

EAST RANGE ACADEMY OF TECHNOLOGY
AND SCIENCE
EVELETH, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
June 30, 2018

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

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INTRODUCTORY SECTION

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

Board and Administration
as of June 30, 2018

BOARD

	<u>Position</u>
Erin Haglund	Board Chair
Cindy Thiel	Vice Chair
Emily Falgier	Treasurer
Amy Hendrickson	Secretary
Melissa Brusacoram	Member
Chris Mammenga	Member
John Stodola	Member
Zach Topping	Member

ADMINISTRATION

Tara Lere	School Director
Shane Walters	Dean of Students
Fern Swanson	Business Office

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board and Management of
East Range Academy of Technology and Science
Eveleth, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of East Range Academy of Technology and Science (the Academy) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Academy as of June 30, 2018, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The introductory section and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the Academy.

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

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

(continued)

Prior Year Comparative Information

We have previously audited the Academy's 2017 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, the major fund, and the aggregate remaining fund information in our report dated November 29, 2017. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

Minneapolis, Minnesota
INSERT DATE

Insert MD&A

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

Management's Discussion and Analysis Fiscal Year Ended June 30, 2018

This section of East Range Academy of Technology and Science's (the Academy) annual financial statements presents management's discussion and analysis of the Academy's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the other components of the Academy's annual financial statements.

FINANCIAL HIGHLIGHTS

The Academy's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2018 by \$1,008,542 (deficit net position). The Academy's total net position decreased \$675,731 from operations during the fiscal year ended June 30, 2018. This is mostly related to the changes in net pension-related liabilities from the Academy's participation in state-wide pension plans.

At June 30, 2018, the Academy's General Fund reported a total fund balance of \$712,685, a decrease of \$108,414 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Independent Auditor's Report;
- Management's discussion and analysis;
- Basic financial statements, including the entity-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information related to defined benefit pension plan liabilities and contributions; and
- Individual fund statements and schedules, presented as supplemental information.

The following explains the type of statements included in the basic financial statements:

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide financial statements (Statement of Net Position and Statement of Activities) report information about the Academy as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes *all* of the Academy's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two entity-wide financial statements report the Academy's *net position* and how they have changed. Net position—the difference between the Academy's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the Academy's financial health or *position*. Over time, increases or decreases in the Academy's net position are indicators of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the Academy requires consideration of additional nonfinancial factors such as changes in the Academy's student population and the condition of school buildings and other facilities.

In the entity-wide financial statements the Academy's activities are all shown in one category titled "governmental activities." These activities, including regular and special education instruction, food services, and administration, are primarily financed with governmental grants and aids.

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

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

Table 1 Summary Statement of Net Position as of June 30, 2017 and 2018		
	2018	2017
Assets		
Current and other assets	\$ 744,576	\$ 1,019,325
Restricted assets	183,332	—
Capital assets, net of depreciation	225,238	162,304
Total assets	<u>\$ 1,153,146</u>	<u>\$ 1,181,629</u>
Deferred outflows of resources	<u>\$ 1,971,276</u>	<u>\$ 2,227,445</u>
Liabilities		
Current and other liabilities	\$ 215,223	\$ 198,226
Long-term liabilities, including due within one year	3,306,083	3,462,478
Total liabilities	<u>\$ 3,521,306</u>	<u>\$ 3,660,704</u>
Deferred inflows of resources	<u>\$ 611,658</u>	<u>\$ 81,181</u>
Net position		
Net investment in capital assets	\$ (69,139)	\$ 31,524
Restricted for medical assistance	10,606	80
Unrestricted	(950,009)	(364,415)
Total net position	<u>\$ (1,008,542)</u>	<u>\$ (332,811)</u>

The Academy's financial position is the product of many factors. For example, the determination of the Academy's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. Changes in variables such as estimated depreciable lives or capitalization policies may produce significant differences in the calculated amounts. The increase in restricted cash is related to cash held by a trustee for loan collateral purposes. The change in deferred outflows/inflows of resources relates to unfunded state-wide pension plans, a portion of which is reported on the financial statement of the Academy.

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

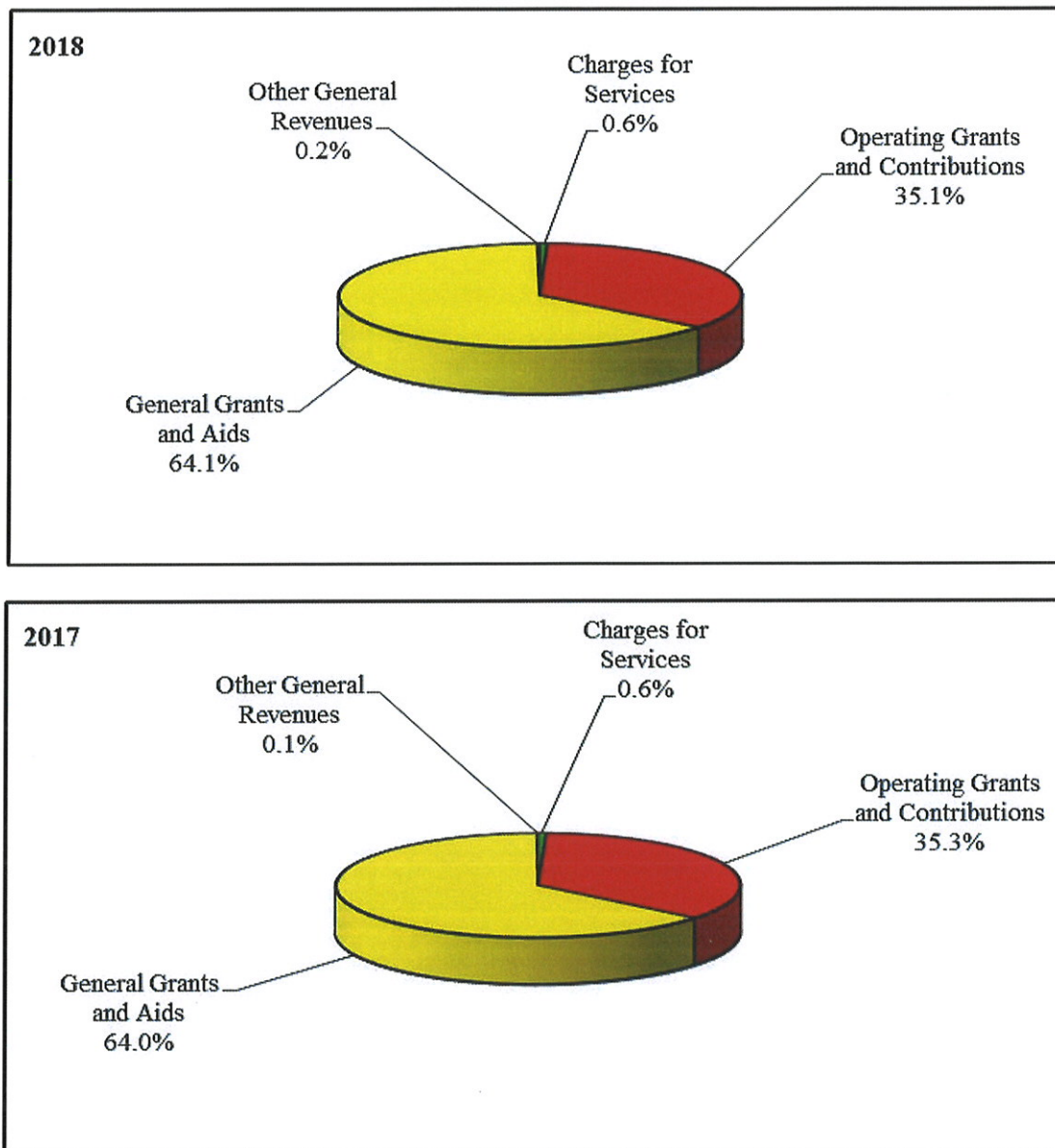
Table 2 Summary Statement of Activities For the Year Ended June 30, 2017 and 2018		
	<u>2018</u>	<u>2017</u>
Revenues		
Program revenues		
Charges for services	\$ 12,846	\$ 14,851
Operating grants and contributions	796,945	818,092
General revenues		
General grants and aids	1,457,880	1,482,511
Other general revenues	4,609	1,170
Total revenues	<u>2,272,280</u>	<u>2,316,624</u>
Expenses		
Administration	103,948	83,376
District support services	360,778	366,061
Elementary and secondary regular instruction	1,132,673	932,333
Special education instruction	580,136	599,120
Instructional support services	62,506	61,088
Pupil support services	354,370	168,499
Sites and buildings	252,249	203,322
Fiscal and other fixed cost programs	6,232	6,097
Food service	90,214	101,585
Interest and fiscal charges	4,905	9,773
Total expenses	<u>2,948,011</u>	<u>2,531,254</u>
Change in net position	(675,731)	(214,630)
Net position – beginning	<u>(332,811)</u>	<u>(118,181)</u>
Net position – ending	<u>\$ (1,008,542)</u>	<u>\$ (332,811)</u>

