activities</b>					<b>Governmental</b>
					<b>Activities</b>
Administration	\$ 241,130	\$ -	\$ -	\$ -	\$ (241,130)
District Support Services	242,220	-	-	-	(242,220)
Elementary and Secondary Regular Instruction	1,685,242	71,740	32,828	-	(1,580,674)
Special Education Instruction	722,789	-	726,714	-	3,925
Instructional Support Services	296,090	-	-	-	(296,090)
Pupil Support Services	195,217	-	-	-	(195,217)
Sites and Buildings	866,759	-	554,191	-	(312,568)
Fiscal and Other Fixed Cost Programs	4,515	-	-	-	(4,515)
Food Service	113,824	68,727	46,942	-	1,845
Community Education and Services	19,329	17,193	-	-	(2,136)
Total Governmental Activities	<u>\$ 4,387,115</u>	<u>\$ 157,660</u>	<u>\$ 1,360,675</u>	<u>\$ -</u>	(2,868,780)
<b>General Revenues</b>					
					2,943,266
State Aid-Formula Grants					53,970
Other General Revenues					1,626
Investment Income					<u>2,998,862</u>
Total General Revenues					130,082
<b>Change in Net Position</b>					
					1,532,912
Net Position - Beginning					(2,081,957)
Change in Accounting Principle (Note 7)					(549,045)
Net Position - Beginning, as Restated					<u>\$ (418,963)</u>
<b>Net Position - Ending</b>					

☞ The Notes to the Financial Statements are an integral part of this statement.

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**Charter School No. 4185**

**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2015**

	General	Food Service	Community Service	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$ 1,202,147	\$ 8,317	\$ 84,607	\$ 1,295,071
Accounts Receivable	-	756	-	756
Due from Other Governmental Units	438,858	2,296	-	441,154
Prepaid Items	133,608	-	-	133,608
	<u>133,608</u>	<u>-</u>	<u>-</u>	<u>133,608</u>
Total Assets	<u>\$ 1,774,613</u>	<u>\$ 11,369</u>	<u>\$ 84,607</u>	<u>\$ 1,870,589</u>
<b>LIABILITIES</b>				
Accounts Payable	25,645	5,157	-	30,802
Salaries and Benefits Payable	307,627	245	28	307,900
Unearned Revenue	-	4,122	-	4,122
Total Liabilities	<u>333,272</u>	<u>9,524</u>	<u>28</u>	<u>342,824</u>
<b>FUND BALANCES</b>				
Nonspendable	133,608	-	-	133,608
Restricted	-	1,845	84,579	86,424
Unassigned	1,307,733	-	-	1,307,733
Total Fund Balances	<u>1,441,341</u>	<u>1,845</u>	<u>84,579</u>	<u>1,527,765</u>
	<u>1,441,341</u>	<u>1,845</u>	<u>84,579</u>	<u>1,527,765</u>
Total Liabilities and Fund Balances	<u>\$ 1,774,613</u>	<u>\$ 11,369</u>	<u>\$ 84,607</u>	<u>\$ 1,870,589</u>

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**Charter School No. 4185**

**RECONCILIATION OF THE BALANCE SHEET TO**  
**THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS**  
**June 30, 2015**

Total Fund Balances - Governmental Funds	\$ 1,527,765
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Cost of Capital Assets	187,676
Less Accumulated Depreciation	(80,750)

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Net Pension Liability	(1,874,182)
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Deferred Outflows related to pension liability	391,277
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Deferred Inflows related to pension liability	<u>(570,749)</u>
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Total Net Position - Governmental Activities	<u><u>\$ (418,963)</u></u>
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**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**Charter School No. 4185**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2015**

