

**SUCCESS ACADEMY
CHARTER SCHOOL NO. 4232**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2017

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CHARTER SCHOOL NO. 4232
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JUNE 30, 2017**

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INTRODUCTORY SECTION

**SUCCESS ACADEMY
CHARTER SCHOOL NO. 4232
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2017**

SCHOOL BOARD

NAME	TERM ON BOARD EXPIRES	BOARD POSITION
Aleem Mahammed	2018	Chair
Lesley Guyton	2018	Member
Abuad Rahi	2018	Member
Merita Haliti	2018	Member
James Engler	2017	Secretary-Resigned

ADMINISTRATION

Executive Director	Magdy Rabeaa
Scott Brown, The Anton Group	Financial Management
School Offices:	Charter School No. 4232 Success Academy 8201 Park Ave S Bloomington, MN 55420

FINANCIAL SECTION

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

5775 WAYZATA BOULEVARD
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TELEPHONE (952) 546-1052
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Success Academy
Charter School No. 4232
St. Paul, Minnesota

I have audited the accompanying financial statements of the governmental activities, and each major fund of Success Academy as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Success Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 Success Academy, as of June 30, 2017, 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

I have previously audited Success Academy's 2016 financial statements (previously New Success Academy, and I expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in my report dated October 31, 2016. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 Success Academy'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 18, 2017, on my consideration of Success Academy'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 Success Academy's internal control over financial reporting and compliance.

Chuck Rinkey, Ltd.

CHUCK RINKEY, LTD.

Minneapolis, Minnesota
December 18, 2017

SUPPLEMENTARY INFORMATION

**SUCCESS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

The discussion and analysis of the Success Academy financial performance provides an overall review of financial activities for the fiscal year. The analysis focuses on school's financial performance as a whole.

FINANCIAL HIGHLIGHTS

- Entity-wide total revenues were \$1,342,089 as compared to \$1,227,588 of expenses.
 - As the school completed the year, its governmental funds reported a combined fund balance of \$119,649
 - The School's overall net position is \$98,773.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Independent Auditor's Report;
- Management's Discussion and Analysis; and
- Basic financial statements, including the entity-wide financial statements, fund financial statements, and the notes to basic financial statements.

**SUCCESS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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

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 the School uses to keep track of specific sources of funding and spending on particular programs. Minnesota charter schools must establish funds within the guidelines of the state's Uniform Financial Accounting and Reporting Standards (UFARS).

The School 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 the School's programs. Because this information does not encompass the additional long-term focus of the entity-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

**SUCCESS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Financial Analysis of the School as a Whole

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

	<u>2016</u>	<u>2017</u>	<u>Percent of Change</u>
<u>Assets</u>			
Current Assets	13,866	491,617	3445%
Capital Assets	-	-	0%
Total Assets	<u>13,866</u>	<u>491,617</u>	3445%
<u>Liabilities</u>			
Current Liabilities	14,594	378,398	2493%
Non-Current Liabilities	<u>15,000</u>	<u>14,446</u>	-4%
Total Liabilities	<u>29,594</u>	<u>392,844</u>	1227%
<u>Net Position</u>			
Net Investment in Capital Assets	-	-	0%
Unrestricted	<u>(15,728)</u>	<u>98,773</u>	728%
Total Net Position	<u>(15,728)</u>	<u>98,773</u>	728%

As of June 30, 2017 Success Academy reported total assets of \$491,617 and total liabilities of \$392,844. Net position amounts to \$98,773.

**SUCCESS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Table #2 is a condensed version of the School's Change in Net Position:

