

**Star of the North Academy
Charter School No. 4224
East Bethel, Minnesota**

Financial Statements

June 30, 2018



Star of the North Academy
Charter School No. 4224
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**Star of the North Academy
Charter School No. 4224
Board of Directors and Administration
June 30, 2018**

<u>Board of Directors</u>	<u>Position</u>
Javed Mohammad	Board Chairperson
Ahmed Abuatieh	Member
Abdul Ahmed	Member
Abdul Khadeer	Member
Mohamed Omar	Member
Kathryn Martin	Member
<u>Administration</u>	
Lulzim Axhijaj	Executive Director



Independent Auditor's Report

To the Board of Directors
Star of the North Academy
East Bethel, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of Star of the North Academy, East Bethel, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the Academy's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of Star of the North Academy, East Bethel, Minnesota, as of June 30, 2018, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund and Food Service Fund for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2018, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

BergankDV Ltd.

Minneapolis, Minnesota
September 6, 2018

Star of the North Academy Management's Discussion and Analysis

This section of the Academy's annual financial report presents a discussion and analysis of the Academy's financial performance during the fiscal year ended on June 30, 2018. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-2018 fiscal year include the following:

- Fiscal year 2018 was the fourth full year of operation for the Academy.
- The Academy's ending unassigned General Fund balance at June 30, 2018 was \$238,496, a decrease of \$83,364 from June 30, 2017.
- Total Net Position of the Academy decreased by \$562,129.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Academy's basic financial statements. The Academy's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

Present the financial picture of the Academy from the economic resources measurement focus using the accrual basis of accounting similar to a private-sector business.

The government-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The *Statement of Net Position* includes all of the Academy's assets and liabilities with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Academy is improving or deteriorating.

The *Statement of Activities* presents information showing how the Academy's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Academy uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Star of the North Academy
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating the Academy's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Academy maintains two government funds and information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and food service funds.

The Academy adopted an annual appropriated budget for both funds. Budgetary comparison statements have been provided to demonstrate compliance with this budget.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Figure A-1
Major Features of the Academy's Government-Wide and Fund Financial Statements
Fund Statements**

Type of Statements	Government-Wide	Governmental Funds
Scope	All Academy Activities	All Academy Activities
Required financial statements	* Statement of Net Position	* Balance Sheet
	* Statement of Activities	* Statement of Revenues, Expenditures and Changes in Fund Balance
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities both financial and capital, short-term and long-term	Only assets expected to be earned and liabilities owed during the year or soon thereafter
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

**Star of the North Academy
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Net Position

Net position, over time, serves as a useful indicator of the Academy's financial position. In fiscal year 2018, liabilities and deferred inflow of resources exceeded assets and deferred outflows of resources creating a negative net position. Net Position components include investment in capital assets (equipment less accumulated depreciation) and unrestricted balance.

**Table A-1
Net Position**

	2018	June 30, 2017	Change
Assets			
Current and other assets	\$ 355,006	\$ 423,324	\$ (68,318)
Net capital assets	60,196	73,226	(13,030)
Total assets	<u>415,202</u>	<u>496,550</u>	<u>(81,348)</u>
Deferred Outflows of Resources	<u>\$1,577,070</u>	<u>\$1,751,885</u>	<u>\$ (174,815)</u>
Liabilities			
Current liabilities	\$ 103,355	\$ 80,874	\$ 22,481
Noncurrent liabilities	2,172,597	2,211,165	(38,568)
Total liabilities	<u>2,275,952</u>	<u>2,292,039</u>	<u>(16,087)</u>
Deferred Inflows of Resources	<u>325,441</u>	<u>3,358</u>	<u>322,083</u>
Net Position			
Net investment in capital assets	60,196	73,226	(13,030)
Restricted	9,220	16,517	(7,297)
Unrestricted	(678,537)	(136,735)	(541,802)
Total net position	<u>\$ (609,121)</u>	<u>\$ (46,992)</u>	<u>\$ (562,129)</u>

Current and other assets decreased by \$81,348 including decreases in cash and receivables from the prior year. Current liabilities increased by \$22,481. Noncurrent liabilities for the Academy's pension liability of \$2,172,597 were included on the June 30, 2018 Statement of Net Position.

Statement of Activities

The cost of all governmental activities for fiscal year 2018 was \$2,323,112, with the majority of these costs supported by federal and state grants. Operating grants and contributions decreased by \$87,831 due to a decrease in enrollment. State sources decreased by \$140,583 due to a decrease in pupil units. Total expenses increased \$162,594 due to an increase in instructional staff and special education expenditures.