	General	Food Service	Community Service	Total Governmental Funds
<b>REVENUES</b>				
Other Local Revenues	\$ 127,336	\$ 68,727	\$ 17,193	\$ 213,256
Revenue from State Sources	4,157,322	4,853	-	4,162,175
Revenue from Federal Sources	95,212	42,089	-	137,301
Total Revenues	<u>4,379,870</u>	<u>115,669</u>	<u>17,193</u>	<u>4,512,732</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
Administration	237,480	-	-	237,480
District Support Services	238,516	-	-	238,516
Elementary and Secondary Regular Instruction	1,615,460	-	-	1,615,460
Special Education Instruction	731,452	-	-	731,452
Instructional Support Services	296,815	-	-	296,815
Pupil Support Services	195,300	-	-	195,300
Sites and Buildings	871,652	-	-	871,652
Fiscal and Other Fixed Cost Programs	4,515	-	-	4,515
Food Service	-	113,824	-	113,824
Community Education and Services	-	-	18,492	18,492
<b>Capital Outlay</b>				
Administration	5,137	-	-	5,137
District Support Services	5,190	-	-	5,190
Elementary and Secondary Regular Instruction	74,911	-	-	74,911
Total Expenditures	<u>4,276,428</u>	<u>113,824</u>	<u>18,492</u>	<u>4,408,744</u>
Excess of Revenues Over (Under) Expenditures	103,442	1,845	(1,299)	103,988
<b>FUND BALANCES</b>				
<b>Beginning of Year</b>	<u>1,337,899</u>	<u>-</u>	<u>85,878</u>	<u>1,423,777</u>
<b>End of Year</b>	<u><u>\$ 1,441,341</u></u>	<u><u>\$ 1,845</u></u>	<u><u>\$ 84,579</u></u>	<u><u>\$ 1,527,765</u></u>

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**Charter School No. 4185**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2015**

Net Change in Fund Balances - Total Governmental Funds	\$ 103,988
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Amounts reported for governmental activities in the Statement of Activities  
are different because:

Capital outlays are reported in governmental funds as expenditures.  
However, in the Statement of Activities, the cost of those assets is allocated  
over the estimated useful lives as depreciation expense.

Capital Outlays	11,060
Depreciation Expense	(13,269)

Pension Expense	23,838
State Aid related to Pension Expense	<u>4,465</u>

Change in Net Position - Governmental Activities	<u><u>\$ 130,082</u></u>
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**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**Charter School No. 4185**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
<b>REVENUES</b>				
Other Local Revenues	\$ 63,900	\$ 95,400	\$ 127,336	\$ 31,936
Revenue from State Sources	3,877,094	3,867,719	4,157,322	289,603
Revenue from Federal Sources	110,988	106,791	95,212	(11,579)
Total Revenues	<u>4,051,982</u>	<u>4,069,910</u>	<u>4,379,870</u>	<u>309,960</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
Administration	234,364	245,218	237,480	(7,738)
District Support Services	214,530	222,230	238,516	16,286
Elementary and Secondary Regular				
Instruction	1,492,486	1,467,485	1,615,460	147,975
Special Education Instruction	617,654	619,154	731,452	112,298
Instructional Support Services	301,953	291,953	296,815	4,862
Pupil Support Services	178,206	185,000	195,300	10,300
Sites and Buildings	855,949	855,790	871,652	15,862
Fiscal and Other Fixed Cost Programs	25,000	25,000	4,515	(20,485)
<b>Capital Outlay</b>				
Administration	2,500	4,500	5,137	637
District Support Services	5,000	2,500	5,190	2,690
Elementary and Secondary Regular				
Instruction	21,500	44,500	74,911	30,411
Instructional Support Services	35,000	35,000	-	(35,000)
Sites and Buildings	5,000	5,000	-	(5,000)
Total Expenditures	<u>3,989,142</u>	<u>4,003,330</u>	<u>4,276,428</u>	<u>273,098</u>
Excess of Revenues				
Over Expenditures	62,840	66,580	103,442	36,862
<b>OTHER FINANCING USES</b>				
Transfers Out	<u>-</u>	<u>(7,500)</u>	<u>-</u>	<u>7,500</u>
Net Change in Fund Balance	<u>\$ 62,840</u>	<u>\$ 59,080</u>	103,442	<u>\$ 44,362</u>
<b>FUND BALANCE</b>				
<b>Beginning of Year</b>			<u>1,337,899</u>	
<b>End of Year</b>			<u>\$ 1,441,341</u>	

The Notes to the Financial Statements are an integral part of this statement.

