

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2018

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
TABLE OF CONTENTS
JUNE 30, 2018**

INTRODUCTORY SECTION

SCHOOL BOARD AND ADMINISTRATION	1
---------------------------------	---

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT	3
------------------------------	---

MANAGEMENT'S DISCUSSION AND ANALYSIS	7
--------------------------------------	---

BASIC FINANCIAL STATEMENTS:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET POSITION	18
---------------------------	----

STATEMENT OF ACTIVITIES	19
-------------------------	----

FUND FINANCIAL STATEMENTS

BALANCE SHEET – GOVERNMENTAL FUNDS	20
------------------------------------	----

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS	21
--	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS	22
--	----

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	23
---	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GENERAL FUND-BUDGET AND ACTUAL	24
--	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – FOOD SERVICE FUND-BUDGET AND ACTUAL	25
---	----

NOTES TO BASIC FINANCIAL STATEMENTS	27
-------------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY	51
--	----

SCHEDULE OF SCHOOL CONTRIBUTIONS	52
----------------------------------	----

SUPPLEMENTAL INFORMATION

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	54
--	----

OTHER REQUIRED REPORTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	56
---	----

MINNESOTA LEGAL COMPLIANCE REPORT	58
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INTRODUCTORY SECTION

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2018**

SCHOOL BOARD

NAME	TERM ON BOARD EXPIRES	BOARD POSITION
Sandra Olmsted	June 2020	Chair/Community
Amina Mohamud	June 2019	Vice Chair/Community
Deborah Bartlett	June 2020	Secretary/Teacher
Tamany AbouAiad	June 2020	Secretary/Teacher
Abdirahman Hassan	June 2019	Member/Community
Mustafa Hurre	June 2020	Member/Parent

ADMINISTRATION

Mustafa Ibrahim	Executive Director
Mahmood Afey	Financial Management
School Offices:	Charter School No. 4200 STEP Academy Charter School 835 5 th Street East St. Paul, MN 55106 651-289-6120

FINANCIAL SECTION

CHUCK RINKEY, LTD.
CERTIFIED PUBLIC ACCOUNTANT

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MINNEAPOLIS, MN 55416
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
STEP Academy Charter School
Charter School No. 4200
St. Paul, Minnesota

I have audited the accompanying financial statements of the governmental activities, and each major fund of STEP Academy Charter School as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise STEP Academy Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 entity'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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of STEP Academy Charter School, as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison of the General Fund and Food Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information and Prior Period Adjustment

As discussed in Note 8 to the financial statements, the PERA pension liability and related pension expense were overstated by \$121,613 in 2017 in the statement of financial position and statement of activities. Accordingly, beginning net assets as of July 1, 2017 were restated to reflect the correction of this error. My opinion is not modified with respect to that matter.

In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and pension 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, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise STEP Academy Charter School's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented as supplemental information as required by the Minnesota Department of Education and is also not part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated December 26, 2018, on my consideration of STEP Academy Charter School's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering STEP Academy Charter School's internal control over financial reporting and compliance.

Chuck Rinkey, Ltd.

CHUCK RINKEY, LTD.

Minneapolis, Minnesota
December 26, 2018

REQUIRED SUPPLEMENTARY INFORMATION

**STEP ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

The discussion and analysis of STEP Academy Charter School's financial performance provides an overall review of financial activities for the fiscal year. The analysis focuses on school financial performance as a whole. Please read it in conjunction with the other components of the School's annual financial report.

FINANCIAL HIGHLIGHTS

- Entity-wide total assets were valued at \$1,678,001 including capital assets, net of depreciation of \$234,838. Pension deferred outflows were \$2,666,573. Total liabilities of \$4,509,471 were composed of \$391,145 of current liabilities and \$4,118,326 of long-term liabilities. Pension deferred inflows were \$704,028.
- At June 30, 2018, STEP Academy's General Fund showed an unassigned fund balance of \$1,015,236, an increase of \$224,644 from FY 2017.
- The School's overall net position decreased by \$326,837.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *School-wide financial statements* that provide both *short-term* and *long-term* information about the School's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School, reporting the School's operations in *more detail* than the School-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

**STEP ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

School-Wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the School's assets, deferred outflows, liabilities and deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two school-wide statements report the School's *net position* and how it has changed. Net position—the difference between the School's assets deferred outflows, liabilities and deferred inflows—is one way to measure the School's financial health or *position*. Over time, increases or decreases in the School's net position are indicators of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the School requires consideration of additional non-financial factors such as changes in the School's student population and the condition of school buildings and other facilities.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's *funds*, focusing on its most significant or "major" funds, not the School as a whole. Funds are accounting devices STEP Academy uses to keep track of specific sources of funding and spending on particular programs. STEP Academy has established funds within the guidelines of the State's Uniform Financial Accounting and Reporting Standards (UFARS).

STEP Academy maintains the following type of fund:

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

**STEP ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Financial Analysis of the School as a Whole

Table A-1 is a summarized view of the School's Statement of net position

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2018</u>	<u>Restated 2017</u>	
Current and Other Assets			
Current Assets	\$ 1,443,663	\$ 1,027,061	41%
Capital Assets	234,338	129,213	81%
Total assets	<u>1,678,001</u>	<u>1,156,274</u>	45%
Deferred Outflows of Resources	<u>2,666,573</u>	<u>2,961,763</u>	-10%
Current Liabilities	391,145	204,118	92%
Net Pension Liability	<u>4,118,326</u>	<u>4,387,299</u>	-6%
Total Liabilities	<u>4,509,471</u>	<u>4,591,417</u>	-2%
Deferred Inflows of Resources	<u>704,028</u>	<u>68,708</u>	925%
Net investment in capital assets	234,338	129,213	81%
Unrestricted	<u>(1,103,263)</u>	<u>(671,301)</u>	64%
Total net position	<u>\$ (868,925)</u>	<u>\$ (542,088)</u>	60%

**STEP ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Table A-2 is a condensed version of STEP Academy's Change in Net Position:

The School's total revenues were \$5,654,495 for the year ended June 30, 2018. See Figure A-3 for a detailed breakdown of revenue sources.