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

Overall, revenues decreased in fiscal 2018, due to decreased state funding resulting from a decrease in enrollment. The increase in expenses in fiscal 2018 is primarily related to an increase in personal expenses (salaries and benefits), due to the salary increases and additional staffing. Expenses also increased, due to the Academy's purchase of a bus and increased facilities lease costs, due to increased space.

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

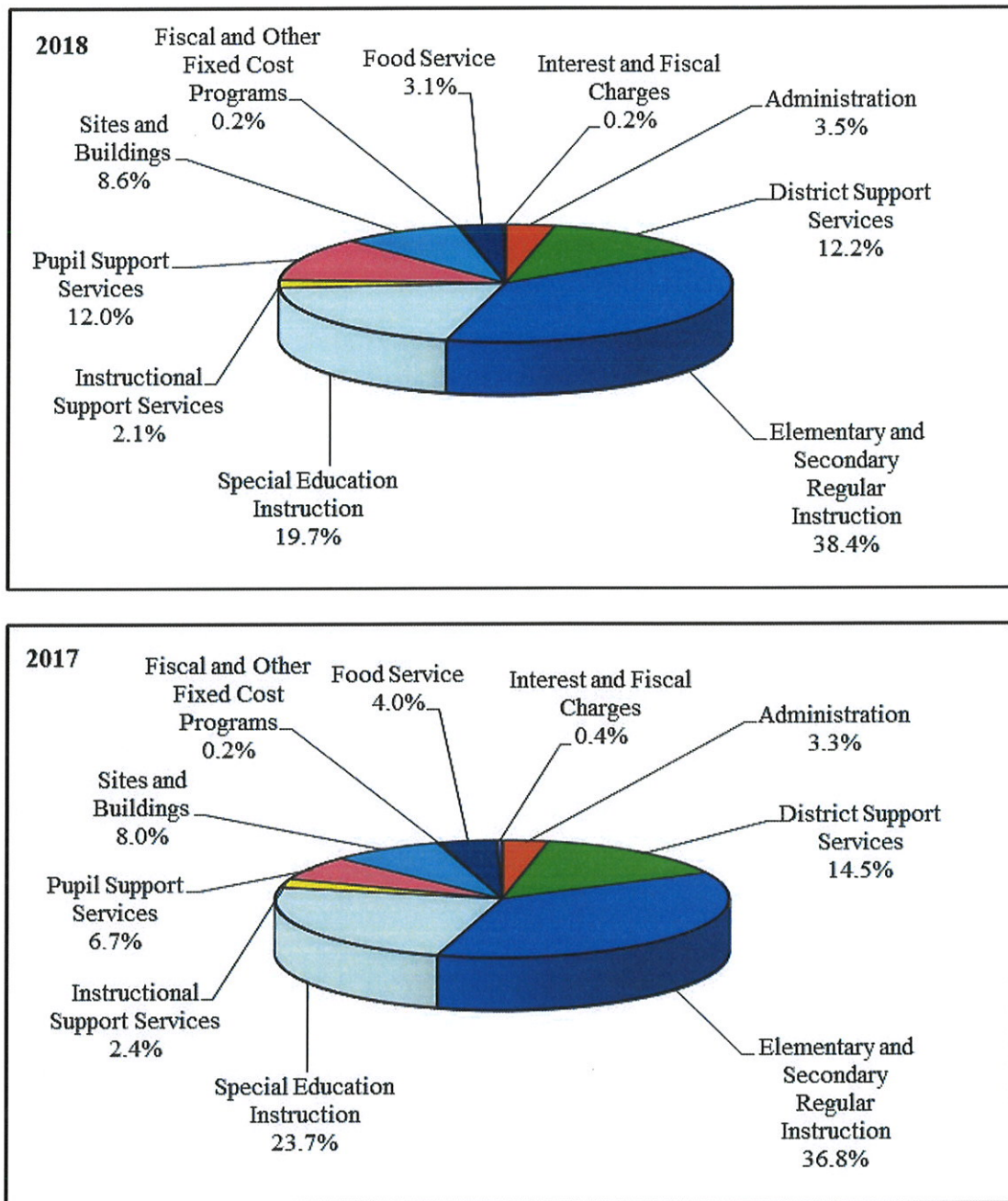
Figure A – Sources of Revenue for Fiscal Years 2018 and 2017



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

Enrollment continues to be the largest influence on the Academy's revenue. The Academy's enrollment was approximately 134 average daily memberships (ADM) at year-end, and reflected a decrease of 11 ADM from the prior year. Marketing and recruitment efforts have been placed in the forefront to help ensure adequate levels of funding.