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**Charter School No. 4185**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - FOOD SERVICE FUND  
For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
<b>REVENUES</b>				
Other Local Revenues	\$ 45,123	\$ 45,123	\$ 68,727	\$ 23,604
Revenue from State Sources	4,850	4,850	4,853	3
Revenue from Federal Sources	34,417	34,417	42,089	7,672
Total Revenues	<u>84,390</u>	<u>84,390</u>	<u>115,669</u>	<u>31,279</u>
<b>EXPENDITURES</b>				
<b>Current</b>				
Food Service	<u>80,542</u>	<u>91,890</u>	<u>113,824</u>	<u>21,934</u>
Excess of Revenues Over (Under) Expenditures	3,848	(7,500)	1,845	9,345
<b>OTHER FINANCING SOURCES</b>				
Transfers In	<u>-</u>	<u>7,500</u>	<u>-</u>	<u>(7,500)</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	1,845	<u>\$ 1,845</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>-</u>	
End of Year			<u>\$ 1,845</u>	

**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**Charter School No. 4185**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - COMMUNITY SERVICE FUND  
For the Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Over (Under)</u>
<b>REVENUES</b>				
Other Local Revenues	\$ 12,100	\$ 3,382	\$ 17,193	\$ 13,811
<b>EXPENDITURES</b>				
<b>Current</b>				
Community Education and Services	<u>12,100</u>	<u>3,382</u>	<u>18,492</u>	<u>15,110</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	(1,299)	<u>\$ (1,299)</u>
<b>FUND BALANCE</b>				
<b>Beginning of Year</b>			<u>85,878</u>	
<b>End of Year</b>			<u>\$ 84,579</u>	

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

The Academy is a nonprofit corporation that was formed and began operating in July 2007 in accordance with *Minnesota Statutes* 317A. The Academy is authorized by Friends of Education, a nonprofit organization. The Academy is a public school which served Kindergarten through 8<sup>th</sup> grade in the 2014-2015 school year. The mission of the Academy is to awaken a passion for learning through an enriched and individualized approach to education. Students, parents and teachers will work together to ensure positive character development and building a strong foundation for higher education. The governing body consists of a Board of Directors composed of a President, Vice President, Secretary, Treasurer and other members.

**A. Reporting Entity**

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

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

As a result of applying the component unit definition criteria above, it has been determined that the Academy has no component units.

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

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

**B. Basic Financial Statement Information**

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

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

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

**B. Basic Financial Statement Information (Continued)**

The Academy applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. The effect of interfund activity has been removed from these statements.

**C. Measurement Focus and Basis of Accounting**

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

**1. Revenue Recognition**

Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Grants and similar revenues are recognized when all eligibility requirement imposed by the provider have been met. Other revenue is considered available if collected within 60 days.

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt or compensated absences, if any, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General fund, capital outlay expenditures are included within the applicable functional areas.

**Description of Funds:**

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

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

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

Major Funds:

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

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

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

**D. Deposits and Investments**

Deposits include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. *Minnesota Statutes* authorizes the Academy to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool.

Custodial Credit Risk – Deposits: This is the risk that, in the event of the failure of a depository financial institution, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. *Minnesota Statutes* requires all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The Academy's policy states that full collateralization is required on all demand deposit accounts.

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

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

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

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

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

**E. Prepaid Items**

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

**F. Capital Assets**

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

Capital assets are defined by the Academy as assets with an initial individual cost of more than \$ 1,000. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

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

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

**G. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Academy has one item that qualifies for reporting in this category. A deferred outflow related to pension activity results from the net effect of the change in proportionate share, changes in actuarial assumptions, differences between expected and actual economic experience and employer contributions after the measurement date.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy has one item which qualifies for reporting in this category. Deferred inflows related to pension activity is a result of the net difference between projected and actual earnings on plan investments.

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

**H. Pensions**

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. Additional information can be found in TRA Note 5.

**I. Vacation Pay and Sick Leave**

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

**J. Risk Management**

The Academy is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the Academy carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions or other significant changes in the Academy's insurance coverage during the year ended June 30, 2015.

**K. Fund Equity**

**1. Classification**

In the fund financial statements, the governmental fund report fund classifications that comprise a hierarchy based primarily on the extent to which the Academy is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. Nonspendable fund balances include amounts that cannot be spent because they are not in spendable form. Amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments or b) imposed by law through enabling legislation are classified as restricted fund balances. Amounts that can only be used for specific purposes pursuant to constraints imposed by the Board of Trustees (highest level of decision making authority) through resolution are classified as committed fund balances.