**Star of the North Academy
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

	2018	June 30, 2017	Change
Revenues			
Program revenues			
Charges for services	\$ 14,892	\$ 14,533	\$ 359
Operating grants and contributions	464,895	552,726	(87,831)
General revenues			
Local sources	129	95	34
State sources	1,281,067	1,421,650	(140,583)
Total revenue	<u>1,760,983</u>	<u>1,989,004</u>	<u>(228,021)</u>
Expenses			
Administration	177,556	181,904	(4,348)
School support services	96,511	94,737	1,774
Regular instruction	1,076,409	962,060	114,349
Special education instruction	184,438	95,892	88,546
Instructional support services	68,310	103,260	(34,950)
Pupil support services	231,797	211,263	20,534
Sites, building and equipment	378,412	401,054	(22,642)
Fiscal and other fixed costs	7,175	6,428	747
Food service	102,504	103,920	(1,416)
Total expenses	<u>2,323,112</u>	<u>2,160,518</u>	<u>162,594</u>
Change in Net Position	(562,129)	(171,514)	(390,615)
Net Position			
Beginning	<u>(46,992)</u>	<u>124,522</u>	<u>(171,514)</u>
Ending	<u>\$ (609,121)</u>	<u>\$ (46,992)</u>	<u>\$ (562,129)</u>

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

The financial performance of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its governmental funds reported a combined fund balance of \$251,651. The General Fund balance is comprised of unassigned funds of \$238,496 and non-spendable funds of \$3,935. Food Service Fund balance is comprised of a restricted balance of \$9,220.

**Star of the North Academy
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS (CONTINUED)

General Fund

The General Fund includes the primary operations of the Academy in providing educational services to students.

In fiscal year 2018, state aids make up the majority of revenue sources. State sources decreased by \$75,240 due to a decrease in pupil units. In addition to state aids, the Academy received federal funds; federal sources decreased by \$116,845 which is related to last fiscal year being the last year the school received federal startup funds.

**Table A-3
General Fund Revenues**

	Year Ended		Change Increase (Decrease)
	June 30,		
	2018	2017	
Other local revenue	\$ 7,666	\$ 5,591	\$ 2,075
State sources	1,591,699	1,666,939	(75,240)
Federal sources	62,502	179,347	(116,845)
 Total general fund revenue	 <u>\$ 1,661,867</u>	 <u>\$ 1,851,877</u>	 <u>\$ (190,010)</u>

Of the total expenditures, 54% were personnel salaries and benefits. Another 42% of total expenditures were purchased services to continue developing the educational program, facility lease, transportation, administrative services, and direct services to students. Overall salaries and benefits increased by 17% from the prior year due to an increase in special education staff and benefits. Purchased services essentially remained the same. Supplies and material and capital expenditures decreased over the prior year.

**Table A-4
General Fund Expenditures**

	Year Ended		Change Increase (Decrease)
	June 30,		
	2018	2017	
Salaries	\$ 774,710	\$ 655,583	\$ 119,127
Employee benefits	172,586	149,159	23,427
Purchased services	734,523	724,057	10,467
Supplies and materials	48,757	55,560	(6,803)
Capital expenditures	1,292	64,336	(63,044)
Other expenditures	13,500	18,918	(5,418)
 Total expenditures	 <u>\$ 1,745,369</u>	 <u>\$ 1,667,613</u>	 <u>\$ 77,756</u>

In 2018, General Fund expenditures exceeded revenue by \$83,502, which resulted in a decrease to fund balance in the General Fund from \$325,933 at June 30, 2017 to \$242,431 at June 30, 2018. Ending fund balance represents 14% of fiscal year 2018 expenditures.

Star of the North Academy Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS (CONTINUED)

Special Revenue Funds

The Academy has one special revenue fund: Food Service. The Food Service Fund tracks the costs of meals and the federal and state revenue that support those meals. For fiscal year 2018, food service expenditures exceeded revenue by \$7,297, decreasing the fund balance from \$16,517 at June 30, 2017 to \$9,220 at June 30, 2018.

Budgetary Highlights

Over the course of the year, the Academy's operating budget was amended due to changes in grant and enrollment activity.

Highlights of the operating funds budgets include:

- General Fund revenues were \$49,497 over budget due to an increase in special education aid.
- General Fund expenditures were \$51,231 over budget, mostly in regular instruction and special education services.
- The net amended General Fund budget projected a fund balance decrease of \$81,768 as compared to an actual fund balance decrease of \$83,502.

CAPITAL ASSETS

The Academy's capital assets are used to assist students in their educational experience. In fiscal year 2018, the Academy did not purchase any items that were added to the asset list.