**Table A-2
Changes in Net Position from Operating Results
For Governmental Activities**

	Actual 2018	Restated 2017	Percentage Change
Revenues:			
Charges for Services	\$ 4,854	\$ 1,186	309%
Operating Grants & Contributions	1,469,877	780,914	88%
General State Aid	4,171,544	2,680,510	56%
Investment Earnings	1,285	2	64150%
Other	6,935	105,252	-93%
Total Revenue	5,654,495	3,567,864	58%
Expenses:			
Administration	199,827	188,871	6%
District Support Services	214,564	172,388	24%
Regular Instruction	3,081,752	1,795,361	72%
Special Education	333,214	200,682	66%
Instructional Support Services	360,111	235,855	53%
Pupil Support Services	609,526	444,480	37%
Sites, Buildings and Equipment	890,280	693,725	28%
Fiscal and other fixed cost programs	16,110	13,683	18%
Food Service	275,948	202,446	36%
Total Expense	5,981,332	3,947,490	52%
Change in Net Position	\$ (326,837)	\$ (379,626)	
Beginning Net Position	(542,088)	(162,462)	
Ending Net Position	\$ (868,925)	\$ (542,088)	

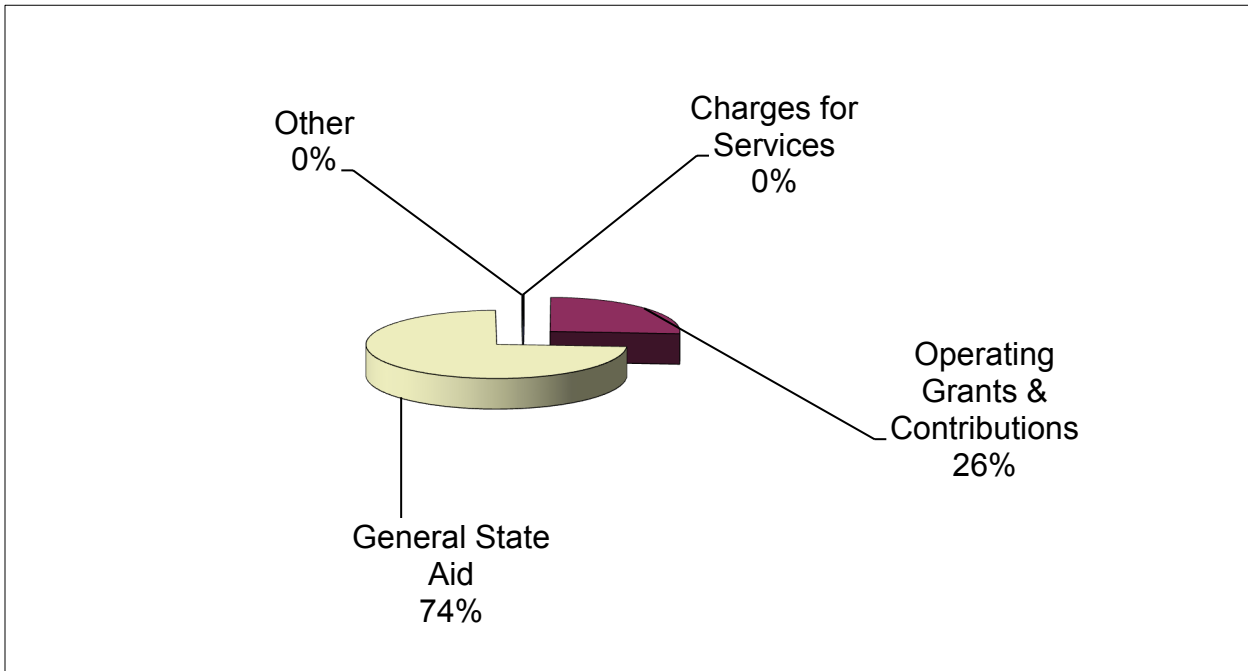
The total cost of all programs and services was \$5,981,332. At 2018 fiscal year-end, expenditures exceeded revenues by \$326,837.

**STEP ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Revenue (Table A-2 and Figure A-3)

- For FY2018 STEP Academy received \$5,654,495 in revenue – 74% in General Education Aid and 26% in program operating grants and contributions.
- Total Revenue for FY2018 increased by \$2,086,631 over the prior year.