Figure B – Expenses for Fiscal Years 2018 and 2017



The Academy's expenses are predominately related to educating students. Approximately 72.2 percent of the Academy's expenses were in categories directly related to providing instruction, which includes: regular instruction, special education instruction, instructional support services, and pupil support services.

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

Fund Financial Statements

The fund financial statements provide more detailed information about the Academy's funds. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs. The Academy maintains two funds, the General Fund and the Food Service Special Revenue Fund, to account for its activities. Both are "governmental" fund types. Governmental funds 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 fund financial statements provide a detailed short-term view that helps to 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) on the governmental fund financial statements that explain the relationship (or differences) between the two types of financial statement presentations.

Analysis of the General Fund

Table 3 summarizes the operating results of the General Fund:

Table 3 General Fund Operating Results Year Ended June 30, 2018				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenues	\$ 2,209,891	\$ 2,268,070	\$ 2,221,034	\$ (47,036)
Expenditures	2,159,442	2,230,731	2,475,675	\$ 244,944
Other financing sources (uses)	<u>(32,184)</u>	<u>(32,434)</u>	<u>146,227</u>	\$ 178,661
Net change in fund balances	<u>\$ 18,265</u>	<u>\$ 4,905</u>	<u>\$ (108,414)</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, legislative funding changes, and additional funding received from grants or other local sources or staffing changes.

General Fund revenues were under budget by \$47,036, primarily due to a reduction of state special education funding in 2018, due to the decline in enrollment that was not reflected in the budget.

General Fund expenditures were over budget by \$244,944, primarily due to the purchase of a bus that was not reflected in the budget. Other financing sources (uses) were over budget by \$178,661 from the proceeds on debt issued to purchase buses.

Food Service Special Revenue Fund

Expenditures exceeded revenues by \$37,155 in the Food Service Special Revenue Fund. The Academy made a transfer of \$37,155 from the General Fund to the Food Service Special Revenue Fund to eliminate the current year deficit spending.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Table 4 shows the Academy's capital assets. The table also shows the total depreciation expense for fiscal years ending June 30, 2018 and 2017:

Table 4 Capital Assets as of June 30, 2018 and 2017		
	2018	2017
Furniture and equipment	\$ 385,529	\$ 348,424
Less accumulated depreciation	<u>(160,291)</u>	<u>(186,120)</u>
Total	<u>\$ 225,238</u>	<u>\$ 162,304</u>
Depreciation expense	<u>\$ 66,084</u>	<u>\$ 55,544</u>

Table 5 illustrates the components of the Academy's long-term liabilities, together with the change from the prior year:

Table 5 Outstanding Long-Term Liabilities as of June 30, 2018 and 2017			
	2018	2017	Increase (Decrease)
Loans payable	\$ 183,382	\$ —	\$ 183,382
Capital leases payable	110,995	130,780	(19,785)
Net pension liability	<u>3,011,706</u>	<u>3,331,698</u>	<u>(319,992)</u>
Total	<u>\$ 3,306,083</u>	<u>\$ 3,462,478</u>	<u>\$ (156,395)</u>

Additional details of the Academy's capital assets and long-term debt activity can be found in the notes to basic financial statements.

FACTORS BEARING ON THE ACADEMY'S FUTURE

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

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

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our citizens, customers, investors, and creditors 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 the Academy at East Range Academy of Technology and Science, 2000 Siegel Boulevard, Eveleth, Minnesota 55734.

BASIC FINANCIAL STATEMENTS

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

Statement of Net Position
as of June 30, 2018
(With Partial Comparative Information as of June 30, 2017)

	Governmental Activities	
	2018	2017
Assets		
Cash and temporary investments	\$ 472,235	\$ 549,500
Receivables		
Accounts	4,953	3,751
Due from other governmental units	267,388	466,074
Restricted assets – temporarily restricted		
Cash and investments held by trustee	183,332	–
Capital assets		
Furniture and equipment	385,529	348,424
Less accumulated depreciation	(160,291)	(186,120)
Total capital assets, net of depreciation	225,238	162,304
Total assets	1,153,146	1,181,629
Deferred outflows of resources		
Pension plan deferments	1,971,276	2,227,445
Total assets and deferred outflows of resources	\$ 3,124,422	\$ 3,409,074
Liabilities		
Salaries and benefits payable	\$ 207,534	\$ 195,155
Accounts and contracts payable	7,689	3,071
Long-term liabilities		
Due within one year	144,900	19,333
Due in more than one year	3,161,183	3,443,145
Total long-term liabilities	3,306,083	3,462,478
Total liabilities	3,521,306	3,660,704
Deferred inflows of resources		
Pension plan deferments	611,658	81,181
Net position		
Net investment in capital assets	(69,139)	31,524
Restricted for Medical Assistance	10,606	80
Unrestricted	(950,009)	(364,415)
Total net position	(1,008,542)	(332,811)
Total liabilities, deferred inflows of resources, and net position	\$ 3,124,422	\$ 3,409,074

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

Statement of Activities
Year Ended June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

Functions/Programs	2018			2017	
	Expenses	Program Revenues		Net (Expense)	Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position	Revenue and Changes in Net Position
Governmental activities					
Administration	\$ 103,948	\$ —	\$ —	\$ (103,948)	\$ (83,376)
District support services	360,778	—	—	(360,778)	(366,061)
Elementary and secondary regular instruction	1,132,673	9,897	106,139	(1,016,637)	(861,231)
Special education instruction	580,136	—	394,863	(185,273)	(104,541)
Instructional support services	62,506	—	35,018	(27,488)	(25,467)
Pupil support services	354,370	—	—	(354,370)	(168,499)
Sites and buildings	252,249	—	212,237	(40,012)	(40,859)
Fiscal and other fixed cost programs	6,232	—	—	(6,232)	(6,097)
Food service	90,214	2,949	48,688	(38,577)	(32,407)
Interest and fiscal charges	4,905	—	—	(4,905)	(9,773)
Total governmental activities	<u>\$ 2,948,011</u>	<u>\$ 12,846</u>	<u>\$ 796,945</u>	(2,138,220)	(1,698,311)
General revenues					
General grants and aids				1,457,880	1,482,511
Other general revenues				4,609	1,170
Total general revenues				<u>1,462,489</u>	<u>1,483,681</u>
Change in net position				(675,731)	(214,630)
Net position – beginning				<u>(332,811)</u>	<u>(118,181)</u>
Net position – ending				<u>\$ (1,008,542)</u>	<u>\$ (332,811)</u>

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

Balance Sheet
Governmental Funds
as of June 30, 2018
(With Partial Comparative Information as of June 30, 2017)