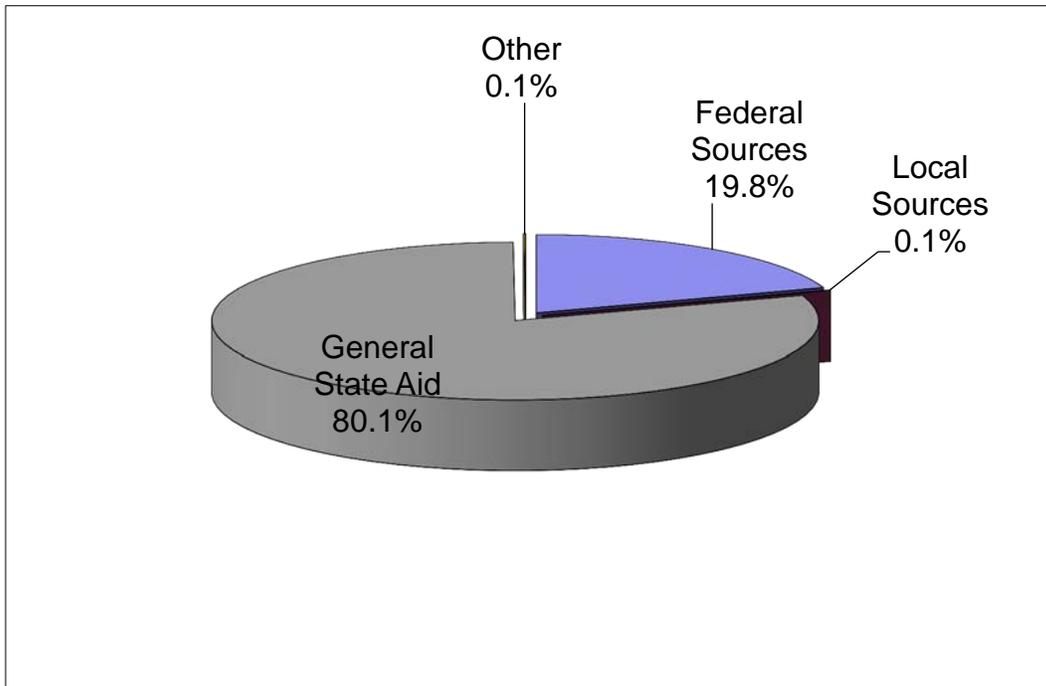
The School's total revenues were \$1,342,089 and expenses \$1,227,588 for the year ended June 30, 2017. See table #2 for a detailed breakdown of revenue sources.

Table 2

	<u>Actual 2016</u>	%	<u>Actual 2017</u>	%
Revenues:				
Program				
Federal Sources	\$94,909	91.6%	\$265,158	19.8%
Local Sources	<u>8,703</u>	8.4%	<u>700</u>	0.1%
General				
General State Aid	-	0.0%	1,074,769	80.1%
Other	<u>-</u>	0.0%	<u>1,462</u>	0.1%
Total Revenue	<u>103,612</u>	100%	<u>1,342,089</u>	100%
Expenses:				
District and school administration	113,268	94.9%	73,651	6.0%
District support services	-	0.0%	189,596	15.4%
Regular instruction	2,290	1.9%	542,380	44.2%
Instructional support services	3,512	2.9%	67,169	5.5%
Pupil support services	-	0.0%	131,825	10.7%
Sites and buildings	270	0.2%	144,128	11.7%
Food Service	<u>-</u>	0.0%	<u>78,839</u>	6.4%
Total Expense	<u>119,340</u>	100%	<u>1,227,588</u>	100%
Change in Net Position	\$ (15,728)		\$ 114,501	
Net Position - Beginning	<u>-</u>		<u>(15,728)</u>	
Net Position - Ending	<u>\$ (15,728)</u>		<u>\$ 98,773</u>	

