Regular Board Meeting Minutes

Date: Monday, January 11, 2021
Venue: Virtual Meeting

Attendance Taken at 5:35 PM. Leslie Aktan: Present, Safiyo Ali: Present, Jessica Cosgrove: Present, Serhat Gezer: Present, Mustafa Igdelioglu: Absent. Present: 4, Absent: 1.

I. Call to Order

II. Public Comments

III. Adoption of Agenda

Adopt agenda as presented. This motion, made by Leslie Aktan and seconded by Serhat Gezer, Carried.
Mustafa Igdelioglu: Absent, Leslie Aktan: Yea, Safiyo Ali: Yea, Jessica Cosgrove: Yea, Serhat Gezer: Yea
Yea: 4, Nay: 0, Absent: 1

IV. **Consent Agenda**

Approve the Consent Agenda. This motion, made by Leslie Aktan and seconded by Serhat Gezer, Carried.
Mustafa Igdelioglu: Absent, Leslie Aktan: Yea, Safiyo Ali: Yea, Jessica Cosgrove: Yea, Serhat Gezer: Yea
Yea: 4, Nay: 0, Absent: 1

a. Approval of Minutes
b. Approval of Financial Statements

V. **Business Action Items**

a. Acceptance of Financial Audit

Accept the Financial Audit. This motion, made by Serhat Gezer and seconded by Leslie Aktan, Carried.
Mustafa Igdelioglu: Absent, Leslie Aktan: Yea, Safiyo Ali: Yea, Jessica Cosgrove: Yea, Serhat Gezer: Yea
Yea: 4, Nay: 0, Absent: 1

b. School Re-opening Decision

VI. Executive Reports (Board Committee, Director/Principal, etc)

VII. Adjournment

MINNESOTA
MATH AND SCIENCE ACADEMY

Corrective Action Plans and
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

A. FINANCIAL STATEMENT FINDINGS

None.

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

C. MINNESOTA LEGAL COMPLIANCE FINDINGS

2020-001 COLLATERAL

Finding Summary

Criteria and Condition

Minnesota Statutes § 118A.03 require that if the Academy's deposits exceed federal deposit insurance coverage, excess deposits must be covered by corporate surety bonds or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for Minnesota Math and Science Academy's (the Academy) accounts at December 31, 2019 and June 30, 2020.

Corrective Action Plan

Actions Planned – The Academy will ensure all deposits are properly collateralized in the future.

Official Responsible – Murat Oguz, the Director of the Academy.

Planned Completion Date – June 30, 2021.

Disagreement With or Explanation of Finding – The Academy is in agreement with this finding.

Plan to Monitor – Murat Oguz, the Director of the Academy will oversee the process to ensure the Academy is in compliance with insuring deposits.

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D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No prior year federal audit award findings.

MINNESOTA MATH AND SCIENCE ACADEMY
ST. PAUL, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
June 30, 2020

MINNESOTA MATH AND SCIENCE ACADEMY

Table of Contents

Table of Contents (continued)

INTRODUCTORY SECTION

MINNESOTA MATH AND SCIENCE ACADEMY

Board and Administration
as of June 30, 2020

BOARD

	Board Position
Jessica Cosgrove	President
Leslie Aktan	Member
Safiyo Ali	Member
Serhat Gezer	Member
Mustafa Igdelioglu	Member

ADMINISTRATION

Murat Oguz	Director/Ex-Officio
Hasan Damar	Contracted Finance Officer/Ex-Officio

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board and Management of
Minnesota Math and Science Academy
St. Paul, 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 Minnesota Math and Science Academy (the Academy) as of and for the year ended June 30, 2020, 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 District'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 District'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, 2020, 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 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, the Schedule of Expenditures of Federal Awards, 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 2019 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 December 27, 2019. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2019 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 District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control over financial reporting and compliance.

Minneapolis, Minnesota
INSERT DATE

INSERT MD&A

This section of Minnesota Math and Science Academy's (the Academy) financial statements presents management's discussion and analysis of the Academy's financial performance during the year ended June 30, 2020. Please read it in conjunction with the other components of the Academy's financial statements.

FINANCIAL HIGHLIGHTS

- The Academy's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2020 by $2,514,156 (deficit net position). The Academy's total net position decreased by $543,310 during fiscal year ended June 30, 2020.
- The General Fund ended the year with a fund balance of $1,102,505, an increase of $711,127 from the prior year.
- The Food Service Special Revenue Fund ended the year with no fund balance as of June 30, 2020. A transfer was made from the General Fund in the current year to eliminate the operating deficit in the fund of $60,770.

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; and
- Individual fund statements and schedules, presented as supplemental information.

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

Entity-Wide Financial Statements

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

The two entity-wide financial statements report the Academy's *net position* and how it has changed. Net position—the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the Academy's financial health or *position.* Over time, increases or decreases in the Academy's net position are indicators of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the Academy requires consideration of additional nonfinancial factors, such as changes in the Academy's student population and the condition of 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, transportation, administration, and food services, are primarily financed with governmental grants and aids.

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, 2020 and 2019

	2020	2019
Assets		
Current and other assets	$ 1,985,310	$ 899,797
Capital assets, net of depreciation	360,212	377,418
Total assets	$ 2,345,522	$ 1,277,215
Deferred outflows of resources		
Pension plan deferments	$ 3,312,649	$ 4,736,859
Liabilities		
Current and other liabilities	$ 882,805	$ 508,419
Long-term liabilities	3,795,025	3,098,986
Total liabilities	$ 4,677,830	$ 3,607,405
Deferred inflows of resources		
Pension plan deferments	$ 3,494,497	$ 4,377,515
Net position		
Net investment in capital assets	$ 360,212	$ 377,418
Unrestricted	(2,874,368)	(2,348,264)
Total net position	$ (2,514,156)	$ (1,970,846)

The changes in long-term liabilities, deferred outflows/inflows of resources, and unrestricted net position relates to a change in the Academy's proportionate share of two state-wide pension plans.

The Academy's financial position is the product of many factors. For example, determination of the Academy's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. Changes in variables, such as estimated depreciable lives or capitalization policies, may produce significant differences in the calculated amounts.

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

Table 2
Summary Statement of Activities
for the Years Ended June 30, 2020 and 2019

	2020	2019
Revenues		
Program revenues		
Charges for services	$ –	$ 4,672
Operating grants and contributions	2,089,787	1,993,651
General revenues		
General grants and aids	5,296,911	4,867,523
Other	10,231	12,694
Total revenues	7,396,929	6,878,540
Expenses		
Administration	164,592	144,790
District support services	357,304	352,116
Elementary and secondary regular instruction	3,402,049	2,224,571
Special education instruction	528,504	464,585
Instructional support services	426,773	309,332
Pupil support services	828,024	895,351
Sites and buildings	1,799,883	1,373,076
Fiscal and other fixed cost programs	22,930	19,624
Food service	410,180	420,175
Total expenses	7,940,239	6,203,620
Change in net position	(543,310)	674,920
Net position – beginning	(1,970,846)	(2,645,766)
Net position – ending	$ (2,514,156)	$ (1,970,846)

The Academy's increase in revenues was mainly due to increased enrollment. The increase in expenses is also due to the increased enrollment, as well as the changes in the Academy's proportionate share of pension costs related to the two state-wide pension plans mentioned earlier.

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

The significant year-to-year change in the percentage of expenses incurred in several program areas shown above was attributable to the change in expenses related to the two state-wide pension plans, which caused greater fluctuations in program areas with a higher proportion of salaries.

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 of these funds 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) following the governmental fund financial statements that explain the relationship (or differences) between these two types of financial statement presentations.

Analysis of the General Fund

Table 3 is a summarized view of the Academy's General Fund financial position:

Table 3
Summary of General Fund Financial Position
as of June 30, 2020 and 2019

	2020	2019
Total assets	$ 1,985,310	$ 896,367
Total liabilities	882,805	504,989
Total fund balance	$ 1,102,505	$ 391,378

Table 4 is a summarized view of the Academy's General Fund activity:

Table 4
Summary of General Fund Activity
for the Years Ended June 30, 2020 and 2019

	2020				2019
	Original Budget	Final Budget	Actual	Over (Under) Final Budget	Actual
Revenue	$ 6,873,792	$ 6,911,766	$ 7,046,306	$ 134,540	$ 6,692,995
Expenditures	(6,712,513)	(6,641,036)	(6,944,209)	303,173	(6,347,946)
Other financing sources	–	–	669,800	669,800	–
Othr financing (uses)	–	–	(60,770)	(60,770)	(72,335)
Net change in fund balances	$ 161,279	$ 270,730	$ 711,127	$ 440,397	$ 272,714

The Academy is required to adopt an operating budget prior to the beginning of its fiscal year, referred to on the previous page 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, additional funding received from grants or other local sources, or staffing changes.

The Academy's final budget for the General Fund anticipated that revenue would exceed expenditures by $270,730. For the year ended June 30, 2020, the Academy ended with revenues exceeding expenditures and other financing uses by $711,127.

Revenues were higher in the current year by $353,311, due to increases in state aid revenues from increases in the general education aid from increased student population and the increase in the aid formula. Federal aid increased in the Title I grant and the Coronavirus Aid Relief and Economic Security (CARES) funding. Expenditures increased $596,263 in fiscal 2020. Salaries increased $277,748, due to contractual pay increases and additional staff to serve the growing student population. Purchased services increased $403,210 due to increased management fees.

Expenditures exceeded budgeted amounts mainly in purchased services for management fees. Revenues exceeded budgeted amounts by $134,540, mainly in building lease aid. Transfers out exceeded expectations by $60,770. This transfer was made to cover the current year operating deficit in the Food Service Special Revenue Fund totaling $60,770. The Academy also obtained a Paycheck Protection Program (PPP) loan reported as other financing sources totaling $669,800 in the current year that was not anticipated in the budget.