	General Fund	Nonmajor Fund Food Service Special Revenue	Total Governmental Funds	
			2018	2017
Assets				
Cash and temporary investments	\$ 472,235	\$ —	\$ 472,235	\$ 549,500
Cash and investments held by trustee	183,332	—	183,332	—
Receivables				
Accounts	4,953	—	4,953	3,751
Due from other governmental units	267,388	—	267,388	466,074
Due from other funds	451	—	451	—
Total assets	\$ 928,359	\$ —	\$ 928,359	\$ 1,019,325
Liabilities				
Salaries and benefits payable	\$ 207,985	\$ (451)	\$ 207,534	\$ 195,155
Accounts and contracts payable	7,689	—	7,689	3,071
Due to other funds	—	451	451	—
Total liabilities	215,674	—	215,674	198,226
Fund balances				
Restricted for Medical Assistance	10,606	—	10,606	80
Unassigned	702,079	—	702,079	821,019
Total fund balances	712,685	—	712,685	821,099
Total liabilities and fund balances	\$ 928,359	\$ —	\$ 928,359	\$ 1,019,325

Amounts reported for governmental activities in the Statement of Net Position are different because:

Fund balances as reported above	\$ 712,685	\$ 821,099
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	385,529	348,424
Less accumulated depreciation	(160,291)	(186,120)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Capital leases payable	(110,995)	(130,780)
Loans payable	(183,382)	—
Net pension liability	(3,011,706)	(3,331,698)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plans	1,971,276	2,227,445
Deferred inflows – pension plans	(611,658)	(81,181)
Total net position – governmental activities	\$ (1,008,542)	\$ (332,811)

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
as of June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

	General Fund	Nonmajor Fund Food Service Special Revenue	Total Governmental Funds	
			2018	2017
Revenue				
Local sources				
Other	\$ 27,195	\$ 2,949	\$ 30,144	\$ 16,101
State sources	2,053,475	2,562	2,056,037	2,113,351
Federal sources	140,364	46,144	186,508	149,700
Total revenue	<u>2,221,034</u>	<u>51,655</u>	<u>2,272,689</u>	<u>2,279,152</u>
Expenditures				
Current				
Administration	76,326	—	76,326	65,617
District support services	348,409	—	348,409	337,226
Elementary and secondary regular instruction	871,542	—	871,542	700,574
Special education instruction	466,447	—	466,447	424,371
Instructional support services	41,652	—	41,652	61,088
Pupil support services	389,094	—	389,094	137,558
Sites and buildings	251,283	—	251,283	203,322
Fiscal and other fixed cost programs	6,232	—	6,232	6,097
Food service	—	88,810	88,810	100,439
Debt service				
Principal	19,785	—	19,785	44,398
Interest and fiscal charges	4,905	—	4,905	9,773
Total expenditures	<u>2,475,675</u>	<u>88,810</u>	<u>2,564,485</u>	<u>2,090,463</u>
Excess (deficiency) of revenue over expenditures	(254,641)	(37,155)	(291,796)	188,689
Other financing sources (uses)				
Debt issued	183,382	—	183,382	—
Transfers in	—	37,155	37,155	31,249
Transfers (out)	(37,155)	—	(37,155)	(31,249)
Total other financing sources (uses)	<u>146,227</u>	<u>37,155</u>	<u>183,382</u>	<u>—</u>
Net change in fund balances	(108,414)	—	(108,414)	188,689
Fund balances				
Beginning of year	<u>821,099</u>	<u>—</u>	<u>821,099</u>	<u>632,410</u>
End of year	<u>\$ 712,685</u>	<u>\$ —</u>	<u>\$ 712,685</u>	<u>\$ 821,099</u>
Amounts reported for governmental activities in the Statement of Activities are different because:				
Net change in fund balances reported above			\$ (108,414)	\$ 188,689
Capital outlays are reported in governmental funds as expenditures. In the Statement of Activities, the cost of those assets are allocated over the estimated useful lives as depreciation expense.				
Capital outlays			229,990	53,541
Depreciation expense			(66,084)	(55,544)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, are included in the change in net position. However, only the sale proceeds are included in the change in fund balances.				
			(100,972)	—
The proceeds from long-term debt issued or the repayment of debt principal increase or decrease fund balances in the governmental funds, but do not affect the change in net position in the entity-wide financial statements.				
Debt issued			(183,382)	—
Debt retired			19,785	44,398
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.				
Net pension liability			319,992	(2,552,936)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.				
Deferred outflows – pension plan deferments			(256,169)	2,049,375
Deferred inflows – pension plans deferments			(530,477)	57,847
Change in net position of governmental activities			<u>\$ (675,731)</u>	<u>\$ (214,630)</u>

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local sources				
Other	\$ 16,559	\$ 20,425	\$ 27,195	\$ 6,770
State sources	2,113,179	2,094,197	2,053,475	(40,722)
Federal sources	80,153	153,448	140,364	(13,084)
Total revenue	<u>2,209,891</u>	<u>2,268,070</u>	<u>2,221,034</u>	<u>(47,036)</u>
Expenditures				
Current				
Administration	74,535	73,191	76,326	3,135
District support services	330,230	335,697	348,409	12,712
Elementary and secondary administration	754,188	893,373	871,542	(21,831)
Special education instruction	523,122	433,420	466,447	33,027
Instructional support services	64,978	48,701	41,652	(7,049)
Pupil support services	140,122	159,252	389,094	229,842
Sites and buildings	240,757	255,587	251,283	(4,304)
Fiscal and other fixed cost programs	6,820	6,820	6,232	(588)
Debt service				
Principal	18,987	19,785	19,785	—
Interest and fiscal charges	5,703	4,905	4,905	—
Total expenditures	<u>2,159,442</u>	<u>2,230,731</u>	<u>2,475,675</u>	<u>244,944</u>
Excess (deficiency) of revenue over expenditures	50,449	37,339	(254,641)	(291,980)
Other financing sources (uses)				
Proceeds from sale of assets	250	—	—	—
Debt issued	—	—	183,382	183,382
Transfers (out)	(32,434)	(32,434)	(37,155)	(4,721)
Total other financing sources (uses)	<u>(32,184)</u>	<u>(32,434)</u>	<u>146,227</u>	<u>178,661</u>
Net change in fund balances	<u>\$ 18,265</u>	<u>\$ 4,905</u>	<u>(108,414)</u>	<u>\$ (113,319)</u>
Fund balances				
Beginning of year			<u>821,099</u>	
End of year			<u>\$ 712,685</u>	

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

Notes to Basic Financial Statements June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

East Range Academy of Technology and Science (the Academy) is an outcome-based charter school established February 3, 2006, in accordance with Minnesota Statutes § 124D.10. The Academy is required to operate under a charter agreement with an entity that has been approved by the Minnesota Department of Education (MDE) to be a charter school “authorizer.” The authorizer monitors and evaluates the Academy’s performance, and periodically determines whether to renew the Academy’s charter. The Academy’s authorizer is the Audubon Center of the North Woods (the Center), a nonprofit organization. Aside from its responsibilities as authorizer, the Center has no authority or control over the Academy, and is not financially accountable for it. Therefore, the Academy is not considered a component unit of the Center.