**SUCCESS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Revenue (Table #2 and Chart #1)



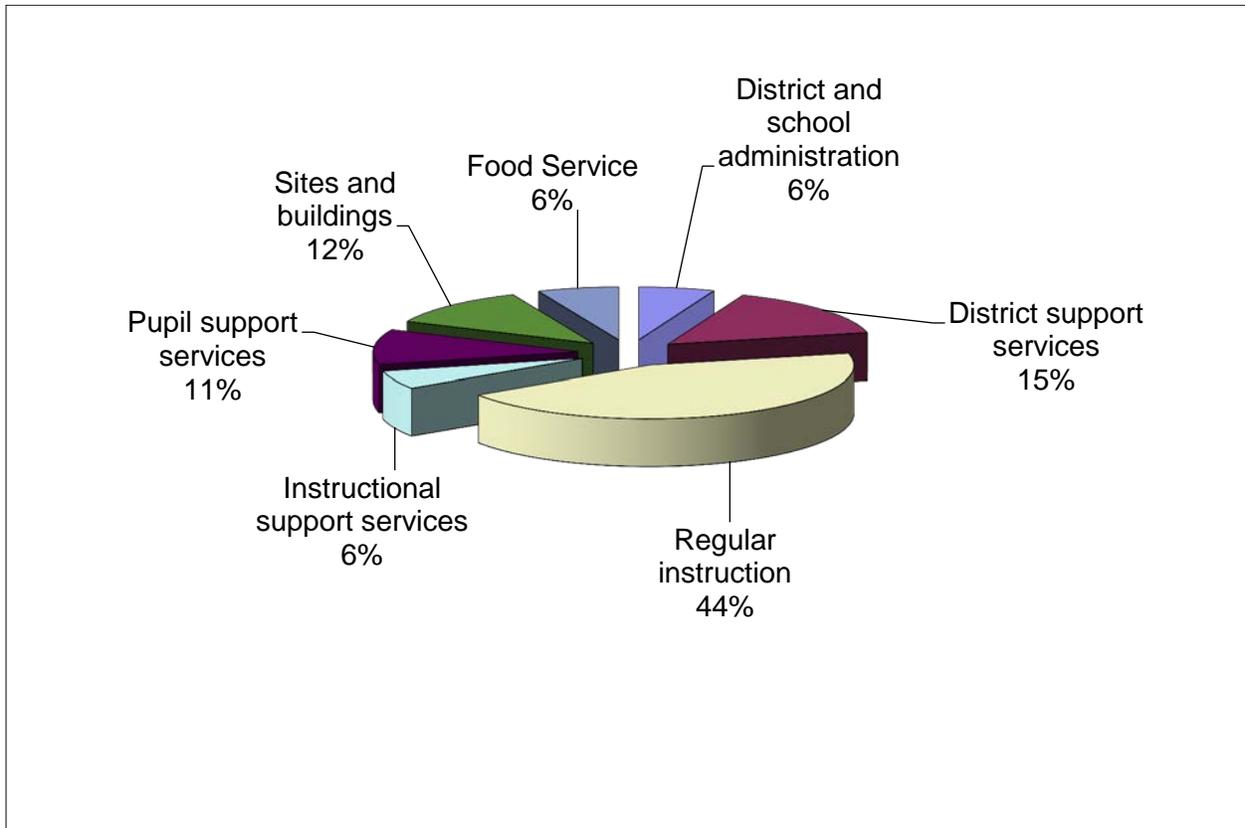
- In FY17, the school received \$265,158 in revenue from the federal CSP startup grant, federal special education and Title programs. The remaining revenues consist of general education aid paid by the MN Department of Education.

**SUCCESS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Expenses (Chart #2 & Table #2)

- In FY17, the school's total expenditure amount was \$1,227,588. As a school in its first year of operations, most of the expenditures are instruction related, but certain expenditures are expected to be one time only as the School purchases equipment for its anticipated growth.
- Administrative counted for 6% of all expenses. Regular instruction, district support and instructional support services for opening the school accounted for 44%, 15% and 6% of the expenses, respectively.

Chart #2



**SUCCESS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Net Cost of Governmental Activities (Table #3)

	Net Cost of Services 2016	Total Cost of Services 2017	Net Cost of Services 2017
District administration & support services	18,359	395,072	395,072
Regular and Special instruction	2,290	542,380	303,394
Instructional support services	3,512	67,169	67,169
Food Service	-	78,839	27,714
Sites and buildings	270	144,128	56,103
Total	\$ 24,431	\$1,227,588	\$ 849,452

- Total cost of all governmental activities for FY17 was \$1,227,588. (Table #3)
- The net cost of governmental activities \$849,452 was financed by CSP startup grant, Food Service receipts and Lease Aid.

Budgetary Comparison:

The school adopted an original budget based on an excess of 100 students, but was subsequently reduced to approximate actual enrollment. In the beginning years of a School, without historical data, the School relied on its Board, Admin and Finance Team to balance the budget at the fund level and seek out additional funding opportunities.

Fund Balances:

- At year-end, June 30, 2017, the School had a total fund balance of \$119,649 across all funds.

**SUCCESS ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

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 school enrollment. To get off to a good start in its second year of operations the charter school is working diligently to recruit a sufficient number of students to be able to build a fund balance.
- During the startup and first two years of operations, the school is dependent on the federal Charter School Planning grant. The Minnesota Department of Education has applied for an extension of the grant and the School expects to spend the remainder of its award in FY18.