Figure A-3 Sources of School's Revenue for Fiscal Year 2018

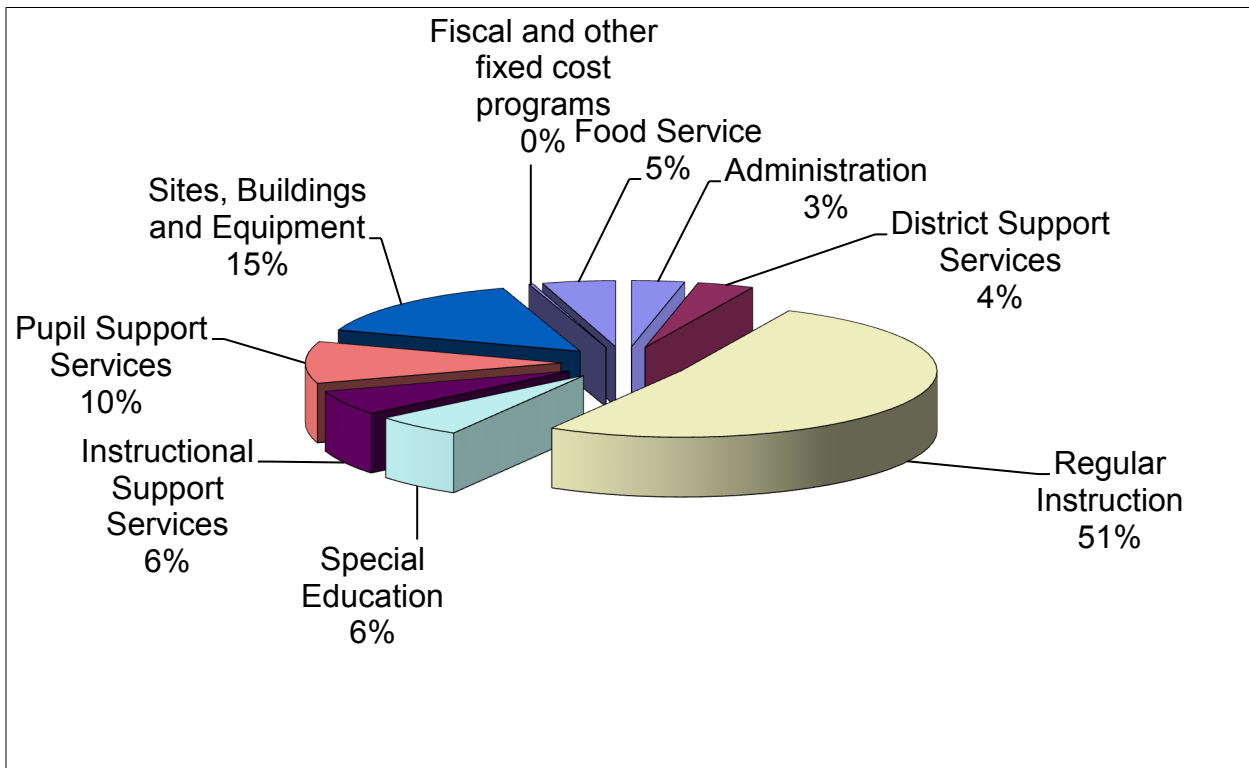


**STEP ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Expenses (Table A-2 and Figure A-4)

- For FY2018, the school's total expenses were \$5,981,332. Regular instructional services represent 51% of the total expenditures. This includes costs teaching staff, textbooks, instructional supplies and education equipment. Sites, Building and Equipment represent 15% of the total expenditures. This includes the lease and maintenance of the building. STEP Academy's administration and support expenses account for 7% of expenditures. These costs included school administrative services provided by start-up personnel, staff development services and planning, and curriculum development. Pupil Support Services accounts for 10% of the total expenditures this included the cost of transportation for the students. Instruction support service represents 6% of the total expenditures. This includes costs for textbooks, instructional professional stipends and instructional supplies. The remaining 5% of expenditures pertains to food service.
- Expenditures for FY2018 increased \$2,033,842 over the prior year. This increase was mainly salaries and benefits to serve additional students.

Figure A-4 School Expenses for Fiscal Year 2018



**STEP ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

**Table A-3
Net Cost of Governmental Activities**

	Total Cost of Services 2018	Restated Total Cost of Services 2017	Percentage Change	Net Cost of Services 2018	Restated Net Cost of Services 2017
Administration	\$ 199,827	\$ 188,871	6%	\$ 199,827	\$ 188,871
District Support Services	214,564	172,388	24%	214,564	\$ 172,388
Regular instruction	3,081,752	1,795,361	72%	2,622,834	1,667,625
Special education	333,214	200,682	66%	188,247	106,993
Instructional Support Services	360,111	235,855	53%	360,111	235,855
Pupil Support Services	609,526	444,480	37%	335,304	275,579
Sites, Buildings and Equipment	890,280	693,725	28%	293,656	296,628
Fiscal and other fixed cost programs	16,110	13,683	18%	16,110	13,683
Food Service	275,948	202,446	36%	275,948	202,446
Total	<u>\$ 5,981,332</u>	<u>\$ 3,947,490</u>	52%	<u>\$4,506,601</u>	<u>\$ 3,160,068</u>

Budgetary Comparison:

The school adopts an original budget in June for the subsequent year. It is the School's practice to amend the General Fund budget during the year for known significant changes in circumstances such as: updated enrollment estimates, legislation changes, new or additional funding, staffing changes, employee contract settlements, adjustments to health insurance premiums, special education tuition changes, or utility rate changes.

The revised budget for the general fund was approved expecting revenues to exceed expenditures by \$562,049. In FY2018 revenues in the general fund were lower than anticipated, by \$82,334. Expenditures were higher than anticipated, by \$248,513.

Fund Balances:

General Fund (Fund 01) currently has a balance of \$1,052,518. The Food Service Fund (fund 02) has a balance of \$0. Schools typically utilize their fund balance for funding short-term operations. A fund balance is advantageous to the school district as it decreases the need for short-term borrowing activity and minimizes interest expense.

**STEP ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Capital Assets and Debt Administration

Capital assets consisted of:

**Table A-4
The School's Capital Assets**

	2018	2017	Percentage Change
Equipment	\$ 191,257	\$ 80,242	42%
Leasehold Improvements	98,571	80,309	81%
	<u>(55,490)</u>	<u>(31,338)</u>	56%
Total	<u>\$ 234,338</u>	<u>\$ 129,213</u>	55%

Long-Term Liabilities

The liability for pension benefits payable relates to the new accounting standards which required the School to recognize its estimated share of the unfunded statewide pension plans for school employees.

**Table A-5
The School's Long-Term Liabilities**

	2018	Restated 2017
Net Pension Liability	<u>\$ 4,118,326</u>	<u>\$ 4,387,299</u>
Long-Term Liabilities: Due in More Than One Year	<u>\$ 4,118,326</u>	<u>\$ 4,387,299</u>

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds. Revenues for the School's governmental funds were \$5,655,076 while total expenditures were \$5,425,501. This contributed to a combined fund balance of \$1,052,518 which is \$229,575 higher than last year's ending fund balance of \$822,943.

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students from K through grade 12 including activities and capital outlay projects.

A large percentage of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources.

**STEP ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

Basic general education revenue is determined by multiple complex state formulas, largely enrollment driven, and consists of a specified minimum amount with variables such as socioeconomic indicators driving additional funding. For Minnesota charter schools the majority of all funding consists of general education aid, special education aid and charter school lease aid. Other revenue consists of federal and private grant funding that is often expenditure driven.

General Fund Budgetary Highlights

The budget is approved prior to the beginning of the fiscal year. The School then may revise the annual operating budget in the fall and then again mid-year. These budget amendments fall into two main categories:

- Implementing budgets for specially funded projects, which include both federal and state grants and reinstating unexpended funds being carried over from the prior fiscal year.
- Legislation passes subsequent to budget adoption, changes necessitated by employment agreements, and increases in appropriations for significant unbudgeted costs.