The Academy’s financial statements include all funds, departments, agencies, boards, commissions, and other organizations for which the Academy is considered to be financially accountable.

Component units are legally separate entities for which the Academy (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit’s governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the Academy.

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

B. Basis of Statement Presentation

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Entity-Wide Financial Statement Presentation

The entity-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the Academy. Generally, the effect of material interfund activity has been removed from the entity-wide financial statements. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other internally directed revenues are reported instead as general revenues.

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

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

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Description of Funds

The funds used by the Academy to report its activity have been established by the MDE. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

Major Governmental Fund

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Nonmajor Governmental Fund

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

F. 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 in the financial statements during the reporting period. Actual results could differ from those estimates.

G. Budgeting

The Academy's Board adopts an annual budget for all governmental funds on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. Expenditures exceeded budgeted amounts in the Food Service Special Revenue Fund by \$6,767, and the General Fund by \$244,944.

H. Cash and Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled balances are allocated to the respective funds on the basis of cash participation by each fund.

Cash held by trustee includes cash held in the General Fund as collateral on the issuance of an operating lease. Earnings from cash held by trustee are allocated directly to those funds.

I. Receivables

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

J. Prepaid Items

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The Academy defines capital assets as those with an initial, individual cost of \$500 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

Capital assets are recorded in the entity-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the Academy, no salvage value is taken into consideration for depreciation purposes. Useful lives for furniture and equipment are 5–8 years.

L. Deferred Outflows/Inflows of Resources

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

M. Compensated Absences

Since teachers are not eligible for vacation pay and amounts accrued to other employees are insignificant, no long-term liability for unused vacation pay has been recorded. Substantially all academy employees are entitled to paid time off at various rates. Employees are not compensated for unused paid time off upon termination of employment; therefore, no long-term liability for unused sick leave has been recorded.

N. Long-Term Obligations

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Premiums and discounts on debt (if any) are deferred and amortized over the life of the debt using the straight-line method.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. State-Wide Pension Plans

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

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

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

P. Income Taxes

The Academy is exempt from federal and state income taxes under Internal Revenue Code (IRC) § 501(c)(3). The Academy is subject to tax on income from any unrelated business.

The Academy is subject to the recognition requirements for uncertain income tax positions as required by the Financial Accounting Standards Board Accounting Standards Codification 740-10. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Academy has analyzed tax positions taken for filing with the Internal Revenue Service and state jurisdiction where it operates. The Academy believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on its financial condition, results of operation, or cash flows. Accordingly, the Academy has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at the current year-end. The Academy is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

Q. Interfund Transactions

During the 2018 fiscal year, the General Fund made a transfer of \$37,155 to support the operations of the Food Service Special Revenue Fund. Interfund transfers and balances are reported in the fund financial statements, but are eliminated in the entity-wide financial statements.

R. Risk Management

The Academy is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation. The Academy carries commercial insurance purchased from independent third parties to cover these risks. Settled claims have not exceeded commercial insurance coverage for any of the past three fiscal years. There were no significant reductions in insurance coverage in fiscal year 2018.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Restricted Asset

Restricted assets are cash and cash equivalents whose use is limited by legal requirements. Restricted assets are reported only in the entity-wide financial statements. In the governmental funds, cash and investments that are restricted are reported as cash held by trustee.

T. Net Position

In the entity-wide financial statements, net position represents the residual of all other financial statement elements presented in a Statement of Net Position. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

U. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the Academy for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. The Board delegates the power to assign fund balances to the Academy’s director.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, the Academy uses restricted resources first, then uses unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, the Academy uses resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Fund Balance Policy

The Academy will strive to maintain an unassigned General Fund balance of 25.0 percent of General Fund expenditures. At June 30, 2018, the unassigned fund balance was 28.4 percent of total General Fund expenditures.

W. Prior Period Comparative Financial Information/Reclassification

The financial statements include partial prior year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Academy's financial statements for the year ended June 30, 2017, from which such partial information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS

A. Financial Statement Presentation

Deposits are presented in the financial statements as follows:

	Cash and Temporary Investments	Cash and Investments Held by Trustee	Total
Deposits	\$ 472,235	\$ 183,332	\$ 655,567

B. Deposits

In accordance with applicable Minnesota Statutes, the Academy maintains deposits at depository banks authorized by the Board.

The following is considered the most significant risk associated with deposits:

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

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

At June 30, 2018, the Academy had deposits with a carrying value of \$655,567, and a bank balance of \$690,821. At June 30, 2018, all of the Academy's deposits were covered by federal deposit insurance or collateralized by securities held by the Academy's agent in the Academy's name.

NOTE 3 – CAPITAL ASSETS

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

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Furniture and equipment	\$ 348,424	\$ 229,990	\$ (192,885)	\$ 385,529
Less accumulated depreciation	(186,120)	(66,084)	91,913	(160,291)
Capital assets, net of accumulated depreciation	<u>\$ 162,304</u>	<u>\$ 163,906</u>	<u>\$ (100,972)</u>	<u>\$ 225,238</u>

Depreciation expense for the year was charged to the following governmental functions:

District support services	\$ 16,712
Elementary and secondary regular instruction	4,391
Pupil support services	<u>44,981</u>
Total depreciation expense	<u>\$ 66,084</u>

NOTE 4 – LONG-TERM DEBT

A. Loan Payable

In June 2018, the Academy financed the purchase of a bus with an \$183,382 loan, with a maturity date of June 16, 2023. The loan has an interest rate of 4.0 percent with monthly principal and/or interest payments totaling \$3,375.

B. Capital Leases Payable

On October 15, 2015, the Academy entered a capital lease agreement to finance the acquisition of buses. This lease bears an interest rate of 4.5 percent. This lease requires monthly payments of \$2,297, with a balloon payment in August 2018. The buses acquired through the capital lease have been recorded in capital assets at estimated equipment costs of \$168,288. These assets are being depreciated using a straight-line method over the life of the leases. These lease obligations will be repaid through the General Fund.