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

**K. Fund Equity**

**1. Classification (Continued)**

Amounts that are constrained by the Academy's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to a specific purpose in the General Fund.

**2. Minimum Fund Balance**

At June 30, 2015, the Academy did not have a formal policy to maintain a minimum unassigned general fund balance.

**L. Net Position**

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**M. Use of Estimates**

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

**N. Tax Status**

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

The Academy is required to assess whether an uncertain tax position exists and if there should be recognition of a related benefit or liability in the financial statements. The Academy has determined there are not amounts to record as assets or liabilities related to uncertain tax positions. Generally, the Academy is no longer subject to examination by tax authorities for years before 2012.

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

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

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

**B. Excess of Expenditures Over Appropriations**

Budgetary control for governmental funds is established by each fund's total appropriations. Expenditures exceeded appropriations in the following funds for the year ending June 30, 2015.

	<u>Appropriations</u>	<u>Expenditures</u>
General Fund	\$ 4,003,330	\$ 4,276,428
Special Revenue Fund:		
Food Service	3,382	18,492
Community Service	91,890	113,824

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

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

Custodial Credit Risk – Deposits: As of June 30, 2015, the Academy's bank balance of \$ 1,404,114 was not exposed to custodial credit risk because it was covered by FDIC and collateral pledged.

Deposits are presented in the Statement of Net Position at June 30, 2015 is as follows:

Cash	<u><u>\$ 1,295,071</u></u>
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**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets being Depreciated:				
Furniture and Equipment	\$ 176,616	\$ 11,060	\$ -	\$ 187,676
Less Accumulated Depreciation for:				
Furniture and Equipment	67,481	13,269	-	80,750
Governmental Activities, Capital Assets, Net	<u>\$ 109,135</u>	<u>\$ (2,209)</u>	<u>\$ -</u>	<u>\$ 106,926</u>

Depreciation expense of \$ 13,269 for the year ended June 30, 2015 was charged to the following governmental functions:

Administration	\$ 100
District Support Services	974
Elementary and Secondary Regular Instruction	8,108
Instructional Support Services	272
Sites, Buildings and Equipment	<u>3,815</u>
Total Depreciation Expense	<u>\$ 13,269</u>

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

**Teachers' Retirement Association**

**A. Plan Description**

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

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

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided**

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

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

*Tier I Benefits*

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

With these provisions:

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

*Tier II Benefits*

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

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**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

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

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

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

**C. Contribution Rate**

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

	Ending June 30, 2014		Ending June 30, 2015	
	Employee	Employer	Employee	Employer
Basic	10.5%	11.0%	11.0%	11.5%
Coordinated	7.0%	7.0%	7.5%	7.5%

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 299,299,837
Deduct Employer contributions not related to future contribution efforts	(398,798)
Deduct TRA's contributions not included in allocation	<u>(370,701)</u>
Employer contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 298,530,338</u></u>

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
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**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

**Teachers' Retirement Association (Continued)**

**C. Contribution Rate (Continued)**

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

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

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Key Methods and Assumptions Used in Valuation of Total Pension Liability

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**Actuarial Information**

Measurement Date	June 30, 2014
Valuation Date	July 1, 2014
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Investment Rate of Return	8.25%
Wage Inflation	3.00%
Projected Salary Increase	3.5-12%, based on years of service
Cost of Living Adjustment	2.0% until year 2034, 2.5% thereafter

**Mortality Assumption**

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back five years and female rates set back seven years
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back two years and female rates set back three years
Post-disability	RP 2000 disabled retiree mortality, without adjustment

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

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

<u>Asset Class</u>	<u>Target</u>	<u>Long-Term</u>
Domestic Stocks	45 %	5.50 %
International Stocks	15	6.00
Bonds	18	1.45
Alternative Assets	20	6.40
Unallocated Cash	<u>2</u>	0.50
Total	<u><u>100 %</u></u>	

**E. Discount Rate**

The discount rate used to measure the total pension liability was 8.25%. The projection of cash flows used to determine the discount rate was assumed that employee contributions will be made at the fiscal 2015 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 available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**F. Net Pension Liability**

On June 30, 2015, the District reported a liability of \$ 1,456,105 for its proportionate share of the net pension liability. The net pension liability was measure as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.0316% at the end of the measurement period and 0.0302% for the beginning of the year.