Actual revenues were lower than budgeted with a variance of \$82,334 or 1.5%. Actual expenditures were higher than budgeted with a variance of \$248,513 or 5.1%. The majority of this is found in the area of Regular Instruction.

OTHER MAJOR FUNDS

Expenditures exceeded revenues in the Food Service Fund by \$1,727. A transfer from the General Fund was necessary to cover the deficit as required by rules and regulations.

CAPITAL ASSETS

By the end of the 2017-2018 fiscal year, the School had invested \$289,828 in capital assets including leasehold improvements, furniture and equipment. More detailed information about capital assets is presented in Note 3 to the financial statements. Total depreciation expense for the year was \$24,152.

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the state of Minnesota for most of its revenue. This revenue source is mostly impacted by two variables; legislation and school enrollment. Recent experience demonstrates that legislative revenue increases have not been sufficient to meet increased costs due to inflation. It is imperative that the School's financial management continues to develop budgets with a surplus to be added to the unassigned fund balance in order to meet their fund balance policy requirements. A healthy fund balance is important to the financial stability of the School.

**STEP ACADEMY CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018**

CONTACTING THE SCHOOL'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 School's finances and to demonstrate the School's accountability for the money it receives.. If you have questions about this report or need additional financial information, please contact Mustafa Ibrahim, Executive Director, 651-289-6120.

BASIC FINANCIAL STATEMENTS

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
STATEMENT OF NET POSITION
JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	Governmental Activities	
	2018	Restated - Note 8 2017
Assets:		
Cash	\$ 350,939	\$ 135,262
Investments	150,000	150,000
Due from MDE	481,979	634,317
Due from Federal Government	423,463	75,131
Prepaid Items	37,282	32,351
Capital assets:		
Other capital assets, net of depreciation	234,338	129,213
Total assets	1,678,001	1,156,274
Deferred Outflows of Resources		
Pension Deferred Outflows	2,666,573	2,961,763
Total assets and deferred outflows of resources	\$ 4,344,574	\$ 4,118,037
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 91,709	\$ 28,985
Accrued salaries	164,809	106,406
Payroll Taxes Payable	134,627	68,727
Long-Term Liabilities		
Portion Due in More Than One Year	4,118,326	4,387,299
Total Liabilities	4,509,471	4,591,417
Deferred Inflows of Resources		
Pension Deferred Inflows	704,028	68,708
Net Position:		
Net Investment in Capital Assets	234,338	129,213
Unrestricted	(1,103,263)	(671,301)
Total Net Position	(868,925)	(542,088)
Total Liabilities, deferred inflows and net position	\$ 4,344,574	\$ 4,118,037

The notes to the financial statements are an integral part of this statement

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

Functions	2018					Restated - Note 8 2017
	Expenses	Program Revenues			Total	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:						
Administration	\$ 199,827	\$ -	\$ -	\$ -	\$ (199,827)	\$ (188,871)
District support services	214,564	-	-	-	(214,564)	(172,388)
Regular instruction	3,081,751	4,854	454,064	-	(2,622,833)	(1,667,625)
Special education instruction	333,214	-	144,967	-	(188,247)	(106,993)
Instructional support services	360,111	-	-	-	(360,111)	(235,855)
Pupil support services	609,526	-	274,222	-	(335,304)	(277,579)
Sites and buildings	890,280	-	596,624	-	(293,656)	(296,628)
Fiscal and other fixed cost programs	16,110	-	-	-	(16,110)	(13,683)
Food Service	275,948	-	-	-	(275,948)	(202,446)
Total school district	<u>\$ 5,981,332</u>	<u>\$ 4,854</u>	<u>\$ 1,469,877</u>	<u>\$ -</u>	<u>\$ (4,506,601)</u>	<u>\$ (3,162,068)</u>
General revenues:						
State sources					4,171,544	2,677,188
Other local revenue					6,935	105,252
Investment earnings					1,285	2
Total general revenues					<u>4,179,764</u>	<u>2,782,442</u>
Change in net position					(326,837)	(379,626)
Net position - beginning					<u>(542,088)</u>	<u>(162,462)</u>
Net position - ending					<u>\$ (868,925)</u>	<u>\$ (542,088)</u>

The notes to the financial statements are an integral part of this statement

**STEP ACADEMY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4200
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2018
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	General Fund	Food Service Fund	Governmental Funds	
			2018	2017
Assets:				
Cash	\$ 350,939	\$ -	\$ 350,939	\$ 135,262
Investments	150,000	-	150,000	150,000
Due from Minnesota Department of Education	481,979	-	481,979	634,317
Due from Federal Government	423,463	-	423,463	75,131
Prepaid Items	37,282	-	37,282	32,351
Total assets	<u>\$ 1,443,663</u>	<u>\$ -</u>	<u>\$ 1,443,663</u>	<u>\$ 1,027,061</u>
Liabilities and fund balances:				
Liabilities:				
Accounts Payable	\$ 91,709	\$ -	\$ 91,709	\$ 28,985
Salaries Payable	164,809	-	164,809	106,406
Other Current Liabilities	134,627	-	134,627	68,727
Total Liabilities	<u>391,145</u>	<u>-</u>	<u>391,145</u>	<u>204,118</u>
Fund Balance				
Nonspendable	37,282	-	37,282	32,351
Unassigned	1,015,236	-	1,015,236	790,592
Total Fund Balances	<u>1,052,518</u>	<u>-</u>	<u>1,052,518</u>	<u>822,943</u>
Total Liabilities and Fund Balances	<u>\$ 1,443,663</u>	<u>\$ -</u>	<u>\$ 1,443,663</u>	<u>\$ 1,027,061</u>