C. Other Long-Term Liabilities

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

NOTE 4 – LONG-TERM DEBT (CONTINUED)

Academy employees participate in defined benefit pension plans, including two state-wide, cost-sharing, multiple-employer plans administered by the PERA and the TRA. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans as of and for the year ended June 30, 2018:

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERA	\$ 217,052	\$ 181,260	\$ 135,504	\$ 50,922
TRA	2,794,654	1,790,016	476,154	507,805
Total	<u>\$ 3,011,706</u>	<u>\$ 1,971,276</u>	<u>\$ 611,658</u>	<u>\$ 558,727</u>

D. Future Minimum Debt Payments

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

Year Ending June 30,	Loans Payable		Capital Leases	
	Principal	Interest	Principal	Interest
2019	\$ 33,905	\$ 6,597	\$ 110,995	\$ 849
2020	35,154	5,348	—	—
2021	36,600	3,902	—	—
2022	38,085	2,417	—	—
2023	39,638	865	—	—
	<u>\$ 183,382</u>	<u>\$ 19,129</u>	<u>\$ 110,995</u>	<u>\$ 849</u>

E. Changes in Long-Term Debt

	Balance – June 30, 2017	Additions	Retirements	Balance – June 30, 2018	Due Within One Year
Loan payable	\$ —	\$ 183,382	\$ —	\$ 183,382	\$ 33,905
Capital leases payable	130,780	—	19,785	110,995	110,995
Net pension liability	3,331,698	438,077	758,069	3,011,706	—
Total	<u>\$ 3,462,478</u>	<u>\$ 621,459</u>	<u>\$ 777,854</u>	<u>\$ 3,306,083</u>	<u>\$ 144,900</u>

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

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

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

2. Teachers Retirement Association (TRA)

The TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. The TRA is a separate statutory entity, administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

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

B. Benefits Provided

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

- **PERA** – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.
- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually through 2018, and 1.0 percent thereafter.

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

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

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent of average salary for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at age 66.

2. TRA Benefits

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

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

Tier I Benefits

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

With these provisions:

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

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

Tier II Benefits

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

Members first employed after June 30, 1989, receive only the Tier II benefit 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.

C. Contributions

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

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2018; the Academy was required to contribute 7.5 percent for Coordinated Plan members. The Academy's contributions to the GERF for the year ended June 30, 2018, were \$23,565. The Academy's contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

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

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

The Academy's contributions to the TRA for the plan's fiscal year ended June 30, 2018, were \$63,447. The Academy's contributions were equal to the required contributions for each year as set by state statutes.

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

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

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

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

D. Pension Costs

1. GERF Pension Costs

At June 30, 2018, the Academy reported a liability of \$217,052 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of the PERA's participating employers. The Academy's proportionate share was 0.0034 percent at the end of the measurement period and 0.0049 percent for the beginning of the period.

The Academy's net pension liability reflected a reduction, due to the state of Minnesota's contribution of \$6 million to the fund. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The amount recognized by the Academy as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the Academy were as follows:

Academy's proportionate share of the net pension liability	\$ 217,052
State's proportionate share of the net pension liability associated with the Academy	\$ 2,745

For the year ended June 30, 2018, the Academy recognized pension expense of \$50,844 for its proportionate share of the GERF's pension expense. In addition, the Academy recognized an additional \$78 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$6 million to the GERF.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 7,153	\$ 16,989
Changes in actuarial assumptions	51,934	21,760
Difference between projected and actual investment earnings	5,323	—
Changes in proportion	93,285	96,755
Academy's contributions to the GERF subsequent to the measurement date	23,565	—
Total	<u>\$ 181,260</u>	<u>\$ 135,504</u>

A total of \$23,565 reported as deferred outflows of resources related to pensions resulting from academy contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2019	\$ 25,448
2020	\$ 36,116
2021	\$ (30,159)
2022	\$ (9,214)

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

2. TRA Pension Costs

At June 30, 2018, the Academy reported a liability of \$2,794,654 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The Academy's proportionate share was 0.0140 percent at the end of the measurement period and 0.0123 percent for the beginning of the period.

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

Academy's proportionate share of the net pension liability	\$ 2,794,654
State's proportionate share of the net pension liability associated with the Academy	\$ 270,971

For the year ended June 30, 2018, the Academy recognized pension expense of \$502,608. It also recognized \$5,197 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 17,088	\$ 19,615
Changes in actuarial assumptions	1,328,832	391,487
Difference between projected and actual investment earnings	—	36,676
Changes in proportion	380,649	28,376
Academy's contributions to the TRA subsequent to the measurement date	63,447	—
Total	<u>\$ 1,790,016</u>	<u>\$ 476,154</u>

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

A total of \$63,447 reported as deferred outflows of resources related to pensions resulting from academy contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2019	\$ 309,846
2020	352,498
2021	321,278
2022	281,421
2023	(14,628)

E. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.0 percent per year for the GERF through 2044, and then 2.5 percent thereafter, and 2.0 percent per year for all future years for the TRA.

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

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

The following changes in actuarial assumptions occurred in 2017:

1. GERF

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years, to 1.00 percent per year through 2044, and 2.50 percent per year thereafter.

2. TRA

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

The long-term expected rate of return on pension plan investments is 7.50 percent for the GERF and 5.12 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

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

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

F. Discount Rate**1. GERF**

The discount rate used to measure the total pension liability in 2017 was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

2. TRA

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

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

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
Academy's proportionate share of the GERF net pension liability	\$ 336,667	\$ 217,052	\$ 119,129
TRA discount rate	4.12%	5.12%	6.12%
Academy's proportionate share of the TRA net pension liability	\$ 3,688,405	\$ 2,794,654	\$ 2,041,113

H. Pension Plan Fiduciary Net Position

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

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

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

NOTE 6 – COMMITMENTS AND CONTINGENCIES

A. Building Lease

The Academy has an agreement with a private company to lease space at 2000 Siegel Boulevard, Eveleth, Minnesota. In 2017, the Academy amended the lease to include additional space through the remainder of the lease term, expiring on June 30, 2023. Total building lease expense related to this lease in fiscal 2018 was \$221,952. Future minimum lease payments under this agreement are as follows:

Year Ending June 30,	Amount
2019	\$ 221,952
2020	221,952
2021	221,952
2022	221,952
2023	221,952
	<u>\$ 1,109,760</u>

B. Federal and State Revenues

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

REQUIRED SUPPLEMENTARY INFORMATION

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

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

Academy Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Academy's Proportion of the Net Pension Liability	Academy's Proportionate Share of the Net Pension Liability	Academy's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the Academy's Share of the State of Minnesota's Share of the Net Pension Liability	Academy's Covered Payroll	Academy's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.0017%	\$ 79,857	\$ —	\$ 79,857	\$ 71,136	112.26%	78.70%
06/30/2016	06/30/2015	0.0013%	\$ 67,373	\$ —	\$ 67,373	\$ 72,927	92.38%	78.20%
06/30/2017	06/30/2016	0.0049%	\$ 397,855	\$ 5,129	\$ 402,984	\$ 217,773	182.69%	68.90%
06/30/2018	06/30/2017	0.0034%	\$ 217,052	\$ 2,745	\$ 219,797	\$ 220,204	98.57%	75.90%