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

**Teachers' Retirement Association (Continued)**

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

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the district 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 district were as follows:

District's Proportionate Share of Net Pension Liability	\$ 1,456,105
State's Proportionate Share of the Net Pension Liability Associated with the District	102,365

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer. Section C contains the rate information.

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to increase from 2.0% annually to 2.5% annually once the legally specified criteria are met. This is estimated to occur July 1, 2034.

For the year ended June 30, 2015, the district recognized pension expense of \$ 91,715. It also recognized \$ 4,465 as an increase to pension expense for the support provided by direct aid.

On June 30, 2015, the District had deferred resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 124,245	\$ -
Net Difference between Projected and Actual		
Earnings on Plan Investments	-	457,785
Changes in Proportion	66,442	-
Academy's Contributions to TRA Subsequent to Measurement Date	113,651	-
	<u>                    </u>	<u>                    </u>
Total	<u>\$ 304,338</u>	<u>\$ 457,785</u>

\$ 190,687 reported as deferred outflows of resources related to pensions resulting from school contributions to TRA subsequent to the measurement date will be recognized as a relation of the net pension liability in the year ended June 30, 2016.

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

**Teachers' Retirement Association (Continued)**

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

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

2016	\$ (74,637)
2017	(74,637)
2018	(74,637)
2019	(74,637)
2020	31,450

**G. Pension Liability Sensitivity**

The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 8.25% as well as the liability measured using 1% lower and 1% higher.

1% decrease (7.25%)	Current (8.25%)	1% increase (9.25%)
\$ 2,406,443	\$ 1,456,105	\$ 663,852

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

**H. Pension Plan Fiduciary Net Position**

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

**Public Employees' Retirement Association**

**A. Plan Description**

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

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

**Public Employees' Retirement Association**

**A. Plan Description (Continued)**

General Employees Retirement Fund (GERF)

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

**B. Benefits Provided**

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. 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% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

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

**C. Contributions**

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

**GERF Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the District was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2015, were \$ 37,436. The District's contributions were equal to the required contributions for each year as set by state statute.

**D. Pension Costs**

**GERF Pension Costs**

At June 30, 2015, the District reported a liability of \$ 418,077 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the District's proportion was 0.0089%.

For the year ended June 30, 2015, the District recognized pension expense of \$ 31,036 for its proportionate share of GERF's pension expense.

At June 30, 2015, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the sources on the following page.

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

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

**D. Pension Costs (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 6,416	\$ -
Changes in Actuarial Assumptions	43,087	-
Difference Between Projected and Actual Investments Earnings	-	112,964
Academy's Contributions to PERA Subsequent to the Measurement Date	37,436	-
	<u>\$ 86,939</u>	<u>\$ 112,964</u>

\$ 37,436 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2016	\$ (11,740)
2017	(11,740)
2018	(11,740)
2019	28,241
2020	-

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

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

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

GERF

<u>Assumptions</u>	<u>GERF</u>
Inflation	2.75 % Per Year
Active Member Payroll Growth	3.50 Per Year
Investment Rate of Return	7.90

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The following changes in actuarial assumptions for GERF occurred in 2014: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

The long-term expected rate of return on pension plan investments is 7.9% for GERF. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

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

**E. Actuarial Assumptions (Continued)**

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

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

**F. Discount Rates**

The discount rate used to measure the total pension liability was 7.9% for GERF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on those assumptions, each of the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability Sensitivity**

The following table presents the District’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 District’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF Discount Rate	6.9%	7.9%	8.9%
District's Proportionate Share of the Net Pension Liability	\$ 673,958	\$ 418,077	\$ 207,548

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

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

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

**H. Pension Plan Fiduciary Net Position**

Detailed information about GERF's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

**NOTE 6 – COMMITMENTS**

**A. Lease Commitments and Terms**

The Academy entered into a lease agreement for office and classroom space for a period of ten years beginning August 1, 2008. On May 20, 2010, the Academy amended the lease agreement extending the term of the lease until September 30, 2021. The Academy paid rent of \$ 676,576 under this agreement during the year ended June 30, 2015. Future minimum lease payments on this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 682,999
2017	691,563
2018	693,704
2019	693,704
2020	700,127
2021-2022	<u>877,836</u>
Total	<u><u>4,339,933</u></u>

For 2014, the Academy qualified for state charter school lease aid which equaled the lesser of 90% of the approved lease cost or \$ 1,314 per pupil units served, or \$ 554,180.