FACTORS BEARING ON THE ACADEMY'S FUTURE

- The Academy is dependent on the State of Minnesota for its revenue authority.
- Fiscal Year 2018 was met with lower than anticipated enrollment. The Academy must establish and maintain its enrollment to remain financially solvent.
- The Academy signed a five year building lease agreement for the period of July 1, 2016 through June 30, 2021.
- The Academy will strive to meet its commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our constituents, state oversight agencies, lenders, customers, legislative leaders, 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 this report or need additional financial information, contact the Business Office, Star of the North Academy, 1562 Northeast Viking Boulevard, East Bethel, Minnesota 55011.

BASIC FINANCIAL STATEMENTS

Star of the North Academy
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash and investments	\$ 146,822
Due from Department of Education	199,498
Due from Federal Government through Department of Education	4,751
Prepaid items	3,935
Capital assets	
Equipment	90,884
Less accumulated depreciation	(30,688)
Total assets	415,202
 Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	1,577,070
Total assets and deferred outflows of resources	\$ 1,992,272
 Liabilities	
Accounts payable	\$ 10,390
Salaries and benefits payable	91,965
Short-term indebtedness	1,000
Net pension liability	2,172,597
Total liabilities	2,275,952
 Deferred Inflows of Resources	
Deferred inflows of resources related to pensions	325,441
 Net Position	
Net investment in capital assets	60,196
Restricted for	
Food service	9,220
Unrestricted	(678,537)
Total net position	(609,121)
Total liabilities, deferred inflows of resources, and net position	\$ 1,992,272

Star of the North Academy
Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental activities					
Administration	\$ 177,556	\$ -	\$ -	\$ -	\$ (177,556)
District support services	96,511	-	-	-	(96,511)
Elementary and secondary regular instruction	1,076,409	7,537	237,079	-	(831,793)
Special education instruction	184,438	-	139,964	-	(44,474)
Instructional support services	68,310	-	-	-	(68,310)
Pupil support services	231,797	-	-	-	(231,797)
Sites and buildings	378,412	-	-	-	(378,412)
Fiscal and other fixed cost programs	7,175	-	-	-	(7,175)
Food service	102,504	7,355	87,852	-	(7,297)
Total governmental activities	<u>\$ 2,323,112</u>	<u>\$ 14,892</u>	<u>\$ 464,895</u>	<u>\$ -</u>	<u>(1,843,325)</u>
General revenues					
State aid-formula grants					1,281,067
Investment income					129
Total general revenues					<u>1,281,196</u>
Change in net position					(562,129)
Net position - beginning					<u>(46,992)</u>
Net position - ending					<u>\$ (609,121)</u>

☞ See notes to financial statements.

Star of the North Academy
Balance Sheet - Governmental Funds
June 30, 2018

	<u>General</u>	<u>Food Service</u>	<u>Total Governmental Funds</u>
Assets			
Cash and investments	\$ 131,079	\$ 15,743	\$ 146,822
Due from Department of Education	199,411	87	199,498
Due from Federal Government through Department of Education	3,432	1,319	4,751
Prepaid items	<u>3,935</u>	<u>-</u>	<u>3,935</u>
 Total assets	 <u><u>\$ 337,857</u></u>	 <u><u>\$ 17,149</u></u>	 <u><u>\$ 355,006</u></u>
Liabilities			
Accounts payable	\$ 2,461	\$ 7,929	\$ 10,390
Salaries and benefits payable	91,965	-	91,965
Short-term indebtedness	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total liabilities	<u>95,426</u>	<u>7,929</u>	<u>103,355</u>
Fund Balances			
Nonspendable	3,935	-	3,935
Restricted	-	9,220	9,220
Unassigned	<u>238,496</u>	<u>-</u>	<u>238,496</u>
Total fund balances	<u>242,431</u>	<u>9,220</u>	<u>251,651</u>
 Total liabilities and fund balances	 <u><u>\$ 337,857</u></u>	 <u><u>\$ 17,149</u></u>	 <u><u>\$ 355,006</u></u>

**Star of the North Academy
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2018**

Total fund balances - governmental funds	\$	251,651
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.</p>		
Cost of capital assets		90,884
Less accumulated depreciation		(30,688)
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.</p>		
<p>Long-term liabilities at year-end consist of:</p>		
Net pension liability		(2,172,597)
<p>Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.</p>		
Deferred outflows of resources related to pensions		1,577,070
Deferred inflows of resources related to pensions		(325,441)
		(69,371)
Total net position - governmental activities	\$	(609,121)

Star of the North Academy
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2018