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

Academy Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 5,511	\$ 5,511	\$ —	\$ 72,927	7.56%
06/30/2016	\$ 16,333	\$ 16,333	\$ —	\$ 217,773	7.50%
06/30/2017	\$ 16,515	\$ 16,515	\$ —	\$ 220,204	7.50%
06/30/2018	\$ 23,565	\$ 23,565	\$ —	\$ 314,206	7.50%

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

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

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

Academy Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	Academy's Proportion of the Net Pension Liability	Academy's Proportionate Share of the Net Pension Liability	Academy's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the Academy's Share of the State of Minnesota's Share of the Net Pension Liability	Academy's Covered Payroll	Academy's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.0114%	\$ 525,304	\$ 36,948	\$ 562,252	\$ 406,663	129.17%	81.50%
06/30/2016	06/30/2015	0.0115%	\$ 711,389	\$ 87,187	\$ 798,576	\$ 582,360	122.16%	76.80%
06/30/2017	06/30/2016	0.0123%	\$ 2,933,843	\$ 293,729	\$ 3,227,572	\$ 621,219	472.27%	44.88%
06/30/2018	06/30/2017	0.0140%	\$ 2,794,654	\$ 270,971	\$ 3,065,625	\$ 754,215	370.54%	51.57%

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

Academy Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 43,677	\$ 43,677	\$ —	\$ 582,360	7.50%
06/30/2016	\$ 46,591	\$ 46,591	\$ —	\$ 621,219	7.50%
06/30/2017	\$ 56,559	\$ 56,559	\$ —	\$ 754,215	7.50%
06/30/2018	\$ 63,447	\$ 63,447	\$ —	\$ 845,953	7.50%

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

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

Notes to Required Supplementary Information June 30, 2018

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60.0 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.0 percent for vested deferred member liability, and 3.0 percent for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years, to 1.0 percent per year through 2044, and 2.5 percent per year thereafter.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS:

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

2015 CHANGES IN PLAN PROVISIONS:

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

2015 CHANGES IN ACTUARIAL ASSUMPTIONS:

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

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

Notes to Required Supplementary Information (continued) June 30, 2018

TRA

2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The cost of living adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the CSA loads. The active load was reduced from 1.4 percent to zero percent, the vested inactive load increased from 4.0 percent to 7.0 percent, and the nonvested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for 10 years, followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66 percent to 5.12 percent.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS:

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

2015 CHANGES IN PLAN PROVISIONS:

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

2015 CHANGES IN ACTUARIAL ASSUMPTIONS:

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

SUPPLEMENTAL INFORMATION

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

General Fund
Comparative Balance Sheet
as of June 30, 2018 and 2017

	2018	2017
Assets		
Cash and temporary investments	\$ 472,235	\$ 549,500
Cash and investments held by trustee	183,332	—
Receivables		
Accounts	4,953	3,751
Due from other governmental units	267,388	466,074
Due from other funds	451	—
Total assets	<u>\$ 928,359</u>	<u>\$ 1,019,325</u>
Liabilities		
Salaries and benefits payable	\$ 207,985	\$ 195,155
Accounts and contracts payable	7,689	3,071
Total liabilities	<u>215,674</u>	<u>198,226</u>
Fund balances		
Restricted for Medical Assistance	10,606	80
Unassigned	702,079	821,019
Total fund balances	<u>712,685</u>	<u>821,099</u>
Total liabilities and fund balances	<u>\$ 928,359</u>	<u>\$ 1,019,325</u>

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018		2017	
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Other	\$ 20,425	\$ 27,195	\$ 6,770	\$ 13,746
State sources	2,094,197	2,053,475	(40,722)	2,109,902
Federal sources	153,448	140,364	(13,084)	86,314
Total revenue	2,268,070	2,221,034	(47,036)	2,209,962
Expenditures				
Current				
Administration				
Salaries	58,000	60,811	2,811	57,207
Employee benefits	9,584	9,184	(400)	8,459
Purchased services	1,500	2,489	989	(1,024)
Supplies and materials	750	468	(282)	—
Other expenditures	3,357	3,374	17	975
Total administration	73,191	76,326	3,135	65,617
District support services				
Salaries	139,500	139,953	453	132,616
Employee benefits	22,875	20,641	(2,234)	19,641
Purchased services	139,441	130,349	(9,092)	133,653
Supplies and materials	20,881	18,430	(2,451)	31,964
Capital expenditures	13,000	38,652	25,652	18,839
Other expenditures	—	384	384	513
Total district support services	335,697	348,409	12,712	337,226
Elementary and secondary regular instruction				
Salaries	699,471	689,468	(10,003)	540,595
Employee benefits	114,776	98,199	(16,577)	81,530
Purchased services	34,378	37,456	3,078	18,265
Supplies and materials	39,092	43,221	4,129	55,735
Capital expenditures	5,656	—	(5,656)	1,750
Other expenditures	—	3,198	3,198	2,699
Total elementary and secondary regular instruction	893,373	871,542	(21,831)	700,574
Special education instruction				
Salaries	326,790	361,233	34,443	338,486
Employee benefits	52,970	53,080	110	46,981
Purchased services	47,800	42,738	(5,062)	34,082
Supplies and materials	5,860	8,036	2,176	3,100
Other expenditures	—	1,360	1,360	1,722
Total special education instruction	433,420	466,447	33,027	424,371

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018		2017	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Instructional support services				
Salaries	27,600	27,600	—	44,153
Employee benefits	4,465	4,101	(364)	6,340
Purchased services	16,636	9,691	(6,945)	10,595
Other expenditures	—	260	260	—
Total instructional support services	48,701	41,652	(7,049)	61,088
Pupil support services				
Salaries	99,876	105,138	5,262	67,495
Employee benefits	16,326	15,694	(632)	9,842
Purchased services	16,550	48,370	31,820	16,392
Supplies and materials	26,500	28,401	1,901	22,469
Capital expenditures	—	191,388	191,388	21,311
Other expenditures	—	103	103	49
Total pupil support services	159,252	389,094	229,739	137,558
Sites and buildings				
Salaries	15,000	13,593	(1,407)	14,571
Employee benefits	2,635	1,442	(1,193)	1,336
Purchased services	237,952	236,236	(1,716)	187,415
Other expenditures	—	12	12	—
Total sites and buildings	255,587	251,283	(4,304)	203,322
Fiscal and other fixed cost programs				
Purchased services	6,820	6,232	(588)	6,097
Debt service				
Principal	19,785	19,785	—	44,398
Interest and fiscal charges	4,905	4,905	—	9,773
Total debt service	24,690	24,690	—	54,171
Total expenditures	2,230,731	2,475,675	244,944	1,990,024
Excess (deficiency) of revenue over expenditures	37,339	(254,641)	(291,980)	219,938
Other financing sources (uses)				
Debt issued	—	183,382	183,382	—
Transfers (out)	(32,434)	(37,155)	(4,721)	(31,249)
Total other financing sources (uses)	(32,434)	146,227	178,661	(31,249)
Net change in fund balances	\$ 4,905	(108,414)	\$ (113,319)	188,689
Fund balances				
Beginning of year		821,099		632,410
End of year		\$ 712,685		\$ 821,099