Food Service Special Revenue Fund

Expenditures exceeded revenues by $60,770 in the Food Service Special Revenue Fund in the year ended June 30, 2020. This fund budgeted that expenditures would exceed revenues by $59,000. A transfer was made in the current year to eliminate the deficit spending of the current year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 5 shows the Academy's capital assets. The table also shows the total depreciation expense for June 30, 2020 and 2019:

Table 5
Capital Assets
as of June 30, 2020 and 2019

	2020	2019
Site improvements	$ 146,865	$ 139,535
Furniture and equipment	855,996	763,878
Less accumulated depreciation	(642,649)	(525,995)
Total	$ 360,212	$ 377,418
Depreciation expense	$ 116,654	$ 132,624

Debt Administration

Table 6 shows the components of the Academy's long-term liabilities:

Table 6
Outstanding Long-Term Liabilities
as of June 30, 2020 and 2019

	2020	2019
PPP Loan	$ 669,800	$ -
Loan payable	256,500	256,500
Net pension liability	2,868,725	2,842,486
Total	$ 3,795,025	$ 3,098,986

More detailed information on the Academy's capital assets and long-term liabilities 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 approved annual increases of 2 percent to the basic general education formula allowance for the fiscal year 2020–2021 biennium. The per pupil allowance will increase $129 to $6,567 for fiscal year 2021.

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

In the first several months of 2020, the novel coronavirus (COVID-19) spread to the United States. Currently, the Academy's evaluation of the future effects of the resulting pandemic is ongoing; however, this situation could result in declines in revenues and additional costs related to program changes and distance learning. The extent of the impact of COVID-19 on the Academy's operational and financial performance will depend on future developments, including the duration and spread of the pandemic.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our citizens, authorizer, customers, 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 Minnesota Math and Science Academy, 169 Jenks Avenue, St. Paul, Minnesota 55117.

BASIC FINANCIAL STATEMENTS

MINNESOTA MATH AND SCIENCE ACADEMY

Statement of Net Position
as of June 30, 2020
(With Partial Comparative Information as of June 30, 2019)

	Governmental Activities	
	2020	2019
Assets		
Cash and temporary investments	$ 1,029,959	$ 715,493
Receivables		
Account and interest	–	5,460
Due from other governmental units	955,351	178,844
Capital assets		
Depreciated, net of accumulated depreciation	360,212	377,418
Total assets	2,345,522	1,277,215
Deferred outflows of resources		
Pension plan deferments	3,312,649	4,736,859
Total assets and deferred outflows of resources	$ 5,658,171	$ 6,014,074
Liabilities		
Salaries and benefits payable	$ 350,240	$ 365,828
Accounts and contracts payable	532,565	142,591
Long-term liabilities		
Due within one year	255,909	–
Due in more than one year	3,539,116	3,098,986
Total long-term liabilities	3,795,025	3,098,986
Total liabilities	4,677,830	3,607,405
Deferred inflows of resources		
Pension plan deferments	3,494,497	4,377,515
Net position		
Net investment in capital assets	360,212	377,418
Unrestricted	(2,874,368)	(2,348,264)
Total net position	(2,514,156)	(1,970,846)
Total liabilities, deferred inflows of resources, and net position	$ 5,658,171	$ 6,014,074

MINNESOTA MATH AND SCIENCE ACADEMY

Statement of Activities
Year Ended June 30, 2020
(With Partial Comparative Information for the Year Ended June 30, 2019)

	2020			2019
		Program Revenues	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities				
Administration	$ 164,592	$ –	$ (164,592)	$ (143,290)
District support services	357,304	–	(357,304)	(352,116)
Elementary and secondary regular instruction	3,402,049	386,394	(3,015,655)	(1,941,986)
Special education instruction	528,504	597,280	68,776	240,138
Instructional support services	426,773	–	(426,773)	(309,332)
Pupil support services	828,024	–	(828,024)	(895,351)
Sites and buildings	1,799,883	756,703	(1,043,180)	(711,401)
Fiscal and other fixed cost programs	22,930	–	(22,930)	(19,624)
Food service	410,180	349,410	(60,770)	(72,335)
Total governmental activities	$ 7,940,239	$ 2,089,787	(5,850,452)	(4,205,297)
	General revenues			
	General grants and aids		5,296,911	4,867,523
	Other general revenues		10,203	12,668
	Investment earnings		28	26
	Total general revenues		5,307,142	4,880,217
	Change in net position		(543,310)	674,920
	Net position – beginning		(1,970,846)	(2,645,766)
	Net position – ending		$ (2,514,156)	$ (1,970,846)

See notes to basic financial statements

Balance Sheet
Governmental Funds
as of June 30, 2020
(With Partial Comparative Information as of June 30, 2019)

	General Fund	Food Service Special Revenue Fund	Total Governmental Funds 2020	Total Governmental Funds 2019
Assets				
Cash and temporary investments	$ 1,029,959	$ –	$ 1,029,959	$ 715,493
Receivables				
Accounts and interest	–	–	–	5,460
Due from other governmental units	927,854	27,497	955,351	178,844
Due from other funds	27,497	–	27,497	9,169
Total assets	$ 1,985,310	$ 27,497	$ 2,012,807	$ 908,966
Liabilities				
Salaries and benefits payable	$ 350,240	$ –	$ 350,240	$ 365,828
Accounts and contracts payable	532,565	–	532,565	142,591
Due to other funds	–	27,497	27,497	9,169
Total liabilities	882,805	27,497	910,302	517,588
Fund balances				
Unassigned	1,102,505	–	1,102,505	391,378
Total liabilities and fund balances	$ 1,985,310	$ 27,497	$ 2,012,807	$ 908,966

MINNESOTA MATH AND SCIENCE ACADEMY

Reconciliation of the Balance Sheet
to the Statement of Net Position
Governmental Funds
as of June 30, 2020
(With Partial Comparative Information as of June 30, 2019)

	2020	2019
Total fund balances – governmental funds	$ 1,102,505	$ 391,378
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	1,002,861	903,413
Accumulated depreciation	(642,649)	(525,995)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Loan payable	(256,500)	(256,500)
PPP loan payable	(669,800)	–
Net pension liability	(2,868,725)	(2,842,486)
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 inflows of resources – pension plan deferments	(3,494,497)	(4,377,515)
Deferred outflows of resources – pension plan deferments	3,312,649	4,736,859
Total net position – governmental activities	$ (2,514,156)	$ (1,970,846)

MINNESOTA MATH AND SCIENCE ACADEMY

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
for the Year Ended June 30, 2020
(With Partial Comparative Information for the Year Ended June 30, 2019)

	General Fund	Food Service Special Revenue Fund	Total Governmental Funds 2020	Total Governmental Funds 2019
Revenue				
Federal sources	$ 439,679	$ 342,945	$ 782,624	$ 653,899
State sources	6,596,396	6,465	6,602,861	6,369,570
Local sources				
Other	10,231	–	10,231	17,366
Total revenue	7,046,306	349,410	7,395,716	7,040,835
Expenditures				
Current				
Administration	125,825	–	125,825	197,391
District support services	342,856	–	342,856	316,483
Elementary and secondary regular instruction	2,901,044	–	2,901,044	2,665,844
Special education instruction	511,359	–	511,359	475,317
Instructional support services	406,392	–	406,392	372,357
Pupil support services	804,202	–	804,202	909,639
Sites and buildings	1,829,601	–	1,829,601	1,391,291
Fiscal and other fixed cost programs	22,930	–	22,930	19,624
Food service	–	410,180	410,180	420,175
Total expenditures	6,944,209	410,180	7,354,389	6,768,121
Excess (deficiency) of revenue over expenditures	102,097	(60,770)	41,327	272,714
Other financing sources (uses)				
Paycheck Protection Program (PPP) loan	669,800	–	669,800	–
Transfers in	–	60,770	60,770	72,335
Transfers (out)	(60,770)	–	(60,770)	(72,335)
Total other financing sources (uses)	609,030	60,770	669,800	–
Net change in fund balances	711,127	–	711,127	272,714
Fund balances				
Beginning of year	391,378	–	391,378	118,664
End of year	$ 1,102,505	$ –	$ 1,102,505	$ 391,378

See notes to basic financial statements

MINNESOTA MATH AND SCIENCE ACADEMY

Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2020
(With Partial Comparative Information for the Year Ended June 30, 2019)

	2020	2019
Total net change in fund balances – governmental funds	$ 711,127	$ 272,714
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	99,448	106,939
Depreciation expense	(116,654)	(132,624)
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenue in the Statement of Activities, but rather constitute long-term liabilities.		
PPP loan payable	(669,800)	–
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	(26,239)	4,331,327
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 inflows of resources – pension plan deferments	883,018	(3,214,160)
Deferred outflows of resources – pension plan deferments	(1,424,210)	(689,276)
Change in net position – governmental activities	$ (543,310)	$ 674,920

MINNESOTA MATH AND SCIENCE ACADEMY

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Federal sources	$ 350,000	$ 404,266	$ 439,679	$ 35,413
State sources	6,503,792	6,502,500	6,596,396	93,896
Local sources				
Other	20,000	5,000	10,231	5,231
Total revenue	6,873,792	6,911,766	7,046,306	134,540
Expenditures				
Current				
Administration	105,000	98,000	125,825	27,825
District support services	344,044	323,294	342,856	19,562
Elementary and secondary regular instruction	3,218,919	3,096,650	2,901,044	(195,606)
Special education instruction	416,100	437,392	511,359	73,967
Instructional support services	356,595	390,400	406,392	15,992
Pupil support services	800,350	804,750	804,202	(548)
Sites and buildings	1,446,505	1,465,550	1,829,601	364,051
Fiscal and other fixed cost programs	25,000	25,000	22,930	(2,070)
Total expenditures	6,712,513	6,641,036	6,944,209	303,173
Excess of revenue over expenditures	161,279	270,730	102,097	(168,633)
Other financing sources (uses)				
Paycheck Protection Program (PPP) loan	–	–	669,800	669,800
Transfers (out)	–	–	(60,770)	(60,770)
Total other financing sources (uses)	–	–	609,030	609,030
Net change in fund balances	$ 161,279	$ 270,730	711,127	$ 440,397
Fund balances				
Beginning of year			391,378	
End of year			$ 1,102,505	

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Minnesota Math and Science Academy (the Academy) is a results-oriented charter school established August 19, 2013 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 Pillsbury United Communities, a nonprofit organization. Aside from its responsibilities as authorizer, Pillsbury United Communities 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 Pillsbury United Communities.