The notes to the financial statements are an integral part of this statement

**STEP ACADEMY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4200
 RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET
 POSITION – GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2018
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	<u>2018</u>	<u>2017</u>
Total fund balance - governmental funds	\$ 1,052,518	\$ 822,943
 Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the funds.		
Leasehold Improvements, Net of Accumulated Depreciation	93,970	77,470
Furniture and Equipment, Net of Accumulated Depreciation	140,368	51,743
 Long-term liabilities are not due and payable in the current period, and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Net Pension Liability	(4,118,326)	(4,387,299)
 Deferred outflows of resources and deferred inflows of resources are created as a result of differences between actual and expected contributions and earnings on plan investments as well as changes in proportion and are not recognized in the governmental funds		
Deferred Inflows of Resource Related to Pensions	(704,028)	(68,708)
Deferred Outflows of Resource Related to Pensions	<u>2,666,573</u>	<u>2,961,763</u>
Total Net Position - Governmental Activities	<u>\$ (868,925)</u>	<u>\$ (542,088)</u>

The notes to the financial statements are an integral part of this statement

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GENERAL FUND
YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	2018			2017
	General Fund	Food Service Fund	Total Govt Funds	
Revenues:				
State Sources	\$ 4,880,439	\$ 274,221	\$ 5,154,660	\$ 3,119,672
Federal Sources	486,642		486,642	336,867
Local Sources	13,774		13,774	108,003
Total revenues	<u>5,380,855</u>	<u>274,221</u>	<u>5,655,076</u>	<u>3,564,542</u>
Expenditures:				
Administration	169,268	-	169,268	154,313
District Support Services	214,718	-	214,718	180,536
Regular Instruction	2,600,441	-	2,600,441	1,455,805
Special Education Instruction	296,299	-	296,299	156,405
Instructional Support Services	301,176	-	301,176	214,866
Pupil Support Services	609,331	-	609,331	459,572
Sites and Buildings	942,210	-	942,210	771,194
Fiscal and Other Fixed Costs	16,110	-	16,110	13,683
Food service	-	275,948	275,948	202,446
Total expenditures	<u>5,149,553</u>	<u>275,948</u>	<u>5,425,501</u>	<u>3,608,820</u>
Excess of revenues over (under) expenditures	<u>231,302</u>	<u>(1,727)</u>	<u>229,575</u>	<u>(44,278)</u>
Other financing sources (uses):				
Operating transfers in		1,727	1,727	35,544
Operating transfers out	(1,727)		(1,727)	(35,544)
Total other financing sources (uses)	<u>(1,727)</u>	<u>1,727</u>	<u>-</u>	<u>-</u>
Net change in fund balances	229,575	-	229,575	(44,278)
Fund Balances				
Fund balances - beginning	<u>822,943</u>	<u>-</u>	<u>822,943</u>	<u>867,221</u>
Fund balances - ending	<u>\$ 1,052,518</u>	<u>\$ -</u>	<u>\$ 1,052,518</u>	<u>\$ 822,943</u>

The notes to the financial statements are an integral part of this statement

**STEP ACADEMY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4200
 RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND
 CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2018
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)**

	June 30,	
	2018	2017
Net change in fund balances-total governmental funds	\$ 229,575	\$ (44,278)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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.</p>		
Capital outlays	129,277	124,875
Depreciation expense	(24,152)	(9,720)
<p>Governmental funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in the differences between actuals and expected contributions and earnings or plan investments as well as changes in proportion.</p>		
Pension expense	(662,118)	(450,503)
State Aid related to Pension Expense	581	-
Total Net Position - Governmental Activities	\$ (326,837)	\$ (379,626)

The notes to the financial statements are an integral part of this statement

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)**

	<u>2018</u>			<u>2017</u>	
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under)</u>	
	<u>Original</u>	<u>Final</u>			
Revenues:					
State Sources	\$ 4,975,397	\$4,975,397	\$ 4,880,439	\$ (94,958)	3,115,073
Federal Sources	345,655	486,642	486,642	-	176,038
Other local sources	1,050	1,050	13,774	12,724	106,529
Total revenues	<u>5,322,102</u>	<u>5,463,089</u>	<u>5,380,855</u>	<u>(82,234)</u>	<u>3,397,640</u>
Expenditures:					
Current:					
Administration	170,068	170,069	169,268	(801)	154,313
District Support Services	182,004	182,004	214,718	32,714	180,536
Regular Instruction	2,302,118	2,391,461	2,600,441	208,980	1,455,805
Special Education Instruction	248,423	241,701	296,299	54,598	156,405
Instructional Support Services	300,364	312,942	301,176	(11,766)	214,866
Pupil Support Services	476,043	476,043	609,331	133,288	459,572
Sites, Buildings and Equipment	1,042,792	1,099,146	942,210	(156,936)	771,194
Fiscal and Other Fixed Costs	27,674	27,674	16,110	(11,564)	13,683
Total expenditures	<u>4,749,486</u>	<u>4,901,040</u>	<u>5,149,553</u>	<u>248,513</u>	<u>3,406,374</u>
Excess of expenditures over revenues	<u>\$ 572,616</u>	<u>\$ 562,049</u>	231,302	<u>\$ (330,747)</u>	<u>\$ (8,734)</u>
Other financing sources (uses):					
Operating transfers out			<u>(1,727)</u>	-	<u>(35,544)</u>
Net change in fund balances			229,575	-	(44,278)
Fund balance					
Beginning of Year			<u>822,943</u>	-	<u>867,221</u>
End of Year			<u>\$ 1,052,518</u>	-	<u>\$ 822,943</u>

The notes to the financial statements are an integral part of this statement

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)**

	<u>2018</u>			<u>2017</u>	
	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over</u>	
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Under)</u>	
Revenues:					
Local Sources					
Other	\$ -	\$ -	\$ 1,892	\$ 1,892	\$ 1,474
State Sources	-	-	6,470	6,470	4,599
Federal Sources	232,183	232,183	265,859	33,676	160,829
Total revenues	<u>232,183</u>	<u>232,183</u>	<u>274,221</u>	<u>42,038</u>	<u>166,902</u>
Expenditures:					
Current					
Food Service	232,183	232,183	275,948	\$ 43,765	202,446
Capital Outlay	-	-	-	-	-
Total expenditures	<u>232,183</u>	<u>232,183</u>	<u>275,948</u>	<u>43,765</u>	<u>202,446</u>
Excess of Expenditures over Revenues	-	-	(1,727)	(1,727)	(35,544)
Other financing sources					
Transfers in	-	-	1,727	\$ 1,727	35,544
Transfers out	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>1,727</u>	<u>1,727</u>	<u>35,544</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	\$ -	\$ -	-
Fund balance					
Beginning of Year			<u>-</u>		<u>-</u>
End of Year			<u>\$ -</u>		<u>\$ -</u>

The notes to the financial statements are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Charter School No. 4200, also known as STEP Academy Charter School, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The *Governmental Accounting Standards Board* (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

STEP Academy Charter School (the School), is a nonprofit corporation that was formed June 2007, and began operating in September 2011. The School is authorized by Innovative Quality Schools and operates under a five year charter school contract that ends June 30, 2019. The primary objective of STEP Academy Charter School is to educate students in a well-rounded STEM curriculum with a multi-disciplinary instructional approach. The governing body consisted of a board of directors composed of the five members.