Contacting the School's Financial Management:

This Financial Report is designed to provide our stakeholders 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: Magdy Rabeaa, Success Academy, Charter School No. 4232, Success Academy, 8201 Park Ave S, Bloomington MN 55420, or Scott Brown, The Anton Group, 1355 Pierce Butler Route, Suite G1, St. Paul, MN 55104.

BASIC FINANCIAL STATEMENTS

**SUCCESS ACADEMY
CHARTER SCHOOL NO. 4232
STATEMENT OF NET POSITION
JUNE 30, 2017**

	<u>Governmental Activities</u>
Assets:	
Cash	\$ 137,150
Due from Federal Government through MDE	37,394
Prepaid Items	<u>20,529</u>
Total assets	<u>\$ 195,073</u>
Deferred Outflows of Resources	
Related to pensions	<u>\$ 296,544</u>
Total assets and deferred outflows of resources	<u>\$ 491,617</u>
Liabilities and Net Position:	
Liabilities:	
Salaries and Wages Payable	\$ 22,264
Accounts Payable	42,853
Other Current Liabilities	10,307
Pension Due in More Than One Year	<u>302,974</u>
Total Liabilities	<u>\$ 378,398</u>
Deferred Inflows of Resources	
Related to pensions	<u>\$ 14,446</u>
Net Position:	
Unrestricted	<u>98,773</u>
Total Net Position	<u>\$ 98,773</u>
Total Liabilities and Net Position	<u>\$ 491,617</u>

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

**SUCCESS ACADEMY
CHARTER SCHOOL NO. 4232
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Functions	Expenses	Program Revenues			Changes in
		Charges for	Operating	Capital	Total
		Services	Grants and	Grants and	Governmental
			Contributions	Contributions	Activities
Governmental activities:					
Instructional services:					
Regular instruction	\$ 372,584				\$ (372,584)
Special instruction	169,796		\$ 238,986		69,190
Supporting services:					
Instructional support	67,169				(67,169)
Pupil support	131,825				(131,825)
Food service	78,839	1,462	49,663		(27,714)
Sites, buildings and equipment	144,128		88,025		(56,103)
Fiscal and other fixed costs	8,079				(8,079)
Administration	73,651				(73,651)
District support services	181,517				(181,517)
Total	<u>\$ 1,227,588</u>	<u>\$ 1,462</u>	<u>\$ 376,674</u>		<u>\$ (849,452)</u>
 General revenues:					
					698,095
State sources					265,158
Federal sources					700
Other local revenue					<u>963,953</u>
Total general revenues					
					114,501
					(15,728)
					<u>\$ 98,773</u>
					<u>\$ 98,773</u>

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

**SUCCESS ACADEMY
CHARTER SCHOOL NO. 4232
BALANCE SHEET
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	2017		2016	
	General Fund	Food Service	Total	
Assets:				
Cash	\$ 137,150	\$ -	\$ 137,150	
Due from Federal Government through MDE	37,394	-	37,394	13,866
Prepaid Items	20,529	-	20,529	
Total assets	<u>\$ 195,073</u>	<u>\$ -</u>	<u>\$ 195,073</u>	<u>\$ 13,866</u>
Liabilities and fund balances:				
Liabilities:				
Salaries and Wages Payable	\$ 22,264	\$ -	\$ 22,264	
Accounts payable	42,853	-	42,853	14,594
Payroll Deductions and Employer Contributions	10,307	-	10,307	
Total Liabilities	<u>75,424</u>	<u>-</u>	<u>75,424</u>	<u>14,594</u>
Fund Balance				
Nonspendable	20,529		20,529	
Reserved for Medical Assistance	(560)		(560)	
Unassigned	99,680		99,680	(728)
Total Fund Balances	<u>119,649</u>		<u>119,649</u>	<u>(728)</u>
Total Liabilities and Fund Balances	<u>\$ 195,073</u>		<u>\$ 195,073</u>	<u>\$ 13,866</u>

Total fund balance - governmental funds

\$ 119,649

The School's Net Pension Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:

Net Pension Liability	(302,974)
Deferred Inflows of Resources - Pensions	296,544
Deferred Outflows of Resources - Pensions	<u>(14,446)</u>