	<u>General</u>	<u>Food Service</u>	<u>Total Governmental Funds</u>
Revenues			
Other local and county revenues	\$ 7,660	\$ -	\$ 7,660
Revenue from state sources	1,591,699	4,084	1,595,783
Revenue from federal sources	62,502	83,768	146,270
Sales and other conversion of assets	6	7,355	7,361
Total revenues	<u>1,661,867</u>	<u>95,207</u>	<u>1,757,074</u>
Expenditures			
Current			
Administration	124,498	-	124,498
District support services	88,868	-	88,868
Regular instruction	715,742	-	715,742
Special education instruction	153,700	-	153,700
Instructional support services	47,487	-	47,487
Pupil support services	230,537	-	230,537
Sites and buildings	376,070	-	376,070
Fiscal and other fixed cost programs	7,175	-	7,175
Food service	-	101,508	101,508
Capital outlay			
Regular instruction	1,292	-	1,292
Food service	-	996	996
Total expenditures	<u>1,745,369</u>	<u>102,504</u>	<u>1,847,873</u>
Net change in fund balances	(83,502)	(7,297)	(90,799)
Fund Balances			
Beginning of year	<u>325,933</u>	<u>16,517</u>	<u>342,450</u>
End of year	<u>\$ 242,431</u>	<u>\$ 9,220</u>	<u>\$ 251,651</u>

**Star of the North Academy
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
to the Statement of Activities - Governmental Funds
Year Ended June 30, 2018**

Net change in fund balances - total governmental funds \$ (90,799)

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

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

Depreciation expense (13,030)

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

Pension expense (458,300)

Change in net position - governmental activities \$ (562,129)

**Star of the North Academy
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Other local and county revenues	\$ 4,045	\$ 10,045	\$ 7,660	\$ (2,385)
Revenue from state sources	1,748,809	1,539,175	1,591,699	52,524
Revenue from federal sources	71,729	63,150	62,502	(648)
Sales and other conversion of assets	-	-	6	6
Total revenues	<u>1,824,583</u>	<u>1,612,370</u>	<u>1,661,867</u>	<u>49,497</u>
Expenditures				
Current				
Administration	123,011	119,742	124,498	4,756
District support services	91,336	85,695	88,868	3,173
Elementary and secondary regular instruction	635,216	692,557	715,742	23,185
Special education instruction	143,089	129,237	153,700	24,463
Instructional support services	87,526	52,207	47,487	(4,720)
Pupil support services	238,500	234,200	230,537	(3,663)
Sites and buildings	458,200	372,000	376,070	4,070
Fiscal and other fixed cost programs	10,380	6,500	7,175	675
Capital outlay				
Elementary and secondary regular instruction	6,000	2,000	1,292	(708)
Sites and buildings	10,000	-	-	-
Total expenditures	<u>1,803,258</u>	<u>1,694,138</u>	<u>1,745,369</u>	<u>51,231</u>
Net change in fund balance	<u>\$ 21,325</u>	<u>\$ (81,768)</u>	(83,502)	<u>\$ (1,734)</u>
Fund Balance				
Beginning of year			<u>325,933</u>	
Ending of year			<u>\$ 242,431</u>	

Star of the North Academy
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
Food Service Special Revenue Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Revenue from state sources	\$ 7,270	\$ 7,270	\$ 4,084	\$ (3,186)
Revenue from federal sources	77,018	93,471	83,768	(9,703)
Sales and other conversion of assets	10,900	10,900	7,355	(3,545)
Total revenues	<u>95,188</u>	<u>111,641</u>	<u>95,207</u>	<u>(16,434)</u>
Expenditures				
Current				
Food service	95,188	111,641	102,504	(9,137)
Total expenditures	<u>95,188</u>	<u>111,641</u>	<u>102,504</u>	<u>(9,137)</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	(7,297)	<u>\$ (7,297)</u>
Fund Balance				
Beginning of year			<u>16,517</u>	
Ending of year			<u>\$ 9,220</u>	

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Star of the North Academy
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Star of the North Academy ("the Academy") is a nonprofit corporation that was formed in accordance with *Minnesota Statutes 317A* and opened in September 2014. The Academy is authorized by the Novation Education Opportunities. The Academy is a public school which served grades K-8 in the 2017-2018 school year. The Academy's mission is to provide a caring, structured, nurturing environment; collaborative instruction from educators skilled in best teaching practices, maintains high expectations of students and staff, and motivates and engages students and staff in a safe environment of continuous learning and celebration of success. The Academy's vision is to provide a highly effective learning environment for the world's future leaders where all students learn, achieve, and graduate being able to communicate and work successfully in pluralistic American society and abroad.

The governing body consists of a Board of Directors composed of a Chairperson, Treasurer, Secretary, and other members.

The accounting policies of the Academy conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

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

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

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

Aside from its role as authorizer, Novation Education Opportunities has no authority, control, power, or administrative responsibilities over the Academy. Therefore, the Academy is not considered a component unit of Novation Education Opportunities.

The Academy does not maintain any student activity accounts.

B. Basic Financial Statement Information

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

Star of the North Academy
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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 items not properly included among program revenues are reported instead as general revenues.