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, the Academy does not have any component units.

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.

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 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 as 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 of long-term debt are reported as other financing sources.

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for long-term debt and other long-term liabilities, 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)

Description of Funds

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

Major Governmental 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 was established primarily to account for the Academy's child nutrition program.

E. Budgetary Information

The budget for each fund is prepared on the same basis of accounting as the financial statements. Each June, the Board adopts an annual budget for the following fiscal year for the General Fund and Food Service Special Revenue Fund. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. Expenditures exceeded budgeted amounts in the General Fund by $303,173.

F. 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.

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments, if any, are reported at fair value. The Academy held no investments during the year ended June 30, 2020.

G. 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.

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

Capital assets are recorded in the entity-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the Academy, no salvage value is taken into consideration for depreciation purposes. Useful lives vary, ranging from 5 to 10 years for site improvements, and 3 to 10 years for furniture and equipment.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Deferred Outflows/Inflows of Resources

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

J. Compensated Absences

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

K. Long-Term Liabilities

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. In the fund financial statements, governmental fund types recognize repayments of long-term debt as debt service expenditures. The face amount of debt issued is reported as other financing sources.

L. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Income Taxes

The Academy is exempt from federal and state income taxes under the 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 operations, or cash flows. Accordingly, the Academy has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at 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.

N. Interfund Transactions

The Academy had an interfund receivable in the General Fund of $27,497 from the Food Service Special Revenue Fund for cash flow purposes at year-end.

The General Fund transferred $60,770 to the Food Service Special Revenue Fund during the year to eliminate a negative fund balance. Interfund transfers reported in the fund financial statements are eliminated in the entity-wide financial statements.

O. 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 the current fiscal year.

P. 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 amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. 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 its 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."

R. 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 the 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 to the Academy's director and contracted finance officer the authority to assign General Fund balances for specific purposes.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fund Balance Policy

The Academy's fund balance policy is to maintain a 20.0 percent General Fund unassigned fund balance as a percentage of yearly General Fund expenditures. At June 30, 2020, the unassigned fund balance of the General Fund was 15.9 percent of expenditures.

T. Prior Period Comparative Financial Information/Reclassification

The financial statements include certain prior year partial comparative information in total but not at the level of detail required for 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 period ended June 30, 2019, from which the summarized 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

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's deposit policies do not further limit depository choices.

At June 30, 2020, the Academy had deposits (consisting of checking and savings accounts) with a carrying value of $1,029,959, and a bank balance of $1,083,748. At June 30, 2020, the Academy's deposits were covered by federal deposit insurance (FDIC) or pledged collateral held by the Academy's agent in the Academy's name. At June 30, 2020, the Academy's deposits exceeded amounts of FDIC or pledged collateral coverage required by Minnesota state statutes of 110 percent of the balance by $15,111.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 is as follows:

	Balance – Beginning of Year	Additions	Transfers and Deletions	Balance – End of Year
Capital assets, depreciated				
Site improvements	$ 139,535	$ 7,330	$ -	$ 146,865
Furniture and equipment	763,878	92,118	–	855,996
Total capital assets, depreciated	903,413	99,448	–	1,002,861
Less accumulated depreciation for				
Site improvements	(48,457)	(20,250)	–	(68,707)
Furniture and equipment	(477,538)	(96,404)	–	(573,942)
Total accumulated depreciation	(525,995)	(116,654)	–	(642,649)
Net capital assets, depreciated	$ 377,418	$ (17,206)	$ –	$ 360,212

Depreciation expense was charged to the following governmental functions:

District support services	$ 2,714
Elementary and secondary regular instruction	40,550
Instructional support services	44,502
Sites and buildings	28,888
Total depreciation expense	$ 116,654

NOTE 4 – LONG-TERM LIABILITIES

A. Loan Payable

At June 30, 2020, the Academy had outstanding debt totaling $256,500 through a noninterest-bearing promissory note agreement with Concept Schools, the lender. The entire principal balance is to be fully repaid on or before June 30, 2022, with no minimum monthly payments due. All or part of the principal may be prepaid at any time without penalty.

The following is a schedule of the minimum future loan payments due on the Academy's loan payable:

Year Ending June 30,	Payment
2022	$ 256,500

B. PPP Loan Payable

In May 2020, the Academy obtained a Paycheck Protection Program (PPP) loan totaling $669,800, for cash flow purposes, from a local bank. Portions of this loan will either be forgiven under the provisions of the PPP, or will be paid under terms of the loan agreement. The interest rate on this loan payable is 1.0 percent. No payments are due on this loan for six months from the first disbursement of this loan. Principal and interest payments totaling $37,506 per month are due thereafter until the loan is fully paid. If the Academy defaults on this loan the lender, without notice, can require immediate payment of the loan payable.

The following is a schedule of the minimum future loan payments due on the Academy's PPP loan payable:

Year Ending June 30,	Principal	Interest
2022	$ 255,909	$ 6,635
2023	413,891	2,087
Total	$ 669,800	$ 8,722

C. Pension Liabilities

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

Academy employees participate in two 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, 2020:

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERA	$ 497,590	$ 127,819	$ 218,664	$ 75,799
TRA	2,371,135	3,184,830	3,275,833	741,584
	$ 2,868,725	$ 3,312,649	$ 3,494,497	$ 817,383

D. Changes in Long-Term Liabilities

The following table illustrates the changes in the long-term liabilities:

	Balance – Beginning of Year	Additions	Retirements	Balance – End of Year	Due Within One Year
Loan payable	$ 256,500	$ –	$ –	$ 256,500	$ –
PPP loan payable	–	669,800	–	669,800	255,909
Net pension liability	2,842,486	291,889	265,650	2,868,725	–
Total	$ 3,098,986	$ 961,689	$ 265,650	$ 3,795,025	$ 255,909

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

   Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul Public Schools or Minnesota State Colleges and Universities (MnSCU)). Educators first hired by MnSCU may elect either TRA coverage or coverage through the Defined Contribution Plan administered by the state of Minnesota.

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.

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

1. **GERF Benefits**

   Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated Plan members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated Plan members is 1.7 percent of average salary for all years 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.

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

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the post-retirement increase will be equal to 50.0 percent of the cost of living adjustment announced by the Social Security Administration, with the minimum increase of at least 1.0 percent, and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase, will receive the full increase. For recipients receiving the annuity or benefit at least one month but less than a full year as of the June 30 before the effective date of the increase, will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under the Rule of 90 are exempt from the delay to normal retirement.

2. TRA Benefits

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

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

Tier I Benefits

Step-Rate Formula	Percentage per Year
Basic Plan	
First 10 years 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).

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.

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

C. 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 2019 and 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, 2020, were $57,080. 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,					
	2018		2019		2020	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic Plan	11.00 %	11.50 %	11.00 %	11.71 %	11.00 %	11.92 %
Coordinated Plan	7.50 %	7.50 %	7.50 %	7.71 %	7.50 %	7.92 %

The Academy's contributions to the TRA for the plan's fiscal year ended June 30, 2020, were

$175,206. The Academy's contributions were equal to the required contributions for each year as set by state statutes.

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

		in thousands
Employer contributions reported in the TRA's CAFR Statement of Changes in Fiduciary Net Position	$	403,300
Add employer contributions not related to future contribution efforts		(688)
Deduct the TRA's contributions not included in allocation		(486)
Total employer contributions		402,126
Total nonemployer contributions		35,588
Total contributions reported in the Schedule of Employer and Nonemployer Pension Allocations	$	437,714

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, 2020, the Academy reported a liability of $497,590 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2018, through June 30, 2019, relative to the total employer contributions received from all of the PERA's participating employers. The Academy's proportionate share was 0.0090 percent at the end of the measurement period and 0.0098 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 $16 million. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The amounts 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	$	497,590
State's proportionate share of the net pension liability associated with the Academy	$	15,499

For the year ended June 30, 2020, the Academy recognized pension expense of $74,638 for its proportionate share of the GERF's pension expense. In addition, the Academy recognized an additional $1,161 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of $16 million to the GERF.

At June 30, 2020, 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	$ 15,932	$ –
Changes in actuarial assumptions	–	46,560
Differences between projected and actual investment earnings	–	68,595
Changes in proportion	54,807	103,509
Academy's contributions to the GERF subsequent to the measurement date	57,080	–
Total	$ 127,819	$ 218,664

A total of $57,080 reported as deferred outflows of resources related to pensions resulting from academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2021	$ (30,921)
2022	$ (95,823)
2023	$ (21,983)
2024	$ 802

2. TRA Pension Costs

At June 30, 2020, the Academy reported a liability of $2,371,135 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2019, 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 0.0372 percent at the end of the measurement period and 0.0366 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	$ 2,371,135
State's proportionate share of the net pension liability associated with the Academy	$ 209,879

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

For the year ended June 30, 2020, the Academy recognized pension expense of $725,631. It also recognized $15,953 as an increase to pension expense (and grant revenue) for the support provided by direct aid.

At June 30, 2020, 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	$ –	$ 53,204
Difference between projected and actual investment earnings	–	3,019,383
Changes in actuarial assumptions	1,375,560	203,246
Changes in proportion	1,634,064	–
Academy's contributions to the TRA subsequent to the measurement date	175,206	–
Total	$ 3,184,830	$ 3,275,833

A total of $175,206 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, 2021. 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
2021	$ 368,495
2022	$ 284,244
2023	$ (455,541)
2024	$ (465,292)
2025	$ 1,885

E. Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the GERF and 1.00 percent for January 2019 through January 2023, then increasing by 0.10 percent each year, up to 1.50 percent annually for the TRA.

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

Actuarial assumptions used in the June 30, 2019 valuations were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF plan was completed in 2019. Economic assumptions were updated in 2018, based on a review of inflation and investment return assumptions. The most recent experience study in the TRA plan was completed in 2015, with economic assumptions updated in 2017.