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

**NOTE 7 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This resulted in an adjustment to the beginning net position on the Statement of Activities of \$ 2,081,957 to add the beginning net pension liability.

**DAVINCI ACADEMY OF ARTS AND SCIENCE  
CHARTER SCHOOL NO. 4185**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2015**

**NOTE 8 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

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

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## **REQUIRED SUPPLEMENTARY INFORMATION**

**DAVINCI ACADEMY OF ARTS AND SCIENCE**

**SCHEDULE OF ACADEMY'S AND NON-EMPLOYER PROPORTIONATE SHARE  
OF NET PENSION LIABILITY  
LAST TEN YEARS GERF RETIREMENT FUNDS**

For Fiscal Year Ended June 30	Academy's Proportion of the Net Pension Liability (Asset)	Academy's Proportionate Share of the Net Pension Liability (Asset)	Academy's Covered- Employee Payroll	Academy's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0089%	\$ 418,077	\$ 469,145	89.11%	78.75%

**SCHEDULE OF ACADEMY'S AND NON-EMPLOYER PROPORTIONATE SHARE  
OF NET PENSION LIABILITY  
LAST TEN YEARS TRA RETIREMENT FUNDS**

For Fiscal Year Ended June 30	Academy's Proportion of the Net Pension Liability (Asset)	Academy's Proportionate Share of the Net Pension Liability (Asset)	Academy's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	Academy's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	Academy's Covered- Employee Payroll	Academy's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0316%	\$ 1,456,105	\$ 102,365	\$ 1,558,470	\$ 1,443,037	100.9%	81.5%

**DAVINCI ACADEMY OF ARTS AND SCIENCE**

**SCHEDULE OF ACADEMY CONTRIBUTIONS  
GERF RETIREMENT FUNDS  
LAST TEN YEARS**

<u>Fiscal Year Ending June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Academy's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 34,013	\$ 34,013	\$ -	\$ 469,145	7.25%

**SCHEDULE OF ACADEMY CONTRIBUTIONS  
TRA RETIREMENT FUNDS  
LAST TEN YEARS**

<u>Fiscal Year Ending June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Academy's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 101,013	\$ 101,013	\$ -	\$ 1,443,037	7.0%

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## **SUPPLEMENTARY INFORMATION**