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities.

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exception to this general rule is that interest and principal expenditures are recognized when payment is due. However, expenditures are recorded as prepaids for approved disbursements or liabilities incurred in advance of the period in which the item is to be used.

The Academy applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the Academy applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

**Star of the North Academy
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds:

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

Major Funds:

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

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

D. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Cash and investments at June 30, 2018, were comprised of deposits.

Minnesota Statutes requires all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

E. Prepaid Items

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

F. Capital Assets

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

The Academy establishes the following minimum capitalization thresholds for capitalizing capital assets: land and improvements - \$3,000; buildings and improvements - \$3,000; machinery, equipment, and vehicles - \$2,500.

Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Star of the North Academy
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Capital Assets (Continued)

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

G. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Academy has one item that qualifies for reporting in this category. Deferred outflow relating to pension activity is reported in the government-wide statement of net position. A deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy has one item which qualifies for reporting in this category. A deferred inflow of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

H. Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

Star of the North Academy
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Fund Equity

1. Classification

In the fund financial statements, the governmental fund report fund classifications that comprise a hierarchy based primarily on the extent to which the Academy is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. Nonspendable fund balances include amounts that cannot be spent because they are not in spendable form. Amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments, or b) imposed by law through enabling legislation are classified as restricted fund balances. Amounts that can only be used for specific purposes pursuant to constraints imposed by the Board of Directors (highest level of decision making authority) through resolution are classified as committed fund balances. Amounts that are constrained by the Academy's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.

2. Minimum Fund Balance

The Academy's fund balance policy calls for a desired fund balance of no less than 20% of expenditures.

J. Net Position

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

K. Use of Estimates

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

L. Tax Status

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

The Academy is required to assess whether an uncertain tax position exists and if there should be recognition of a related benefit or liability in the financial statements. The Academy has determined there are not amounts to record as assets or liabilities related to uncertain tax positions.

**Star of the North Academy
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Budgetary Information

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: This is the risk that in the event of the failure of a depository financial institution, the Academy will not be able to recover deposits or collateral securities that are in possession of an outside party. *Minnesota Statutes* 118A requires all deposits be protected by federal deposit insurance, corporate security bonds, or collateral. The Academy does not have formal policies for custodial credit risk. As of June 30, 2018, the Academy's bank balance of \$168,626 was not exposed to custodial credit risk because it was covered by Federal Deposit Insurance Corporation (FDIC) insurance limits.

Deposits are presented in the Statement of Net Position at June 30, 2018 as follows:

Cash	<u>\$ 146,822</u>
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**Star of the North Academy
Notes to Financial Statements**

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated				
Equipment	\$ 90,884	\$ -	\$ -	\$ 90,884
Less accumulated depreciation for Equipment	<u>17,658</u>	<u>13,030</u>	<u>-</u>	<u>30,688</u>
Total capital assets being depreciated, net	<u>\$ 73,226</u>	<u>\$ (13,030)</u>	<u>\$ -</u>	<u>\$ 60,196</u>

Depreciation expense for the period for the year ended June 30, 2018, was charged to the district support services, regular instruction, and sites and building functions in the amounts of \$500, \$10,188, and \$2,342, respectively.

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The Academy participates in various pension plans, total pension expense for the year ended June 30, 2018, was \$524,822. The components of pension expense are noted in the following plan summaries.

Teachers' Retirement Association

A. Plan Description

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

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

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided

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

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

Tier I Benefits

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

With these provisions:

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

Tier II Benefits

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

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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

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

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

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2016, June 30, 2017, and June 30, 2018, were:

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

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 367,791
Deduct Employer contributions not related to future contribution efforts	810
Deduct TRA's contributions not included in allocation	<u>(456)</u>
Total employer contributions	368,145
Total non-employer contributions	<u>35,588</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 403,733</u></u>

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

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation date	July 1, 2017
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	5.12%, from the single equivalent interest rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85% to 8.85% for ten years and 3.25% to 9.25% thereafter
Cost of living adjustment	2.00%

Mortality Assumption

Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

Asset Class	Target	Long-Term Expected Real Rate of Return
Domestic stocks	39 %	5.10 %
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Unallocated cash	2	0.00
Total	<u>100 %</u>	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2016 is six years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions", and "Changes in Proportion" use the amortization period of six years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of five years as required by GASB 68.

Changes in actuarial assumptions since the 2016 valuation:

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

E. Discount Rate

The discount rate used to measure the total pension liability was 5.12%. This is an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.5%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

F. Net Pension Liability

On June 30, 2018, the Academy reported a liability of \$2,095,990 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The Academy's proportionate share was 0.0105% at the end of the measurement period and 0.0091% for the beginning of the year.