The following changes in actuarial assumptions and plan provisions occurred in 2019:

1. **GERF**

   CHANGES IN ACTUARIAL ASSUMPTIONS

   - The mortality projection scale was changed from MP-2017 to MP-2018.

   CHANGES IN PLAN PROVISIONS

   - The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The state's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2. **TRA**

   CHANGES IN ACTUARIAL ASSUMPTIONS

   - None.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.5 %	5.10 %
Private markets	25.0	5.90 %
Fixed income	20.0	0.75 %
International equity	17.5	5.30/5.90 %
Cash equivalents	2.0	– %
Total	100.0 %	

F. Discount Rate

1. GERF

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position 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 7.50 percent. There was no change since the prior measurement. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2019 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 not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate.

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	$ 818,011	$ 497,590	$ 233,019
TRA discount rate	6.50%	7.50%	8.50%
Academy's proportionate share of the TRA net pension liability	$ 3,780,170	$ 2,371,135	$ 1,209,408

H. Pension Plan Fiduciary Net Position

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 on the TRA website at www.Minnesotatra.org; by writing to the TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103; or by calling (651) 296-2409 or (800) 657-3669.

F. Subsequent Events and the COVID-19 Pandemic Subsequent to Year-End

The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on the PERA's and the TRA's discount rate, as well as the value of each plan's investments. Any impact caused by the resulting declines have not been included in the schedules as of June 30, 2019.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

A. Operating Leases

The Academy is under an annual space lease agreement commencing July 1, 2014 and ending June 30, 2034. This agreement was amended effective July 1, 2017. Under this agreement, the Academy is responsible for minimum monthly base rental payments of $66,662 in the first lease year (fiscal 2018), with subsequent years equal to 102.5 percent of the preceding lease year's monthly base rental payment. Total lease expense for the year ended June 30, 2020 was $840,446.

The Academy's ability to make payments under this lease agreement is dependent on its ability to generate revenues, which in turn, is largely dependent on sufficient enrollment being served at the Academy and sufficient state aids per student authorized and received from the state of Minnesota. It is expected that the Academy will need to receive charter school lease aid in order to meet its lease payments.

Future minimum lease payments on this lease are as follows:

Fiscal Year	Amount
2021	$ 861,457
2022	882,993
2023	905,068
2024	927,695
2025	950,887
2026–2030	5,123,127
2031–2034	4,579,132
	$ 14,230,359

Upon the occurrence of an event of default, the landlord may immediately or at any time thereafter, as permitted by law, give the Academy written notice of the landlord's termination of this lease, and, upon such notice, the Academy's rights to possession of the leased property shall cease and this lease shall thereupon be terminated and the landlord may re-enter and take possession of the leased property as its own property.

B. Federal and State Revenues

Amounts received or receivable from federal and local 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.

C. COVID-19 Pandemic

The COVID-19 pandemic has caused economic and financial market volatility in the United States and around the world, along with significant business and operational disruptions for many organizations. Due to the unknown breadth and duration of this pandemic, any potential impact it may have on the Academy's future operations and financial condition cannot be determined at this time and has not been reflected in these financial statements.

NOTE 7 – RELATED PARTY TRANSATIONS

A. Management Agreement

The Academy contracts for management services with Concept Schools. The management agreement with Concept Schools includes a management fee of up to 10% of the School's annual revenues received by the Academy from the State of Minnesota. Total management fee expenditures for the year ended June 30, 2020 was $590,000. As of June 30, 2020, the Academy reported accounts payable of $300,000 related to this agreement.

B. Health Insurance

The Academy contracts with Visionary Trust to provide health insurance as an employee benefit to its employees. Visionary Trust is a related entity to Concept Schools. The Academy reported approximately $278,500 for health insurance expenditures on this contract for the year ended June 30, 2020.

NOTE 8 – SUBSEQUENT EVENT

In July 2020, The Academy is working with a related entity to start a building company to assist with the possible purchase of the Academy's school facility and/or complete capital improvements on the school's facility.

REQUIRED SUPPLEMENTARY INFORMATION

Public Employees Retirement Association Pension Benefits Plan
Schedule of Academy's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2020

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
06/30/2016	06/30/2015	0.0079%	$ 409,419	$ –	$ 409,419	$ 482,223	84.90%	78.20%
06/30/2017	06/30/2016	0.0093%	$ 755,114	$ 9,840	$ 764,954	$ 522,658	144.48%	68.90%
06/30/2018	06/30/2017	0.0120%	$ 766,071	$ 9,644	$ 775,715	$ 773,817	99.00%	75.90%
06/30/2019	06/30/2018	0.0098%	$ 543,663	$ 17,972	$ 561,635	$ 661,397	82.20%	79.50%
06/30/2020	06/30/2019	0.0090%	$ 497,590	$ 15,499	$ 513,089	$ 637,320	78.08%	80.20%

Public Employees Retirement Association Pension Benefits Plan
Schedule of Academy Contributions
Year Ended June 30, 2020

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	$ 35,697	$ 35,697	$ –	$ 482,223	7.40%
06/30/2016	$ 39,200	$ 39,200	$ –	$ 522,658	7.50%
06/30/2017	$ 58,037	$ 58,037	$ –	$ 773,817	7.50%
06/30/2018	$ 49,605	$ 49,605	$ –	$ 661,397	7.50%
06/30/2019	$ 47,798	$ 47,798	$ –	$ 637,320	7.50%
06/30/2020	$ 57,080	$ 57,080	$ –	$ 762,580	7.49%

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

Teachers Retirement Association Pension Benefits Plan
Schedule of Academy's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2020

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
06/30/2016	06/30/2015	0.0126%	$ 779,435	$ 95,297	$ 874,732	$ 697,138	111.80%	76.80%
06/30/2017	06/30/2016	0.0260%	$ 6,201,620	$ 622,269	$ 6,823,889	$ 1,398,446	443.47%	44.88%
06/30/2018	06/30/2017	0.0321%	$ 6,404,742	$ 619,363	$ 7,024,105	$ 1,726,324	371.00%	51.57%
06/30/2019	06/30/2018	0.0366%	$ 2,298,823	$ 215,773	$ 2,514,596	$ 2,102,600	109.33%	78.07%
06/30/2020	06/30/2019	0.0372%	$ 2,371,135	$ 209,879	$ 2,581,014	$ 2,106,294	112.57%	78.21%

Teachers Retirement Association Pension Benefits Plan
Schedule of Academy Contributions
Year Ended June 30, 2020

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	$ 52,334	$ 52,334	$ –	$ 697,138	7.51%
06/30/2016	$ 104,886	$ 104,886	$ –	$ 1,398,446	7.50%
06/30/2017	$ 129,475	$ 129,475	$ –	$ 1,726,324	7.50%
06/30/2018	$ 157,695	$ 157,695	$ –	$ 2,102,600	7.50%
06/30/2019	$ 162,565	$ 162,565	$ –	$ 2,106,294	7.72%
06/30/2020	$ 175,206	$ 175,206	$ –	$ 2,212,191	7.92%

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.

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2019 CHANGES IN PLAN PROVISIONS

- The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The state's special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality projection scale was changed from MP-2017 to MP-2018.

2018 CHANGES IN PLAN PROVISIONS

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to zero percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio, to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044, and 2.50 percent per year thereafter, to 1.25 percent per year.

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

2017 CHANGES IN PLAN PROVISIONS

- The state's contribution for the Minneapolis Employees Retirement Fund equals \$16.0 million in 2017 and 2018, and \$6.0 million thereafter.

- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21.0 million to \$31.0 million in calendar years 2019 to 2031. The state's contribution changed from \$16.0 million to \$6.0 million in calendar years 2019 to 2031.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

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

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

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

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

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

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth, and 2.50 percent for inflation.

2015 CHANGES IN PLAN PROVISIONS

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Retirement Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892.0 million. Upon consolidation, state and employer contributions were revised; the state's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS

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

TEACHERS RETIREMENT ASSOCIATION (TRA)

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The cost of living adjustment (COLA) was reduced from 2.00 percent each January 1 to 1.00 percent, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.10 percent each year until reaching the ultimate rate of 1.50 percent on January 1, 2028.

- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.

- The COLA trigger provision, which would have increased the COLA to 2.50 percent if the funded ratio was at least 90.00 percent for two consecutive years, was eliminated.

- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.

- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.00 percent to 3.00 percent, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.50 percent to 7.50 percent, effective July 1, 2018.

- The employer contribution rate is increased each July 1 over the next six years, (7.71 percent in 2018, 7.92 percent in 2019, 8.13 percent in 2020, 8.34 percent in 2021, 8.55 percent in 2022, and 8.75 percent in 2023). In addition, the employee contribution rate will increase from 7.50 percent to 7.75 percent on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

- The single discount rate changed from 5.12 percent to 7.50 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The 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.