The School's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the School is considered to be financially accountable.

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

Aside from its authorizer role, Innovative Quality Schools has no authority, control, power, or administrative responsibilities over STEP Academy Charter School. Therefore, the School is not considered a component unit of Innovative Quality Schools.

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

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

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 School.

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.

The School applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Generally, the effect of material inter-fund activity has been removed from the government-wide financial statements.

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

D. 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. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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 that 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 U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

Description of Funds

As required by state statute, STEP Academy Charter School operates as a nonprofit corporation under Minnesota Statutes §317A. However, state law also requires that the School comply with Uniform Financial Accounting and Reporting Standards for Minnesota School Districts (UFARS) 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 balance, revenues, and expenditures.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

A description of the School's funds included in this report is as follows:

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the School, as well as the capital related activities such as maintenance of facilities and equipment purchases..

Food Service Special Revenue Fund

The Food Service Fund is used to account for the School's nutrition program offered to students. Primary revenue sources in the Food Service Fund are meal sales and state and federal aids.

Community Service Special Revenue Fund

The Community Service Fund is used to account for the services provided for pre-kindergarten and before and after school care programs. The main revenue source is derived from student fees as well as state aids.

E. Income Taxes

The School is classified as a tax-exempt organization, under Section 501(c) (3) of the Internal Revenue Code and comparable sections of the Minnesota income tax statutes.

F. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with GAAP. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund, the Food Service, and Community Service.

Special Revenue Funds – Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Executive Director submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board. Individual amendments were not material in relation to the original appropriations.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgeting (Continued)

Budgeted amounts include mid-year budget amendments that decreased revenue and expenditure budgets as follows:

	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
<u>Revenues</u>			
General Funds	\$5,322,102	\$ 140,987	\$5,463,089
Special Revenue Funds:			
Food Service Fund	232,183	-	232,183
<u>Expenditures</u>			
General Funds	\$4,749,486	151,554	\$4,901,040
Special Revenue Funds:			
Food Service Fund	142,659	22,640	165,299

At the end of each fiscal year, if the General Fund has a net unassigned deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota schools which excludes certain restricted balances specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

G. Cash and Investments

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

H. Accounts Receivable

Accounts receivable represents amounts due from individuals, firms, and corporations for goods and services furnished by the School. No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed necessary.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The School maintains a threshold level of \$500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the School-wide financial statement, but are not reported in the Fund financial statements. 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 School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 20 years for equipment. Leasehold improvements are depreciated over the shorter of the estimated useful life, or the remaining lease term.

K. Accrued Employee Benefits

Unpaid sick and personal leave is not accrued in any funds as these benefits, when vesting is applicable, are paid prior to year-end according to School policy.

L. 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.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the School Board. Unassigned fund balances are considered the remaining amounts in the General Fund.

In accordance with Board policy the School applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted fund balance is available. The spending priority per policy for unrestricted fund balance when an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

N. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the School's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

O. Net Position

Net position represents the difference between assets and liabilities in the School-wide financial statements. Net position invested in capital assets consists of capital assets, net of accumulation depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the School-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

P. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 2 DEPOSITS

The School maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the Statement of Net Position and on the balance sheet as "Cash." In accordance with applicable Minnesota Statutes, the School maintains deposits at financial institutions which are authorized by the School Board.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral include U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

The School's deposits in banks at June 30, 2018 in the amount of \$350,939 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

NOTE 3 INVESTMENTS

Minnesota Statutes authorize investments for charter schools. The School has a Certificate of Deposit for \$150,000 that matures December 31, 2019, with interest at 1.25%.

The School defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. To determine fair value, the School uses a fair value hierarchy categorized into three levels based on the inputs used. Generally, the three levels are as follows:

- i. Level 1 – Quoted prices in active markets for identical assets.
- ii. Level 2 – Significant other observable inputs.
- iii. Level 3 – Significant unobservable inputs.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 3 INVESTMENTS (CONTINUED)

The following table presents our investments at June 30, 2018, which are measured at fair value on a recurring basis:

Assets	<u>Level 2</u>	<u>Gross Fair Value</u>	<u>Net Fair Value</u>
Certificate of Deposit	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>

NOTE 5 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:				
Leasehold improvements	80,309	18,262	\$ -	98,571
Furniture and equipment	<u>80,242</u>	<u>111,015</u>	<u>-</u>	<u>191,257</u>
Total capital assets, being depreciated	<u>160,551</u>	<u>129,277</u>	<u>-</u>	<u>289,828</u>
Accumulated depreciation for:				
Leasehold improvements	2,839	1,762	-	4,601
Furniture and equipment	<u>28,499</u>	<u>22,390</u>	<u>-</u>	<u>50,889</u>
Total accumulated depreciation	<u>31,338</u>	<u>24,152</u>	<u>-</u>	<u>55,490</u>
Total capital assets, being depreciated, net	<u>129,213</u>	<u>105,125</u>	<u>-</u>	<u>234,338</u>
Governmental activities capital assets, net	<u>\$ 129,213</u>	<u>\$ 105,125</u>	<u>\$ -</u>	<u>\$ 234,338</u>

Depreciation expense was charged to functions of the District as follows:

Governmental activities:	
Instructional services	
Regular instruction	\$ 14,696
Special Education instruction	650
Pupil support services	169
Sites and Buildings	<u>8,637</u>
Total depreciation expense, governmental activities	<u>\$ 24,152</u>

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The Academy participates in various pension plans. Total pension expense for the year ended June 30, 2018, was \$832,418. 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 Academies, charter Academies 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.