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

Academy's proportionate share of net pension liability	\$ 2,095,990
State's proportionate share of the net pension liability associated with the Academy	202,349

For the year ended June 30, 2018, the Academy recognized pension expense of \$497,640. It recognized \$3,881 as an increase to pension expense for the support provided by direct aid.

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

On June 30, 2018, the Academy had deferred resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 272	\$ 14,712
Changes in proportion	476,596	-
Changes in actuarial assumptions	984,849	293,615
Difference between projected and actual investments earnings	326	-
Academy's contributions to TRA subsequent to the measurement date	<u>51,429</u>	<u>-</u>
Total	<u>\$ 1,513,472</u>	<u>\$ 308,327</u>

\$51,429 reported as deferred outflows of resources related to pension resulting from Academy contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

2019	\$ 344,259
2020	344,259
2021	253,316
2022	217,883
2023	<u>(6,001)</u>
Total	<u>\$ 1,153,716</u>

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

G. Pension Liability Sensitivity

The following presents the Academy's proportionate share of the net pension liability calculated using the discount rate of 5.12% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower and 1 percent higher than the current rate.

Academy proportionate share of NPL		
1% decrease (4.12%)	Current (5.12%)	1% increase (6.12%)
\$ 2,766,304	\$ 2,095,990	\$ 1,530,835

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

H. Pension Plan Fiduciary Net Position

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

Public Employees' Retirement Association

A. Plan Description

The Academy participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

PERA benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

General Employees Plan Benefits

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

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2018. The Academy was required to contribute 7.5% for Coordinated Plan members in fiscal year 2018. The Academy's contributions to the General Employees Fund for the year ended June 30, 2018, were \$7,275. The Academy's contributions were equal to the required contributions as set by state statute.

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2018, the Academy reported a liability of \$76,607 for its proportionate share of the General Employees Fund's net pension liability. The Academy's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Academy totaled \$956. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the Academy's proportion was 0.0012%, which was an increase of 0.0007% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Academy recognized pension expense of \$27,182 for its proportionate share of the General Employees Plan's pension expense. In addition, the Academy recognized an additional \$28 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,525	\$ 2,054
Changes in proportion	48,499	-
Changes in actuarial assumptions	5,299	7,680
Difference between projected and actual investments earnings	-	7,380
Academy's contributions to GERF subsequent to the measurement date	7,275	-
Total	\$ 63,598	\$ 17,114

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

\$7,275 reported as deferred outflows of resources related to pensions resulting from Academy contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

2019		\$ 18,595
2020		13,159
2021		10,706
2022		<u>(3,251)</u>
Total		<u>\$ 39,209</u>

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees Plan through 2044 and then 2.5% thereafter.

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

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	39%	5.10 %
International stocks	19%	5.30
Bonds	20%	0.75
Alternative assets	20%	5.90
Cash	2%	0.00
	<hr/>	
Total	<u>100%</u>	

F. Discount Rates

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

**Star of the North Academy
Notes to Financial Statements**

NOTE 4 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate 6.5%</u>	<u>Discount Rate 7.5%</u>	<u>1% Increase in Discount Rate 8.5%</u>
Academy's proportionate share of the PERA net pension liability	\$ 118,823	\$ 76,607	\$ 42,046

G. Pension Plan Fiduciary Net Position

Detailed information about the General Employees Fund's fiduciary net position is available in a separately-issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 5 – LEASE COMMITMENT

The Academy (lessee) entered a lease for the year ended June 30, 2017, for educational space with the Minnesota Education Trust (lessor). The terms of the lease for the year ended June 30, 2018, included a base rent amount of \$246,000 and an annual utilities bill of \$96,000.

For the year ended June 30, 2018, the Academy paid \$342,000 in lease payments for the building. For purposes of state lease aid, \$246,000 of the building lease payments were recognized as lease expenditures and \$96,000 was recognized as utility expenditures.

For the year ended June 30, 2018, the Academy qualified for state charter school lease aid which equaled the lesser of 90% of the approved lease cost or \$1,314 per pupil units served, or \$195,221.

The Academy renewed the lease for a five year period from July 1, 2016, to June 30, 2021, with annual base rent ranging from \$255,012 to \$342,804 and utility costs at \$96,000 per year. The utility costs will increase by 3% per year.

Star of the North Academy
Notes to Financial Statements

NOTE 6 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. 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. This statement will be effective for the year ending December 31, 2020.