TEACHERS RETIREMENT ASSOCIATION (TRA) (CONTINUED)

2017 CHANGES IN ACTUARIAL ASSUMPTIONS (CONTINUED)

- 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

MINNESOTA MATH AND SCIENCE ACADEMY

General Fund
Comparative Balance Sheet
as of June 30, 2020 and 2019

	2020	2019
Assets		
Cash and temporary investments	$ 1,029,959	715,493
Receivables		
Accounts and interest	–	5,460
Due from other governmental units	927,854	166,245
Due from other funds	27,497	9,169
Total assets	$ 1,985,310	$ 896,367
Liabilities		
Salaries and benefits payable	$ 350,240	$ 365,828
Accounts and contracts payable	532,565	139,161
Total liabilities	882,805	504,989
Fund balances		
Unassigned	1,102,505	391,378
Total liabilities and fund balances	$ 1,985,310	$ 896,367

MINNESOTA MATH AND SCIENCE ACADEMY

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

	2020			2019
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Federal sources	$ 404,266	$ 439,679	$ 35,413	$ 313,923
State sources	6,502,500	6,596,396	93,896	6,361,706
Local sources				
Other	5,000	10,231	5,231	17,366
Total revenue	6,911,766	7,046,306	134,540	6,692,995
Expenditures				
Current				
Administration				
Salaries	90,000	91,310	1,310	151,490
Employee benefits	–	27,250	27,250	44,457
Purchased services	8,000	4,519	(3,481)	–
Supplies and materials	–	1,733	1,733	391
Other expenditures	–	1,013	1,013	1,053
Total administration	98,000	125,825	27,825	197,391
District support services				
Salaries	140,094	144,732	4,638	95,854
Employee benefits	30,000	38,312	8,312	58,473
Purchased services	24,450	75,197	50,747	76,051
Supplies and materials	85,000	50,913	(34,087)	59,897
Capital expenditures	7,250	7,065	(185)	–
Other expenditures	36,500	26,637	(9,863)	26,208
Total district support services	323,294	342,856	19,562	316,483
Elementary and secondary regular instruction				
Salaries	2,274,000	2,202,533	(71,467)	1,940,086
Employee benefits	543,800	458,889	(84,911)	480,406
Purchased services	160,000	106,686	(53,314)	114,077
Supplies and materials	118,850	121,010	2,160	119,241
Other expenditures	–	11,926	11,926	12,034
Total elementary and secondary regular instruction	3,096,650	2,901,044	(195,606)	2,665,844
Special education instruction				
Salaries	199,000	217,085	18,085	196,068
Employee benefits	–	41,125	41,125	41,325
Purchased services	236,642	248,950	12,308	234,911
Supplies and materials	1,750	3,498	1,748	2,364
Other expenditures	–	701	701	649
Total special education instruction	437,392	511,359	73,967	475,317

(Continued)

MINNESOTA MATH AND SCIENCE ACADEMY

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

	2020			2019
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Instructional support services				
Salaries	248,400	264,792	16,392	233,452
Employee benefits	60,000	49,536	(10,464)	66,977
Purchased services	–	1,156	1,156	567
Capital expenditures	82,000	79,751	(2,249)	58,008
Other expenditures	–	11,157	11,157	13,353
Total instructional support services	390,400	406,392	15,992	372,357
Pupil support services				
Salaries	60,750	63,660	2,910	82,859
Employee benefits	–	9,697	9,697	13,316
Purchased services	744,000	730,222	(13,778)	813,178
Other expenditures	–	623	623	286
Total pupil support services	804,750	804,202	(548)	909,639
Sites and buildings				
Salaries	–	30,835	30,835	37,390
Employee benefits	–	4,676	4,676	5,775
Purchased services	1,445,550	1,755,776	310,226	1,283,818
Supplies and materials	–	19,390	19,390	12,885
Capital expenditures	13,000	12,632	(368)	41,931
Other expenditures	7,000	6,292	(708)	9,492
Total sites and buildings	1,465,550	1,829,601	364,051	1,391,291
Fiscal and other fixed cost programs				
Purchased services	25,000	22,930	(2,070)	19,624
Total expenditures	6,641,036	6,944,209	303,173	6,347,946
Excess of revenue over expenditures	270,730	102,097	(168,633)	345,049
Other financing sources (uses)				
Paycheck Protection Program (PPP) loan	–	669,800	669,800	–
Transfers (out)	–	(60,770)	(60,770)	(72,335)
Total other financing sources (uses)	–	609,030	609,030	(72,335)
Net change in fund balances	$ 270,730	711,127	$ 440,397	272,714
Fund balances				
Beginning of year		391,378		118,664
End of year		$ 1,102,505		$ 391,378

MINNESOTA MATH AND SCIENCE ACADEMY

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2020 and 2019

	2020	2019
Assets		
Receivables		
Due from other governmental units	$ 27,497	$ 12,599
Liabilities		
Accounts and contracts payable	$ –	$ 3,430
Due to other funds	27,497	9,169
Total liabilities	$ 27,497	$ 12,599

MINNESOTA MATH AND SCIENCE ACADEMY

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

	2020			2019
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Federal sources	$ 336,000	$ 342,945	$ 6,945	$ 339,976
State sources	10,000	6,465	(3,535)	7,864
Total revenue	346,000	349,410	3,410	347,840
Expenditures				
Current				
Supplies and materials	405,000	409,200	4,200	419,355
Other expenditures	–	980	980	820
Total expenditures	405,000	410,180	5,180	420,175
Excess (deficiency) of revenue over expenditures	(59,000)	(60,770)	(1,770)	(72,335)
Other financing sources				
Transfer in	–	60,770	60,770	72,335
Net change in fund balances	$ (59,000)	–	$ 59,000	–
Fund balances				
Beginning of year		–		–
End of year		$ –		$ –

SINGLE AUDIT AND OTHER REQUIRED REPORTS

MINNESOTA MATH AND SCIENCE ACADEMY

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures	
U.S. Department of Agriculture			
Passed through Minnesota Department of Education			
Child nutrition cluster			
School Breakfast Program	10.553	$ 111,945	
National School Lunch Program	10.555	181,010	
COVID-19 - Summer Food Service Program for Children	10.559	49,990	
Total child nutrition cluster			$ 342,945
U.S. Department of Education			
Passed through Minnesota Department of Education			
Special Education Grants to States	84.027		88,800
Supporting Effective Instruction State Grants	84.367		25,173
English Language Acquisition State Grants	84.365		51,419
COVID-19 - Education Stabilization Fund	84.425		50,889
Title I Grants to Local Educational Agencies	84.010		223,398
Total federal awards			$ 782,624

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the Academy's basic financial statements.

Note 2: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 3: The Academy did not elect to use the 10 percent de minimis indirect cost rate.

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
Minnesota Math and Science Academy
St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Minnesota Math and Science Academy (the Academy) as of and for the year ended June 30, 2020, 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) as a basis for designing 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 a material weakness. 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 financial statements. 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 COMPLIANCE FOR

EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL

CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the School Board and Management of
Minnesota Math and Science Academy
St. Paul, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Minnesota Math and Science Academy's (the Academy) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the Academy's major federal programs for the year ended June 30, 2020. The Academy's major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the Academy's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Academy's compliance.

(continued)

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the Academy complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Academy is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered the Academy's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over compliance.

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

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

(continued)

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. 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
Minnesota Math and Science Academy
St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Minnesota Math and Science Academy (the Academy) as of and for the year ended June 30, 2020, 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

In connection with our audit, nothing came to our attention that caused us to believe that Academy failed to comply with the provisions of the uniform financial accounting and reporting standards and charter schools section of the *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, except as described in the Schedule of Findings and Questioned Costs as finding 2020-001. 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, insofar as they relate to accounting matters.

ACADEMY'S RESPONSE TO FINDING

The Academy's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The Academy's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of 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

MINNESOTA MATH AND SCIENCE ACADEMY

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific question regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued?	X	Unmodified
	___	Qualified
	___	Adverse
	___	Disclaimer

Internal control over financial reporting:

Material weakness(es) identified?	___ Yes	X No
Significant deficiency(ies) identified?	___ Yes	X None reported
Noncompliance material to the financial statements noted?	___ Yes	X No

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified?	___ Yes	X No
Significant deficiency(ies) identified?	___ Yes	X None reported

Type of auditor's report issued on compliance for major programs?

U.S. Department of Agriculture – child nutrition cluster	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	X No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Agriculture – child nutrition cluster consisting of:	
– School Breakfast Program	10.553
– National School Lunch Program	10.555
– COVID-19 - Summer Food Service Program for Children	10.559

Threshold for distinguishing type A and B programs: $ 750,000

Does the auditee qualify as a low-risk auditee? Yes ___ No X

A. FINANCIAL STATEMENT FINDINGS

None

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

C. MINNESOTA LEGAL COMPLIANCE FINDINGS

2020-001 COLLATERAL

Criteria – Minnesota Statutes § 118A.03.

Condition – Minnesota Statutes § 118A.03 requires that if academy deposits exceed federal deposit insurance coverage, excess deposits must be covered by corporate surety bonds or collateral that has a market value of at least 110 percent of such excess. This requirement was not met for Minnesota Math and Science Academy's (the Academy) accounts at December 31, 2019 and June 30, 2020.

Questioned Costs – Not applicable.

Context – The Academy had $24,041 and $15,111 of deposits in excess of amounts required to be covered by federal deposit insurance and/or collateral as of December 31, 2019 and June 30, 2020, respectively.

Repeat Finding – This is a current and prior year finding.

Cause – This was an oversight by academy personnel.

Effect – Deposits exceeding $250,000 federal deposit insurance coverage and/or collateral coverage may be lost in the event of a bank failure.

Recommendation – We recommend that the Academy obtain corporate surety bonds or collateral that has a market value of at least 110 percent of the Academy's deposits that exceed federal deposit insurance coverage.

View of Responsible Official and Planned Corrective Action – The Academy agrees with this finding. The Academy will obtain corporate surety bonds or collateral that has a market value of at least 110 percent of the Academy's deposits that exceed federal deposit insurance coverage. The Academy has separately issued a Corrective Action Plan related to this finding.