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 1 Benefits

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

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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.

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.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

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

Teachers' Retirement Association (Continued)

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:

	Employee	Employer
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations. Amounts reported in the 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		(456)
Total employer contributions		368,145
Total non-employer contributions		35,588
Total contributions reported in schedule of employer and non-employer pension allocations		\$ 403,733

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

D. Actuarial Assumptions

The total pension liability in the June 30, 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
Actuarial cost method	November 6, 2017 (economic assumptions)
Actuarial assumptions	Entry Age Normal
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.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 5 – 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 6 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.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 5 – 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 Academy 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 2052, 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 \$3,792,745 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 its contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis Academy District. The Academy's proportionate share was 0.0190% at the end of the measurement period and 0.0171% 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	\$3,792,745
State's proportionate share of the net pension liability associated with the Academy	365,987

For the year ended June 30, 2018, the Academy recognized pension expense of \$791,561. It recognized \$7,019 as an increase to this pension expense for the support provided by direct aid.

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

**STEP ACADEMY CHARTER SCHOOL
 CHARTER SCHOOL NO. 4200
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2018**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 23,016	\$ 26,623
Net difference between projected and actual earnings on plan investments	-	44,605
Changes of assumptions	1,852,756	531,304
Changes in proportion	488,599	-
Contributions to TRA subsequent to the measurement date	<u>127,954</u>	<u>-</u>
Total	<u>\$2,492,325</u>	<u>\$ 602,532</u>

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

\$127,954 reported as deferred outflows of resources related to pensions 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		\$ 462,434
2020		510,843
2021		445,873
2022		378,723
2023		<u>(36,034)</u>
 Total		 <u>\$ 1,761,839</u>

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.

District proportionate share of NPL		
1% decrease █ (4.12%)	Current █ (5.12%)	1% increase █ (6.12%)
\$ 5,005,692	\$ 3,792,745	\$ 2,770,082

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 Academy 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.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

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

Public Employees' Retirement Association

A. Plan Description

The Academy participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plan is a tax qualified plan 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. 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 services.

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.

Benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

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

Public Employees' Retirement Association (Continued)

C. Contributions

Minnesota Statutes Chapter 353 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 \$44,079. The Academy's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2018, the Academy reported a liability of \$325,581 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 \$16 million to the fund in 2018. 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 \$4,108. 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 0.0051%, which was an increase of 0.0013% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Academy recognized pension expense of \$40,857 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the Academy recognized \$119 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

At June 30, 2018, the Academy reported its proportionate share of 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 experience	\$ 10,730	\$ 16,042
Net difference between projected and actual earnings on plan investments	-	28,115
Changes of assumptions	40,275	32,639
Changes in proportion	79,164	24,700
Contributions to PERA subsequent to the measurement date	<u>44,079</u>	<u>-</u>
Total	<u>\$ 174,248</u>	<u>\$ 101,496</u>

\$44,079 reported as deferred outflows of resources related to pensions resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2019	\$ (3,110)
2020	29,194
2021	16,410
2022	<u>(13,821)</u>
Total	<u>\$ 28,673</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 %

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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.

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

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

<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
Total	<u>100%</u>	

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

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

Public Employees' Retirement Association (Continued)

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.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	\$ 505,000	\$ 325,581	\$ 178,693

H. 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 6 INTER-FUND TRANSACTIONS AND BALANCES

Transfers consist of the following for the year ended June 30, 2018:

Transfer From General	Transfer To Food Service	Amount	Reason
		\$ 1,727	Eliminate deficit in Food Service Fund balance

Transfers are used to (a) move revenues from the fund in which statute or budget requires the revenue be collected to the fund in which statute or budget requires the dollars be expended and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**

NOTE 7 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Operating Lease for Educational Space

The school leases space from Church of Sacred Heart under the terms of a lease, which began July 1, 2016 and expires June 30, 2026. Minimum rental payments for the lease term are \$38,447 per month based on current per pupil lease aid reimbursement.

For fiscal year 2018, the School qualified for state charter school lease aid of \$387,341. Annual rental payments were \$519,046.

Future minimum lease payments are as follows:

<u>Year Ended</u>	<u>Total Payments</u>
30-Jun-18	\$205,050
30-Jun-19	207,607
30-Jun-20	224,607
30-Jun-21	<u>230,474</u>
	<u>\$867,738</u>

Additional rent payments not included in the above minimum lease payments schedule are also included in the lease for the School's share of operating costs.

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

NOTE 8 RESTATEMENT OF 2017 FINANCIAL STATEMENTS

The 2017 financial statements overstated the PERA pension expense and pension liability by \$121,613. As a result, the 2017 financial statements have been restated to reflect the reduced pension expense on the statement of activities and decreased pension liability on the statement of net position.

REQUIRED SUPPLEMENTARY INFORMATION

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2018**

For Plan's Fiscal Year Ended June 30,	Academy's Proportion of the Net Pension Liability (Asset)	Academy's Proportionate Share of the Net Pension Liability (Asset)	Academy's Proportionate Share of State Proportionated Share of the Net Pension Liability	Academy's Proportionate Share of the State of Minnesota's Share of the Net Pension of Liability	Academy's Proportionate Share of the District's Share of the State of Minnesota's Share of the Net Pension of Liability	Academy's Covered Payroll	Academy'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
2014	0.0053%	\$ 248,967	\$ -	\$ 248,967	\$ 280,055	88.9%	78.8%	
2015	0.0043%	222,848	-	222,848	248,293	89.8%	78.2%	
2016	0.0038%	308,541	3,978	312,519	234,587	131.5%	68.9%	
2017	0.0051%	325,581	4,108	329,689	329,693	98.8%	75.9%	