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REQUIRED SUPPLEMENTARY INFORMATION

**Star of the North Academy
Schedule of School's and Non-Employer
Proportionate Share of Net Pension Liability
Last Ten Years General Employees Retirement Fund**

For Fiscal Year Ended June 30,	School's Proportion of the Net Pension Liability (Asset)	School's Proportionate Share of the Net Pension Liability (Asset)	School's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	School's Proportionate Share of the Net Pension Liability and School's Share of the State of Minnesota's Share of the Net Pension of	School's Covered-Payroll	School's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0000%	\$ -	\$ -	\$ -	\$ -	0.0%	78.7%
2016	0.0005%	25,913	-	25,913	28,027	92.5%	78.2%
2017	0.0005%	40,598	523	41,121	32,000	126.9%	68.9%
2018	0.0012%	76,607	956	77,563	76,760	99.8%	75.9%

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

**Schedule of School's and Non-Employer
Proportionate Share of Net Pension Liability
Last Ten Years TRA Retirement Fund**

For Fiscal Year Ended June 30,	School's Proportion of the Net Pension Liability (Asset)	School's Proportionate Share of the Net Pension Liability (Asset)	School's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	School's Proportionate Share of the Net Pension Liability and School's Share of the State of Minnesota's Share of the Net Pension of Liability	School's Covered-Payroll	School's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0000%	\$ -	\$ -	\$ -	\$ -	0.0%	81.5%
2016	0.0080%	494,879	60,828	555,707	406,493	121.7%	76.8%
2017	0.0091%	2,170,567	217,577	2,388,144	478,093	457.6%	44.9%
2018	0.0105%	2,095,990	202,349	2,298,339	564,827	371.1%	51.6%

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

**Star of the North Academy
Schedule of School Contributions
General Employees Retirement Fund
Last Ten Years**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	School's Covered- Payroll	Contributions as a Percentage of Covered-Payroll
2014	\$ -	\$ -	\$ -	\$ -	7.25%
2015	2,102	2,102	-	28,027	7.50%
2016	2,400	2,400	-	32,000	7.50%
2017	5,757	5,757	-	76,760	7.50%
2018	7,275	7,275	-	97,000	7.50%

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

**Schedule of School Contributions
TRA Retirement Fund
Last Ten Years**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	School's Covered- Payroll	Contributions as a Percentage of Covered-Payroll
2014	\$ -	\$ -	\$ -	\$ -	7.00%
2015	30,487	30,487	-	406,493	7.50%
2016	35,857	35,857	-	478,093	7.50%
2017	42,362	42,362	-	564,827	7.50%
2018	51,429	51,429	-	685,720	7.50%

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

Star of the North Academy
Notes to Required Supplementary Information

TRA Retirement Funds

2017 Changes

Changes in Actuarial Assumptions

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes

Changes in Actuarial Assumptions

- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

Star of the North Academy
Notes to Required Supplementary Information

TRA Retirement Funds (Continued)

2015 Changes

Changes of Benefit Terms

- The DTFGA was merged in TRA on June 30, 2015.

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

General Employees Fund

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

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

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

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SUPPLEMENTARY INFORMATION

Star of the North Academy
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2018