MINNESOTA MATH AND SCIENCE ACADEMY

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2019

		Audit		UFARS		Audit – UFARS	
General Fund							
Total revenue		$	7,046,306	$	7,046,306	$	–
Total expenditures		$	6,944,209	$	6,944,208	$	1
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
401	Student activities	$	–	$	–	$	–
402	Scholarships	$	–	$	–	$	–
403	Staff development	$	–	$	–	$	–
407	Capital projects levy	$	–	$	–	$	–
408	Cooperative revenue	$	–	$	–	$	–
413	Projects funded by COP	$	–	$	–	$	–
414	Operating debt	$	–	$	–	$	–
416	Levy reduction	$	–	$	–	$	–
417	Taconite building maintenance	$	–	$	–	$	–
424	Operating capital	$	–	$	–	$	–
426	$25 taconite	$	–	$	–	$	–
427	Disabled accessibility	$	–	$	–	$	–
428	Learning and development	$	–	$	–	$	–
434	Area learning center	$	–	$	–	$	–
435	Contracted alternative programs	$	–	$	–	$	–
436	State approved alternative program	$	–	$	–	$	–
438	Gifted and talented	$	–	$	–	$	–
440	Teacher development and evaluation	$	–	$	–	$	–
441	Basic skills programs	$	–	$	–	$	–
448	Achievement and integration	$	–	$	–	$	–
449	Safe schools levy	$	–	$	–	$	–
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	$	–	$	–	$	–
473	PPP loans	$	–	$	–	$	–
474	EIDL loans	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
475	Title VII – Impact Aid	$	–	$	–	$	–
476	PILT	$	–	$	–	$	–
Committed							
418	Committed for separation	$	–	$	–	$	–
461	Committed fund balance	$	–	$	–	$	–
Assigned							
462	Assigned fund balance	$	–	$	–	$	–
Unassigned							
422	Unassigned fund balance	$	1,102,505	$	1,102,505	$	–
Food Service							
Total revenue		$	349,410	$	349,410	$	–
Total expenditures		$	410,180	$	410,180	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
452	OPEB liability not in trust	$	–	$	–	$	–
474	EIDL loans	$	–	$	–	$	–
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	$	–	$	–	$	–
473	PPP loans	$	–	$	–	$	–
474	EIDL loans	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2020

		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		$ –	$ –	$ –
401	Student activities	$ –	$ –	$ –
402	Scholarships	$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
Custodial Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
401	Student activities	$ –	$ –	$ –
402	Scholarships	$ –	$ –	$ –
448	Achievement and integration	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
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.

Management Report

for

Minnesota Math and Science Academy
St. Paul, Minnesota

June 30, 2020

To the Board and Management of
Minnesota Math and Science Academy
St. Paul, Minnesota

We have prepared this management report in conjunction with our audit of Minnesota Math and Science Academy's (the Academy) financial statements for the year ended June 30, 2020. We have organized this report into the following sections:

- Audit Summary
- Funding Public Education in Minnesota
- Financial Trends of Your Academy
- Legislative Summary
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the Academy, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to charter school financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

Minneapolis, Minnesota
INSERT DATE

AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the Board, administration, or those charged with governance of the Academy.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS* (UNIFORM GUIDANCE)

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Academy as of and for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the Academy's financial statements for the year ended June 30, 2020:

- We have issued an unmodified opinion on the Academy's basic financial statements.

- We reported no deficiencies in the Academy's internal control over financial reporting that we considered to be material weaknesses.

- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.

- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.

- The results of our tests indicate that the Academy has complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.

- We reported no deficiencies in the Academy's internal controls over compliance that we considered to be material weaknesses with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.

- We reported one finding based on our testing of the Academy's compliance with Minnesota laws and regulations.

    1. Minnesota Statutes § 118A.03 requires that if Academy deposits exceed federal deposit insurance coverage, excess deposits must be covered by corporate surety bonds or

collateral that has a market value of at least 110 percent of such excess. This requirement was not met for the Academy's accounts at December 31, 2019 and June 30, 2020.

FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

As a part of our audit of the Academy's financial statements for the year ended June 30, 2020, we performed procedures to follow-up on any findings and recommendations that resulted from our prior year audit. We reported the following findings that were corrected by the Academy in the current year:

- The Academy's board did not formally designate a business administrator that is authorized to make electronic fund transfers (EFT) the authority to make EFT's on behave of the Academy.

OTHER COMMENTS AND RECOMMENDATIONS

Impact of Novel Coronavirus (COVID-19)

Starting in March 2020, the onset of the novel coronavirus (COVID-19) pandemic caused substantial volatility in economic conditions and tremendous disruption in the way schools, governments, businesses, and individuals function. Minnesota schools may experience the impact of this pandemic in a myriad of financial areas, such as: declines in investment rates of return, cash flow issues, significant increases in the number and frequency of employees working remotely, challenges in processing general and payroll disbursements, disruption of prescribed internal control procedures, delays in internal and external financial reporting, and new compliance requirements attached to potential federal relief subsidies. As your academy adapts to the new normal of academy operations in a post-COVID-19 world, the assessment of and responses to new risks that may accompany operational changes will be critical to the safeguarding of academy resources and sound financial stewardship. We encourage management and governance to include a robust financial risk assessment process when planning responses to these challenges, and to reassess and adapt internal controls over financial transactions and reporting to align with significant changes made to daily operations, even those intended to be temporary.

Electronic Funds Transfer Fraud

As the use of electronic funds transfers and payment methods has become more prevalent, we have seen increases in both the incidences of fraud related to these transactions and the dollar amounts involved. Unfortunately, operational changes related to the COVID-19 pandemic, including greater reliance on technology and more employees working remotely, tend to increase risk in this area. We urge charter schools to carefully review internal controls over these transactions, including controls at contracted accounting service providers if applicable, and consider best practices to address this risk, such as:

- Ensuring segregation of duties over these transactions by involving more than one employee in the process.
- Requiring multi-factor authentication of requests for electronic payments from new vendors or for changes in wiring instructions for existing vendors. It is recommended that changes for existing vendors be verified with the vendor through trusted contact information used previously for that vendor, not as provided in the change request, to verify the accuracy of the change.
- Educate employees or contracted accounting service provider personnel on the controls in place to protect the organization's financial assets and ensure management is supportive and accepting of these processes. These scams are often initiated using the profile of a supervisor. Employees must be comfortable questioning unusual transactions or requests, and instructed not to circumvent internal control procedures regardless of whom they believe initiated the transaction.

- Recommended cyber security measures, such as limiting network access and requiring robust passwords that are changed regularly, should be implemented and followed by all employees, not just those directly involved with financial transactions.
- Review insurance policies to understand the coverage provided for financial losses due to cybersecurity risks, and evaluate whether they provide adequate coverage based on management's assessment of these risks.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy are described in Note 1 of the notes to basic financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2020.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the Academy. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other schools and the MARSS data for the current fiscal year is not finalized until after the Academy has closed its financial records for the fiscal period. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident school and also utilizing some estimates, particularly in the area of enrollment options.

> Special education state aid includes an adjustment related to tuition billings to other schools for special education services, which are computed using formulas derived by the MDE. Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the Academy has closed its financial records for the fiscal period. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the Academy.

> The Academy has recorded activity in the Statement of Net Position for pension benefits. This obligation is calculated using actuarial methodologies described in GASB Statement No. 68. This actuarial calculation includes significant assumptions, including projected changes, investment returns, retirement ages, proportionate share, and employee turnover.

> The depreciation of capital assets involves estimates pertaining to useful lives.

We evaluated the key factors and assumptions used by management to develop the estimates discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to pension benefits are particularly sensitive due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter INSERT DATE.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis and the pension-related required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplemental information, Schedule of Expenditures of Federal Awards, and the Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table accompanying the financial statements, but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section, which accompanies the financial statements, but is not RSI. Such information 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.

FUNDING PUBLIC EDUCATION IN MINNESOTA

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. A summary of legislative changes affecting charter schools included later in this report gives an indication of how complicated the funding system is. This section provides some state-wide funding and financial trend information.

BASIC GENERAL EDUCATION REVENUE

The largest single funding source for most Minnesota charter schools is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a school is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment schools.

The table below presents a summary of the formula allowance for the past decade and as approved for the 2021 fiscal year. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the "roll-in" of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual schools. The $529 increase in 2015 was offset by changes to pupil weightings and the general education aid formula that resulted in an increase equivalent to approximately $105, or 2.0 percent, state-wide.

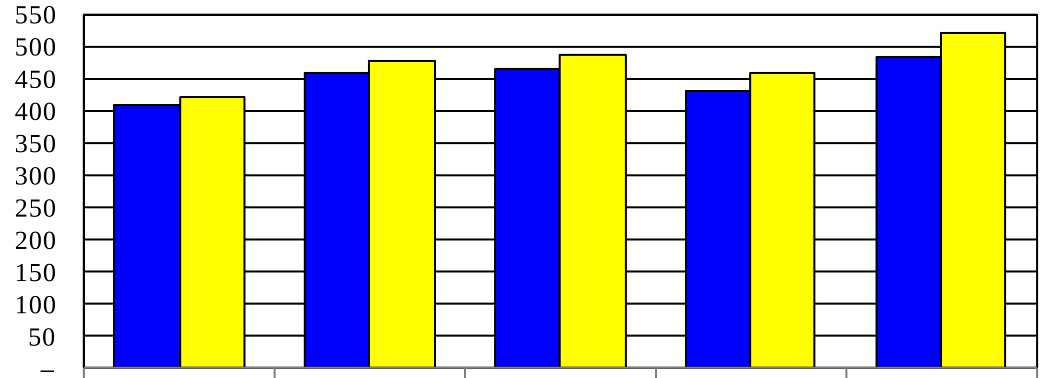
Fiscal Year Ended June 30,	Formula Allowance Amount	Formula Allowance Percent Increase
2011	$ 5,124	– %
2012	$ 5,174	1.0 %
2013	$ 5,224	1.0 %
2014	$ 5,302	1.5 %
2015	$ 5,831	2.0 %
2016	$ 5,948	2.0 %
2017	$ 6,067	2.0 %
2018	$ 6,188	2.0 %
2019	$ 6,312	2.0 %
2020	$ 6,438	2.0 %
2021	$ 6,567	2.0 %

FINANCIAL TRENDS OF YOUR ACADEMY

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The following graph summarizes the ADM and pupil units served by the Academy for the last five years:

Students (ADM and Pupil Units)

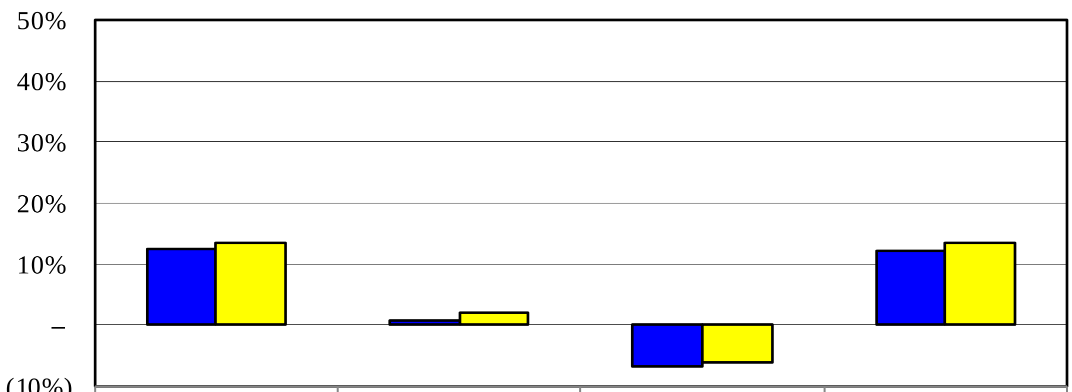


	2016	2017	2018	2019	2020
ADM	408	459	463	431	483
Pupil Units	420	477	487	458	519

The Academy's overall ADM increased 52 ADM's from the prior year.