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

**Schedule of Academy's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years TRA Retirement Fund**

For Plan's Fiscal Year Ended June 30,	Academy's Proportion of the Net Pension Liability (Asset)	Academy's Proportionate Share of the Net Pension Liability (Asset)	Academy's Proportionate Share of State Proportionated Share of the Net Pension Liability	Academy's Proportionate Share of the State of Minnesota's Share of the Net Pension of Liability	Academy's Proportionate Share of the District's Share of the State of Minnesota's Share of the Net Pension of Liability	Academy's Covered Payroll	Academy'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
2014	0.0153%	\$ 705,013	\$ 49,668	\$ 754,681	\$ 700,129	100.7%	81.5%	
2015	0.0158%	977,386	119,629	1,097,015	801,827	121.9%	76.8%	
2016	0.0171%	4,078,758	409,044	4,487,802	890,440	458.1%	44.9%	
2017	0.0190%	3,792,745	365,987	4,158,732	1,021,627	371.2%	51.6%	

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

**STEP ACADEMY CHARTER SCHOOL
CHARTER SCHOOL NO. 4200
SCHEDULE OF SCHOOL CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Academy's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 20,304	\$ 20,304	\$ -	\$ 280,055	7.25%
2015	18,622	18,622	-	248,293	7.50%
2016	17,594	17,594	-	234,587	7.50%
2017	24,727	24,727	-	329,693	7.50%
2018	44,079	44,079	-	587,720	7.50%

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

**Schedule of Academy 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)	Academy's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 49,009	\$ 49,009	\$ -	\$ 700,129	7.00%
2015	60,137	60,137	-	801,827	7.50%
2016	66,783	66,783	-	890,440	7.50%
2017	76,622	76,622	-	1,021,627	7.50%
2018	127,954	127,954	-	1,706,053	7.50%

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

SUPPLEMENTAL INFORMATION

**STEP ACADEMY CHARTER SCHOOL
UNIFORM FINANCIAL ACCOUNTING AND REPORTING
STANDARDS COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2018**

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				02 FOOD SERVICE			
Total Revenue	\$ 3,397,640	\$ 3,397,640	\$ -	Total Revenue	\$ 166,902	\$ 166,901	\$ -
Total Expenditures	\$ 3,406,373	\$ 3,406,373	\$ -	Total Expenditures	\$ 202,446	\$ 202,446	\$ -
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$ 32,351	\$ 32,351	\$ -	4.60 Non Spendable Fund Balance	\$ -	\$ -	\$ -
Restricted / Reserved:				Restricted / Reserved:			
4.03 Staff Development	\$ -	\$ -	\$ -	4.52 OPEB Liab Not In Trust	\$ -	\$ -	\$ -
4.05 Deferred Maintenance	\$ -	\$ -	\$ -	Restricted:			
4.06 Health and Safety	\$ -	\$ -	\$ -	4.64 Restricted Fund Balance	\$ -	\$ -	\$ -
4.07 Capital Projects Levy	\$ -	\$ -	\$ -	Unassigned:			
4.08 Cooperative Revenue	\$ -	\$ -	\$ -	4.63 Unassigned Fund Balance	\$ -	\$ -	\$ -
4.09 Alternative Facility Program	\$ -	\$ -	\$ -				
4.13 Project Funded by COP	\$ -	\$ -	\$ -				
4.14 Operating Debt	\$ -	\$ -	\$ -				
4.16 Levy Reduction	\$ -	\$ -	\$ -				
4.17 Taconite Building Maint	\$ -	\$ -	\$ -				
4.23 Certain Teacher Programs	\$ -	\$ -	\$ -				
4.24 Operating Capital	\$ -	\$ -	\$ -				
4.26 \$25 Taconite	\$ -	\$ -	\$ -				
4.27 Disabled Accessibility	\$ -	\$ -	\$ -				
4.28 Learning & Development	\$ -	\$ -	\$ -				
4.34 Area Learning Center	\$ -	\$ -	\$ -				
4.35 Contracted Alt. Programs	\$ -	\$ -	\$ -				
4.36 State Approved Alt. Program	\$ -	\$ -	\$ -				
4.38 Gifted & Talented	\$ -	\$ -	\$ -				
4.40 Teacher Development and Evaluation	\$ -	\$ -	\$ -				
4.41 Basic Skills Programs	\$ -	\$ -	\$ -				
4.45 Career Tech Programs	\$ -	\$ -	\$ -				
4.48 Achievement and Integration	\$ -	\$ -	\$ -				
4.49 Safe School Crime - Crime Levy	\$ -	\$ -	\$ -				
4.50 Pre-Kindergarten	\$ -	\$ -	\$ -				
4.51 QZAB Payments	\$ -	\$ -	\$ -				
4.52 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
4.53 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -				
Restricted:							
4.64 Restricted Fund Balance	\$ -	\$ -	\$ -				
Committed:							
4.18 Committed for Separation	\$ -	\$ -	\$ -				
4.61 Committed Fund Balance	\$ -	\$ -	\$ -				
Assigned:							
4.62 Assigned Fund Balance	\$ -	\$ -	\$ -				
Unassigned:							
4.22 Unassigned Fund Balance	\$ 790,592	\$ 790,592	\$ -				

OTHER REQUIRED REPORTS

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

To the Board of Directors
STEP Academy Charter School
Charter School No. 4200
St. Paul, Minnesota

I 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 STEP Academy Charter School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise STEP Academy Charter School's basic financial statements, and have issued our report thereon dated .

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, I considered STEP Academy Charter School'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 STEP Academy Charter School's internal control. Accordingly, I do not express an opinion on the effectiveness of STEP Academy Charter School'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit I did not identify any deficiencies in internal control that I 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 STEP Academy Charter School's financial statements are free from material misstatement, I 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, I do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Chuck Rinkey, Ltd.

CHUCK RINKEY, LTD.
Minneapolis, Minnesota

December 26, 2018

**CHUCK RINKEY, LTD.
CERTIFIED PUBLIC ACCOUNTANT**

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MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Directors
STEP Academy Charter School
Charter School No. 4200
St. Paul, Minnesota

I 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 STEP Academy Charter School as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 26, 2018.

The *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minn. Stat. § 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 STEP Academy Charter School failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had I performed additional procedures, other matters may have come to our attention regarding STEP Academy Charter School'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.

Chuck Rinkey, Ltd.

CHUCK RINKEY, LTD.
Minneapolis, MN 55416

December 26, 2018