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2018 and 2017

	2018	2017
Assets		
Cash and temporary investments	\$ —	\$ —
Liabilities		
Salaries and benefits payable	\$ (451)	\$ —
Due to other funds	451	—
Total liabilities	—	—
Fund balances		
Unassigned	—	—
Total liabilities and fund balances	\$ —	\$ —

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Other – primarily meal sales	\$ 3,159	\$ 2,949	\$ (210)	\$ 2,355
State sources	2,315	2,562	247	3,449
Federal sources	44,135	46,144	2,009	63,386
Total revenue	<u>49,609</u>	<u>51,655</u>	<u>2,046</u>	<u>69,190</u>
Expenditures				
Current				
Salaries	6,000	8,661	2,661	9,393
Employee benefits	895	932	37	964
Purchased services	544	688	144	640
Supplies and materials	74,604	78,511	3,907	89,430
Other expenditures	—	18	18	12
Total expenditures	<u>82,043</u>	<u>88,810</u>	<u>6,767</u>	<u>100,439</u>
Excess (deficiency) of revenue over expenditures	(32,434)	(37,155)	(4,721)	(31,249)
Other financing sources				
Transfers in	<u>32,434</u>	<u>37,155</u>	<u>4,721</u>	<u>31,249</u>
Net change in fund balances	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>
Fund balances				
Beginning of year		<u>—</u>		<u>—</u>
End of year		<u>\$ —</u>		<u>\$ —</u>

OTHER REQUIRED REPORTS

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

To the Board and Management of
East Range Academy of Technology and Science
Eveleth, 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, the major fund, and the aggregate remaining fund information of East Range Academy of Technology and Science (the Academy) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated INSERT DATE.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Academy's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

(continued)

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Minneapolis, Minnesota
INSERT DATE

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the Board and Management of
East Range Academy of Technology and Science
Eveleth, 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, the major fund, and the aggregate remaining fund information of East Range Academy of Technology and Science (the Academy) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated INSERT DATE.

MINNESOTA LEGAL COMPLIANCE

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

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

PURPOSE OF THIS REPORT

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

Minneapolis, Minnesota
INSERT DATE

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

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

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		\$ 2,221,034	\$ 2,221,034	\$ --
Total expenditures		\$ 2,475,675	\$ 2,475,674	\$ 1
Nonspendable				
460	Nonspendable fund balance	\$ --	\$ --	\$ --
Restricted				
403	Staff development	\$ --	\$ --	\$ --
406	Health and safety	\$ --	\$ --	\$ --
407	Capital projects levy	\$ --	\$ --	\$ --
408	Cooperative revenue	\$ --	\$ --	\$ --
413	Projects funded by COP	\$ --	\$ --	\$ --
414	Operating debt	\$ --	\$ --	\$ --
416	Levy reduction	\$ --	\$ --	\$ --
417	Taconite building maintenance	\$ --	\$ --	\$ --
423	Certain teacher programs	\$ --	\$ --	\$ --
424	Operating capital	\$ --	\$ --	\$ --
426	\$25 taconite	\$ --	\$ --	\$ --
427	Disabled accessibility	\$ --	\$ --	\$ --
428	Learning and development	\$ --	\$ --	\$ --
434	Area learning center	\$ --	\$ --	\$ --
435	Contracted alternative programs	\$ --	\$ --	\$ --
436	State approved alternative program	\$ --	\$ --	\$ --
438	Gifted and talented	\$ --	\$ --	\$ --
440	Teacher development and evaluation	\$ --	\$ --	\$ --
441	Basic skills programs	\$ --	\$ --	\$ --
445	Career and technical programs	\$ --	\$ --	\$ --
448	Achievement and integration	\$ --	\$ --	\$ --
449	Safe schools levy	\$ --	\$ --	\$ --
450	Pre-Kindergarten	\$ --	\$ --	\$ --
451	QZAB payments	\$ --	\$ --	\$ --
452	OPEB liability not in trust	\$ --	\$ --	\$ --
453	Unfunded severance and retirement levy	\$ --	\$ --	\$ --
459	Basic skills extended time	\$ --	\$ --	\$ --
467	Long-term facilities maintenance	\$ --	\$ --	\$ --
472	Medical Assistance	\$ 10,606	\$ 10,606	\$ --
464	Restricted fund balance	\$ --	\$ --	\$ --
475	Title VII – Impact Aid	\$ --	\$ --	\$ --
476	PILT	\$ --	\$ --	\$ --
Committed				
418	Committed for separation	\$ --	\$ --	\$ --
461	Committed fund balance	\$ --	\$ --	\$ --
Assigned				
462	Assigned fund balance	\$ --	\$ --	\$ --
Unassigned				
422	Unassigned fund balance	\$ 702,079	\$ 702,080	\$ (1)
Food Service				
Total revenue		\$ 51,655	\$ 51,655	\$ --
Total expenditures		\$ 88,810	\$ 88,810	\$ --
Nonspendable				
460	Nonspendable fund balance	\$ --	\$ --	\$ --
Restricted				
452	OPEB liability not in trust	\$ --	\$ --	\$ --
464	Restricted fund balance	\$ --	\$ --	\$ --
Unassigned				
463	Unassigned fund balance	\$ --	\$ --	\$ --
Community Service				
Total revenue		\$ --	\$ --	\$ --
Total expenditures		\$ --	\$ --	\$ --
Nonspendable				
460	Nonspendable fund balance	\$ --	\$ --	\$ --
Restricted				
426	\$25 taconite	\$ --	\$ --	\$ --
431	Community education	\$ --	\$ --	\$ --
432	ECFE	\$ --	\$ --	\$ --
440	Teacher development and evaluation	\$ --	\$ --	\$ --
444	School readiness	\$ --	\$ --	\$ --
447	Adult basic education	\$ --	\$ --	\$ --
452	OPEB liability not in trust	\$ --	\$ --	\$ --
464	Restricted fund balance	\$ --	\$ --	\$ --
Unassigned				
463	Unassigned fund balance	\$ --	\$ --	\$ --

EAST RANGE ACADEMY OF TECHNOLOGY AND SCIENCE

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

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

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