The following graph shows the rate of ADM changes from year-to-year, and the relationship of the resulting pupil units:

Change in ADM and Pupil Units



	2017	2018	2019	2020
ADM	12.5%	0.9%	(6.9%)	12.1%
Pupil Units	13.6%	2.1%	(6.0%)	13.3%

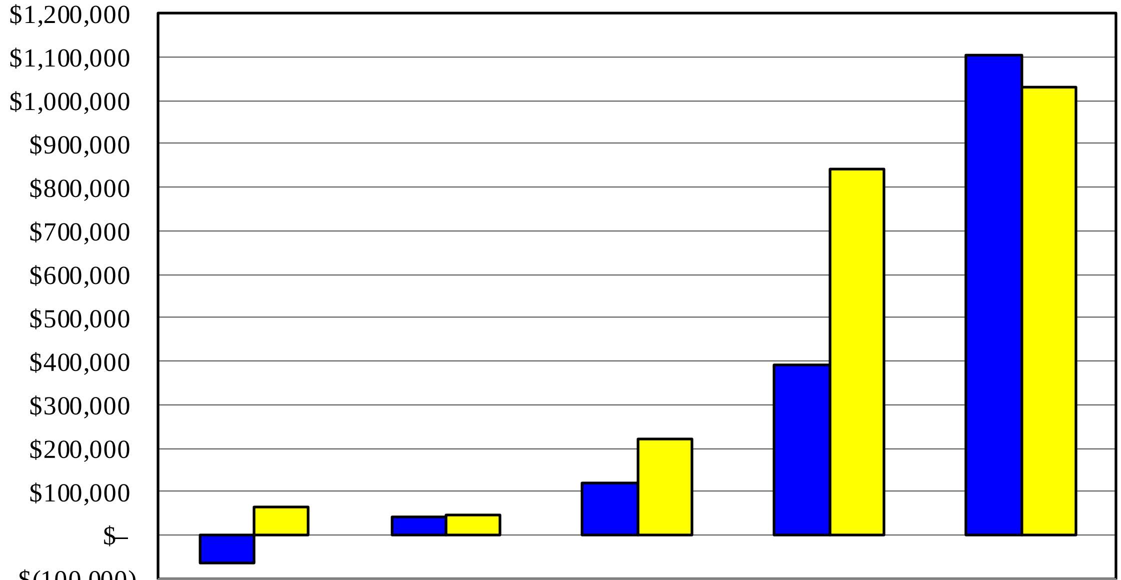
The Academy served 519 pupil units for 2020, a decrease of 61 from the previous year.

ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes and the impact of the prior year final adjustments, which affect this year's revenue.

General Fund Operations and Financial Position

The following graph displays the Academy's General Fund financial position over the last five years:

General Fund Financial Position
Year Ended June 30,



	2016	2017	2018	2019	2020
Fund Bal.	$(63,356)	$40,864	$118,664	$391,378	$1,102,505
Cash and Inv.	$64,009	$48,241	$220,952	$844,451	$1,029,959

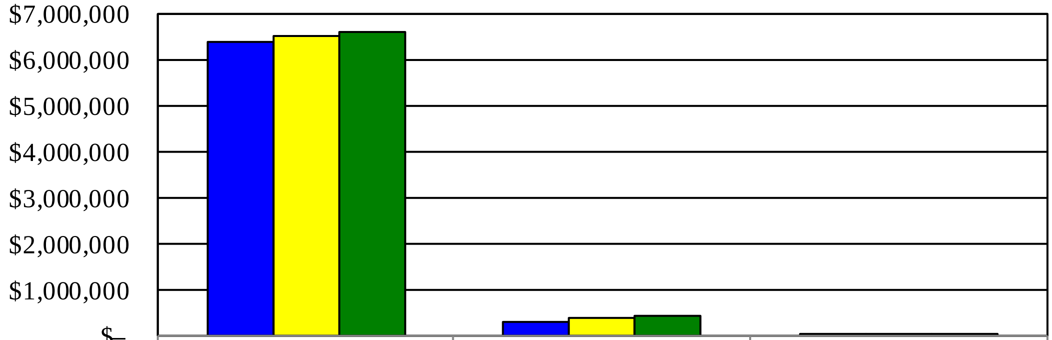
The Academy's final budget for the General Fund anticipated that revenue would exceed expenditures by $270,730. For the year ended June 30, 2020, the Academy ended with revenues exceeding expenditures and other financing uses by $711,107. Revenues exceeded budgeted amounts by $134,540 while expenditures exceeded budgeted amounts by $303,173. Other financing sources exceeded budgeted amounts by $669,800 as the Academy entered into a Paycheck Protection Program (PPP) loan in the current year. Transfers out also exceeded expectations by $60,770. This transfer was made to cover the operating deficit in the Food Service Special Revenue Fund.

Unassigned fund balance as a percentage of expenditures is one key measure of an Academy's financial health. The resources represented by fund balance are critical to an Academy's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls. The Academy's fund balance policy is to maintain a 20.0 percent General Fund unassigned fund balance as a percentage of yearly General Fund expenditures. At June 30, 2020, the ratio was 15.9 percent, as compared to 6.2 percent at the end of 2019.

GENERAL FUND REVENUE AND EXPENDITURES

The following graphs summarize the Academy's General Fund revenue and expenditures for 2020:

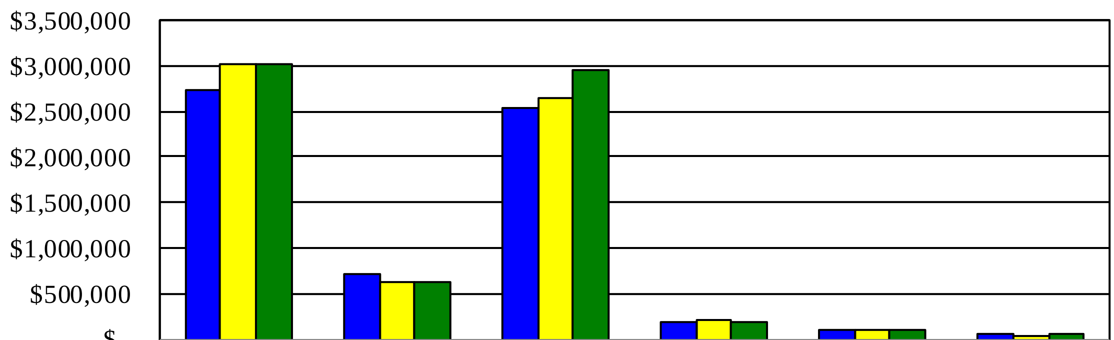
General Fund Revenue
Budget and Actual



	State Sources	Federal Sources	Other
Prior Year	$6,361,706	$313,923	$17,366
Budget	$6,502,500	$404,266	$5,000
Actual	$6,596,396	$439,679	$10,231

Total General Fund revenues increased $353,311 from the prior year, and were $134,540 over budget. State aid revenue was $234,690 more than the prior year. This is mainly due to the increase in the general education formula in the current year. Federal aid increased in the Title I grant and from the Coronavirus Aid Relief, and Economic Security (CARES) funding. State aid revenue was $93,896 over budget, mainly due to the Academy receiving higher than expected building lease aid.

General Fund Expenditures
Budget and Actual



	Salaries	Benefits	Purchased Services	Supplies	Capital	Other
Prior Year	$2,737,199	$710,729	$2,542,226	$194,778	$99,939	$63,075
Budget	$3,012,244	$633,800	$2,643,642	$205,600	$102,250	$43,500
Actual	$3,014,947	$629,485	$2,945,436	$196,544	$99,448	$58,349

Total General Fund expenditures increased $596,263 from the prior year, and were $303,173 over budget. Personnel costs (salaries) increased $277,748 from last year due to contractual pay increases and additional staff to serve the growing student population. Purchased Services costs increased $403,210 from last year due to increased management fees. Expenditures exceeded budgeted amounts mainly in purchased services for management fees.

FOOD SERVICE SPECIAL REVENUE FUND

Expenditures exceeded revenues by $60,770 in the Food Service Special Revenue Fund in the year ended June 30, 2020. This fund's budget reflected revenues lower than expenditures by $59,000. A transfer was made in the current year to eliminate the deficit spending of the current year.

Over the years, we have emphasized to our charter school clients that food service operations should be self-sustaining, and should not become an additional burden on general education funds.

ENTITY-WIDE FINANCIAL STATEMENTS

The Academy's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the Academy's current assets to finance its current liabilities. The governmental reporting model also requires the inclusion of two entity-wide financial statements designed to present a clear picture of the Academy as a single, unified entity. These entity-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents the resources the Academy has leftover to use for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how resources can be used. Therefore, the statement divides net position into three components: net investment in capital assets, restricted, and unrestricted. The following table presents a summarized conversion of the Academy's governmental fund balances (as individually discussed earlier) to net position, and separate components of net position for the last two years:

	June 30, 2019	June 30, 2020	Change
Net position – governmental activities			
Total fund balances – governmental funds	$ 391,378	$ 1,102,505	$ 711,127
Capital assets	903,413	1,002,861	99,448
Accumulated depreciation	(525,995)	(642,649)	(116,654)
Loan payable	(256,500)	(256,500)	–
PPP loan payable	–	(669,800)	(669,800)
PERA and TRA pensions	(2,483,142)	(3,050,573)	(567,431)
Total net position – governmental activities	$ (1,970,846)	$ (2,514,156)	$ (543,310)
Net position			
Net investment in capital assets	$ 377,418	$ 360,212	$ (17,206)
Unrestricted	(2,348,264)	(2,874,368)	(526,104)
Total net position	$ (1,970,846)	$ (2,514,156)	$ (543,310)

The Academy's total net position at June 30, 2020 was a deficit ($2,514,156), a decrease of $543,310 from the previous year.