	Audit	Ufars	Audit-ufars		Audit	Ufars	Audit-ufars
01 General Fund				06 Building Construction Fund			
Total revenue	\$ 1,661,867	\$ 1,661,866	\$ 1	Total revenue	\$ -	\$ -	\$ -
Total expenditures	1,745,369	1,745,371	(2)	Total expenditures	-	-	-
<i>Nonspendable</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	3,935	3,935	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	-	-	-	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted fund balance	-	-	-
409 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
413 Building Projects Funded by COP/LP	-	-	-	463 Unassigned fund balance	-	-	-
414 Operating Debt	-	-	-	07 Debt Service Fund			
416 Levy Reduction	-	-	-	Total revenue	\$ -	\$ -	\$ -
417 Taconite Building Maintenance	-	-	-	Total expenditures	-	-	-
424 Operating Capital	-	-	-	<i>Nonspendable:</i>			
426 \$25 Taconite	-	-	-	460 Nonspendable fund balance	-	-	-
427 Disabled Accessibility	-	-	-	<i>Restricted/reserved:</i>			
428 Learning and Development	-	-	-	425 Bond refunding	-	-	-
434 Area Learning Center	-	-	-	433 Maximum effort loan aid	-	-	-
435 Contracted Alternative Programs	-	-	-	451 QZAB payments	-	-	-
436 State Approved Alternative Program	-	-	-	<i>Restricted:</i>			
438 Gifted and Talented	-	-	-	464 Restricted fund balance	-	-	-
440 Teacher Development and Evaluation	-	-	-	<i>Unassigned:</i>			
441 Basic Skills Programs	-	-	-	463 Unassigned fund balance	-	-	-
445 Career Technical Programs	-	-	-	08 Trust Fund			
446 First grade preparedness	-	-	-	Total revenue	\$ -	\$ -	\$ -
448 Achievement and Integration Revenue	-	-	-	Total expenditures	-	-	-
449 Safe School Crime	-	-	-	<i>Unassigned:</i>			
450 Transition for Pre-Kindergarten	-	-	-	422 Net position	-	-	-
451 QZAB Payments	-	-	-	20 Internal Service Fund			
452 OPEB Liabilities not Held in Trust	-	-	-	Total revenue	\$ -	\$ -	\$ -
453 Unfunded Severance and Retirement Levy	-	-	-	Total expenditures	-	-	-
459 Basic Skills Extended Time	-	-	-	<i>Unassigned:</i>			
475 Title VII - Impact Aid	-	-	-	422 Net position	-	-	-
476 Payments in Lieu of Taxes	-	-	-	25 OPEB Revocable Trust			
<i>Restricted:</i>				Total revenue	\$ -	\$ -	\$ -
464 Restricted fund balance	-	-	-	Total expenditures	-	-	-
<i>Committed:</i>				<i>Unassigned:</i>			
418 Committed for separation	-	-	-	422 Net position	-	-	-
461 Committed	-	-	-	45 OPEB Irrevocable Trust			
<i>Assigned:</i>				Total revenue	\$ -	\$ -	\$ -
462 Assigned fund balance	-	-	-	Total expenditures	-	-	-
<i>Unassigned:</i>				<i>Unassigned:</i>			
422 Unassigned fund balance	238,496	238,495	1	422 Net position	-	-	-
02 Food Services Fund				47 OPEB Debt Service			
Total revenue	\$ 95,207	\$ 95,206	\$ 1	Total revenue	\$ -	\$ -	\$ -
Total expenditures	102,504	102,503	1	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	-	-	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	464 Restricted fund balance	-	-	-
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted fund balance	9,220	9,219	1	463 Unassigned fund balance	-	-	-
<i>Unassigned:</i>				04 Community Service Fund			
463 Unassigned fund balance	-	-	-	Total expenditures	\$ -	\$ -	\$ -
04 Community Service Fund				<i>Nonspendable:</i>			
Total expenditures	\$ -	\$ -	\$ -	460 Nonspendable fund balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted/reserved:</i>			
460 Nonspendable fund balance	-	-	-	426 \$25 Taconite	-	-	-
<i>Restricted/reserved:</i>				431 Community Education	-	-	-
426 \$25 Taconite	-	-	-	432 ECFE	-	-	-
431 Community Education	-	-	-	440 Teacher Development and Evaluation	-	-	-
432 ECFE	-	-	-	444 School Readiness	-	-	-
440 Teacher Development and Evaluation	-	-	-	447 Adult Basic Education	-	-	-
444 School Readiness	-	-	-	452 OPEB Liabilities not Held in Trust	-	-	-
447 Adult Basic Education	-	-	-	<i>Restricted:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	464 Restricted fund balance	-	-	-
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted fund balance	-	-	-	463 Unassigned fund balance	-	-	-
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Independent Auditor's Report

To the Board of Directors
Star of the North Academy
East Bethel, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund of Star of the North Academy, East Bethel, Minnesota, as of and for the year ending June 30, 2018, and the related notes to financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 6, 2018.

Internal Control over Financial Reporting

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

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

Internal Control over Financial Reporting

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



Compliance and Other Matters

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

Purpose of this Report

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

BergankDV Ltd.

Minneapolis, Minnesota
September 6, 2018

Report on Legal Compliance

Independent Auditor's Report

To the Board of Directors
Star of the North Academy
East Bethel, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, and each major fund of Star of the North Academy, East Bethel, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, and have issued our report thereon dated September 6, 2018.

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

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

The purpose of this report is 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 communication is not suitable for any other purpose.



Minneapolis, Minnesota
September 6, 2018

**Star of the North Academy
Schedule of Findings and Corrective Action Plans
on Legal Compliance**

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Obtain Sufficient Collateral

The depositories of public funds and public investment laws of *Minnesota Statutes* 118A.01 and 118A.08 requires that all deposits with financial institutions must be collateralized in an amount equal to 110% of deposits in excess of Federal Depository Insurance Corporation (FDIC) insurance.

At June 30, 2017, the Academy's deposits were under collateralized.

This finding is specific to the year-end date June 30, 2017. The Academy's book balance was below the FDIC threshold at June 30, 2017, when factoring in outstanding checks; within the first few days of the new fiscal year, the bank balance also fell below this threshold as the checks cleared.

Administration has received resistance from its depository on obtaining a collateral assignment. An alternative would be to establish a sweep account which would daily remove amounts in excess of FDIC to an investment account or second fully-insured account.

CORRECTIVE ACTION TAKEN:

At June 30, 2018, sufficient collateral was held by the Academy.