**DaVinci Academy of Arts and Science**  
**Charter School No. 4178**

**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS**  
**COMPLIANCE TABLE**  
**For the Year Ended June 30, 2015**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION FUND</b>			
Total Revenue	\$ 4,379,870	\$ 4,379,869	\$ 1	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	4,276,428	4,276,426	2	Total Expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	133,608	133,608	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	-	-	-	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted Fund Balance	-	-	-
409 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned Fund Balance	-	-	-
416 Levy Reduction	-	-	-				
417 Taconite Building Maintenance	-	-	-	<b>07 DEBT SERVICE FUND</b>			
424 Operating Capital	-	-	-	Total Revenue	\$ -	\$ -	\$ -
426 \$ 25 Taconite	-	-	-	Total Expenditures	-	-	-
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable Fund Balance	-	-	-
434 Area Learning Center	-	-	-	<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refunding	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB and QSCB Payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
440 Teacher Development and Evaluation	-	-	-	464 Restricted Fund Balance	-	-	-
441 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
445 Career Technical Programs	-	-	-	463 Unassigned Fund Balance	-	-	-
446 First Grade Preparedness	-	-	-				
448 Achievement and Integration Revenue	-	-	-	<b>08 TRUST FUND</b>			
449 Safe School Crime	-	-	-	Total Revenue	\$ -	\$ -	\$ -
450 Transition for Pre-Kindergarten	-	-	-	Total Expenditures	-	-	-
451 QZAB and QCSB Payments	-	-	-	<i>Unassigned:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	422 Unassigned Fund Balance (Net Position)	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-				
<i>Restricted:</i>				<b>20 INTERNAL SERVICE FUND</b>			
464 Restricted Fund Balance	-	-	-	Total Revenue	\$ -	\$ -	\$ -
<i>Committed:</i>				Total Expenditures	-	-	-
418 Committed for Separation	-	-	-	<i>Unassigned:</i>			
461 Committed	-	-	-	422 Unassigned Fund Balance (Net Position)	-	-	-
<i>Assigned:</i>							
462 Assigned Fund Balance	-	-	-	<b>25 OPEB REVOCABLE TRUST</b>			
<i>Unassigned:</i>				Total Revenue	\$ -	\$ -	\$ -
422 Unassigned Fund Balance (Net Position)	1,307,733	1,307,734	(1)	Total Expenditures	-	-	-
				<i>Unassigned:</i>			
				422 Unassigned Fund Balance (Net Position)	-	-	-
<b>02 FOOD SERVICES FUND</b>							
Total Revenue	\$ 115,669	\$ 115,670	(1)	<b>45 OPEB IRREVOCABLE TRUST</b>			
Total Expenditures	113,824	113,826	(2)	Total Revenue	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total Expenditures	-	-	-
460 Nonspendable Fund Balance	-	-	-	<i>Unassigned:</i>			
<i>Restricted/Reserved:</i>				422 Unassigned Fund Balance (Net Position)	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>				<b>47 OPEB DEBT SERVICE</b>			
464 Restricted Fund Balance	1,845	1,844	1	Total Revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	-	-	-
463 Unassigned Fund Balance	-	-	-	<i>Nonspendable:</i>			
				460 Nonspendable Fund Balance	-	-	-
<b>04 COMMUNITY SERVICE FUND</b>				<i>Restricted:</i>			
Total Revenue	\$ 17,193	\$ 17,194	(1)	425 Bond Refundings	-	-	-
Total Expenditures	18,492	18,493	(1)	464 Restricted Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable Fund Balance	-	-	-	463 Unassigned Fund Balance	-	-	-
<i>Restricted/Reserved:</i>							
426 \$ 25 Taconite	-	-	-				
431 Community Education	-	-	-				
432 ECFE	-	-	-				
444 School Readiness	-	-	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	84,579	84,579	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				



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

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
DaVinci Academy of Arts and Science  
Blaine, 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, Blaine, Minnesota, as of and for the year ending June 30, 2015, 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 13, 2015.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

BerganKDV, Ltd.  
Minneapolis, Minnesota  
October 13, 2015



## REPORT ON LEGAL COMPLIANCE

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
DaVinci Academy of Arts and Science  
Blaine, 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, Blaine, Minnesota, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, and have issued our report thereon dated October 13, 2014.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains two categories of compliance to be tested in audits of charter schools: uniform financial accounting and reporting standards and charter schools.

In connection with our audit, nothing came to our attention that caused us to believe that the Academy failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Academy's noncompliance with the above referenced provisions.

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

BerganKDV, Ltd.  
Minneapolis, Minnesota  
October 13, 2015

BerganKDV, Ltd.

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**DAVINCI ACADEMY OF ARTS AND SCIENCE**  
**Charter School No. 4185**

**SCHEDULE OF FINDINGS AND CORRECTIVE ACTION PLANS ON**  
**LEGAL COMPLIANCE**  
**June 30, 2015**

**PRIOR YEAR FINDING:**

**Audit Finding 2014-001**

**Claims and Disbursements**

*Minnesota Statute 471.425, Subd. 2* requires charter schools to pay each vendor obligation according to the terms of each contract or within 35 days after the receipt of the goods or services or the invoice for goods or services. If such obligations are not paid within the appropriate time period, DaVinci Academy of Arts and Science (the Academy) must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. For two disbursements selected for testing, the Academy did not pay the obligation within the required time period, and did not pay interest on the unpaid obligation.

**CORRECTIVE ACTION TAKEN:**

The School paid obligations within the required time period for items tested during 2015.