The Academy's net investment in capital assets decreased $17,206, due to current year depreciation expense.

The unrestricted portion of net position decreased $526,104, due to the operating results of the Academy's General Fund offset by the change in the Academy's proportionate share of unfunded pension liabilities and related deferments for the state-wide pension plans.

LEGISLATIVE SUMMARY

The 2020 Minnesota Legislature session was expected to be short and focused on making tweaks to the biennial budget. By early March, it became clear the session would unfold differently than anyone could have predicted. As the novel coronavirus (COVID-19) spread reached Minnesota, Governor Walz issued an Executive Order declaring a peacetime emergency. The declaration was enacted, which allowed his administration to quickly impose measures aimed at mitigating the COVID-19 health threat. These measures, which were issued through dozens of executive orders over the months that would follow, included: closing schools and requiring instruction be provided through distance learning; allowing schools to offer summer programs and extended school year services through distance learning or a hybrid model; requiring districts to deliver meals and instructional materials; requiring districts to provide childcare for essential workers, and authorizing fund transfers and flexibility in the use of revenues for districts to cover school-age care, transportation, and other COVID-19 related costs.

The following is a brief summary of specific legislative changes from the 2020 regular and special sessions or previous legislative sessions impacting Minnesota charter schools in future years.

Coronavirus Aid, Relief, and Economic Security (CARES) Act – The CARES Act provides federal economic relief to protect the American people from the public health and economic impacts of COVID-19.

This CARES funding includes an Education Stabilization Fund, which in turn contains two major sources of funding for schools that may be used for expenditures incurred from March 13, 2020 through September 30, 2022:

1. **Governor's Emergency Education Relief (GEER) Fund**

   These funds were allocated to support efforts in getting children back to school in the fall, while prioritizing the safety of students and staff. These funds support operational costs, such as: cleaning supplies and disinfectant sprayers, screening supplies, personal protective equipment, and increased transportation costs associated with transporting students in a socially distant manner. These funds also support student, family, and educator needs, such as technology devices and internet access, technology training, tutors or mentors to address learning loss, translation services, school-age care for essential workers, and professional development focused on learning models. To spend funds from this source, an expenditure must be a reasonably necessary expense that is directly related to the COVID-19 pandemic, and the expenditure must not be one that was planned for in the current school year budget.

2. **Elementary and Secondary School Emergency Relief (ESSER) Fund**

   These funds are divided into two streams: a formula-based allocation and state-directed grants. The formula-based allocation to districts and charter schools is based on their allocations under Title I, Part A of the Elementary and Secondary Education Act (ESEA). These funds can be used for a wide range of expenses to meet local needs.

State-directed grants, provided to districts and charter schools that do not receive a formula-based allocation, districts and charter schools that receive less than $10,000 from their formula-based allocation, and districts and charter schools whose share of students from historically underserved populations is more than their share of other ESSER funds, can be used for a combination of supplementing GEER funds for summer school programming, supporting mental health, and meeting the needs of historically underserved populations.

The CARES Act also provided funding through the Coronavirus Relief Fund (CRF). These funds were allocated to districts and charter schools based on a two-part formula: 1) 60 percent for operating costs based on average daily membership (ADM) as reported for the 2018–2019 school year, and 2) 40 percent for student, family and staff support costs allocated based 40 percent on ADM and 60 percent on the historically underserved population of students each district or charter school serves. The expenditure of these funds is not required to match the 60 percent/40 percent allocation breakdown, and may be used for costs incurred between July 1, 2020 and December 31, 2020.

General Education Revenue – The Legislature had previously approved annual increases of 2 percent to the basic general education formula allowance for the FY 2020–2021 biennium. The per pupil allowance will increase $129 to $6,567 for FY 2021.

Special Education Revenue – The Legislature had previously approved enhancements to special education funding designed to hold the state average cross subsidy per pupil constant at the FY 2019 level of $820 per average daily membership (ADM) for FY 2021. The changes included:

- Establishing a new component of the state special education funding formula, known as cross subsidy reduction aid. Cross subsidy reduction aid will equal a percentage of each district's "initial cross subsidy" for the prior fiscal year, with the percentages set at 6.43 percent for 2021. Initial cross subsidy is defined as the district's nonfederal special education costs, including transportation, less state special education aid after tuition adjustments and general education aid attributable to students receiving special education services outside of the regular classroom for at least 60.00 percent of the school day. Charter schools are not eligible for cross subsidy reduction aid.

- Updating the pupil-driven portion of the initial special education aid formula to use FY 2018 data beginning in FY 2021, rather than continuing to use 2011 data adjusted for inflation.

- Phasing out the special education aid cap over two years, with the cap eliminated for FY 2021 and beyond.

- Reducing the tuition rate paid by the resident school district for open enrolled special education students served by another district or charter school from 90.00 percent of unfunded costs to 80.00 percent for FY 2021 and later. Charter schools will be eligible for additional special education aid from the state to fully offset the impact of the tuition rate change.

- Reducing the hold harmless guarantee by changing the formula to reduce reliance on the FY 2016 base year so that schools where special education expenditures have fallen or grown slowly since FY 2016 do not benefit disproportionately from the hold harmless guarantee compared to other schools. The percentage of FY 2019 regular program costs used to calculate the hold harmless will decrease to 85.00 percent for FY 2021, 80.00 percent for FY 2022, and 75.00 percent for FY 2023. In addition, the annual inflation adjustment used to calculate the hold harmless will be reduced by 0.20 percent annually from the 4.60 percent factor used in FY 2019 until the adjustment reaches 2.00 percent.

- The 2020 Legislature added that for FY 2020, expenditures for employees and contracted services that would have been eligible for state aid in the absence of school closure due to COVID-19 must be included as eligible expenditures for calculation of aid and for tuition billing, regardless of whether special education services were actually provided during the closure.

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 Teachers Retirement Association (TRA), St. Paul Teachers Retirement Fund Association (SPTRFA), and the Public Employees Retirement Association (PERA). Employee contribution rates were increased by 0.25 percent beginning in FY 2024 for the TRA plan and beginning in FY 2023 for the SPTRFA plan. The pension adjustment component of the general education aid formula was increased by an amount equal to the product of the salaries paid to members of these two plans times the school's pension adjustment rate for the fiscal year to help offset the cost of the employer contribution increases.

Fund Transfers – For fiscal years 2020 and 2021 only, a school district, charter school, or a cooperative unit may transfer any funds not already assigned or encumbered by staff salary and benefits, or otherwise encumbered by federal law, from any accounts or operating fund to the undesignated balance in any other operating fund. A fund transfer is allowed if the transfer meets the following criteria from Minnesota Laws 2020, Chapter 116/House File 4415 Article 3 Section 8:

1. The transfer does not increase state aid obligations to the district or school or result in additional property tax authority for the district.
2. A transfer is limited to the operating funds of a school district, charter school, or cooperative unit.
3. A school board must approve any fund or account transfer before the reporting deadline for the respective fiscal year.
4. A school district, charter school, or cooperative unit must maintain accounting records for the purposes of this section that are sufficient to document both the specific funds transferred and use of those funds. The accounting records are subject to auditor review.
5. Any execution of this flexibility must not interfere with or jeopardize funding per federal requirements.
6. Any transfer must not interfere with the equitable delivery of distance learning or social distancing models.

ACCOUNTING AND AUDITING UPDATES

The following is a summary of GASB standards expected to be implemented in the next few years. Due to the COVID-19 outbreak, the GASB has delayed the original implementation dates of these and other standards as described below.

GASB STATEMENT NO. 87, *LEASES*

A lease is a contract that transfers control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under this lease guidance, unless specifically excluded in this statement.

Governments enter into leases for many types of assets. Under the previous guidance, leases were classified as either capital or operating depending on whether the lease met any of the four tests. In many cases, the previous guidance resulted in reporting lease transactions differently than similar nonlease financing transactions.

The goal of this statement is to better meet the information needs of users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

To reduce the cost of implementation, this statement includes an exception for short-term leases, defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this statement are effective for fiscal years beginning after June 15, 2021.

GASB STATEMENT NO. 91, *CONDUIT DEBT OBLIGATIONS*

The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

A conduit debt obligation is defined as a debt instrument having all of the following characteristics:

- There are at least three parties involved: (1) an issuer, (2) a third party obligor, and (3) a debt holder or a debt trustee.
- The issuer and the third party obligor are not within the same financial reporting entity.
- The debt obligation is not a parity bond of the issuer, nor is it cross-collateralized with other debt of the issuer.
- The third party obligor or its agent, not the issuer, ultimately receives the proceeds from the debt issuance.
- The third party obligor, not the issuer, is primarily obligated for the payment of all amounts associated with the debt obligation (debt service payments).

This statement also addresses arrangements, often characterized as leases, that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third party obligors in the course of their activities.

This statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period. The requirements of this statement are effective after December 15, 2021. Earlier application is encouraged.

GASB STATEMENT NO. 97, *CERTAIN COMPONENT UNIT CRITERIA, AND ACCOUNTING AND FINANCIAL REPORTING FOR INTERNAL REVENUE CODE SECTION 457 DEFERRED COMPENSATION PLANS—AN AMENDMENT OF GASB STATEMENT NO. 14 AND NO. 84, AND A SUPERSESSION OF GASB STATEMENT NO. 32*

The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other post-employment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this statement that (1) exempt primary governments that perform the duties that a government board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans, and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through Statement 74, respectively, are effective immediately.

The requirements of this statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this statement.