Total net position - governmental activities

\$ 98,773

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

**SUCCESS ACADEMY
CHARTER SCHOOL NO. 4232
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	General Fund	Food Service Fund	Total Govt Funds
Revenues:			
Federal Sources	\$ 316,418	47,940	\$ 364,358
State Sources	979,153	1,723	980,876
Local Sources	700	1,462	2,162
Total revenues	<u>1,296,271</u>	<u>51,125</u>	<u>1,347,396</u>
Expenditures:			
School Administration	73,651	-	73,651
District Support Services	196,517	-	196,517
Regular Instruction	357,015	-	357,015
Special Education Instruction	169,796	-	169,796
Instructional Support Services	67,169	-	67,169
Pupil Support Services	131,825	-	131,825
Food Services	-	78,839	78,839
Sites and Buildings	144,128	-	144,128
Fiscal and other Fixed Costs	8,079	-	8,079
Total expenditures	<u>1,148,180</u>	<u>78,839</u>	<u>1,227,019</u>
Excess (deficit) of revenues over expenditures	148,091	(27,714)	120,377
Other financing sources (uses):			
Transfers in	-	27,714	27,714
Transfers out	(27,714)	-	(27,714)
Total other financing sources (uses)	<u>(27,714)</u>	<u>27,714</u>	<u>-</u>
Net change in fund balance	120,377	-	120,377
Fund Balance			
Fund balance - beginning	<u>(728)</u>	<u>-</u>	<u>(728)</u>
Fund balance - ending	<u>\$ 119,649</u>	<u>\$ -</u>	<u>\$ 119,649</u>

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

Net change in fund balances-total governmental funds	\$ 120,377
Principal payments on long-term liabilities are recorded as expenses in the governmental funds	15,000
Pension expenditures on the governmental funds are measured by current year employer contributions. Pension expenses on the Statement of Activities are measured by the change in Net Pension Liability and the related deferred inflows and outflows of resources.	<u>(20,876)</u>
Change in net position of governmental activities	<u><u>\$ 114,501</u></u>

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

**SUCCESS ACADEMY
CHARTER SCHOOL NO. 4232
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	2017			2016	
	Budgeted Amounts		Actual Amounts	Over (Under)	
	Original	Final			
Revenues:					
State Sources	\$ 905,288	\$ 994,807	979,153	\$ (15,654)	\$ -
Federal Sources	292,110	346,297	316,418	(29,879)	94,909
Local sources	3,000	400	700	300	8,703
Total revenues	<u>1,200,398</u>	<u>1,341,504</u>	<u>1,296,271</u>	<u>(45,233)</u>	<u>103,612</u>
Expenditures:					
Current:					
School Administration	137,054	137,054	73,651	(63,403)	36,033
District Support Services	121,679	122,407	196,517	74,110	77,235
Regular Instruction	427,124	394,282	357,015	(37,267)	2,290
Special Education Instruction	77,114	187,521	169,796	(17,725)	
Instructional Support Services	72,477	74,180	67,169	(7,011)	3,512
Pupil Support Services	91,825	145,586	131,825	(13,761)	
Fiscal and Other Fixed Costs	208,700	208,700	144,128	(64,572)	270
Sites and Buildings	7,500	7,500	8,079	579	
Total expenditures	<u>1,143,473</u>	<u>1,277,230</u>	<u>1,148,180</u>	<u>(129,050)</u>	<u>119,340</u>
Excess (deficit) of revenues over expenditures	<u>\$ 56,925</u>	<u>\$ 64,274</u>	<u>\$ 148,091</u>	<u>\$ 83,817</u>	<u>\$ (15,728)</u>
Other Financing Sources					
Loan proceeds					15,000
Transfers in					
Transfers out			<u>(27,714)</u>		
Net change in fund balances			<u>120,377</u>		<u>(728)</u>
Fund balance					
Beginning of Year			<u>(728)</u>		<u>0</u>
End of Year			<u>\$ 119,649</u>		<u>\$ (728)</u>

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

**SUCCESS ACADEMY
CHARTER SCHOOL NO. 4232
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2017**

	2017			2016	
	Budgeted Amounts		Actual	Over	
	Original	Final	Amounts	(Under)	
Revenues:					
State Sources			1,723	\$ 1,723	\$ -
Federal Sources			47,940	47,940	-
Local sources			1,462	1,462	-
Total revenues	-	-	51,125	51,125	-
Expenditures:					
Current:					
School Administration			-	-	-
District Support Services			-	-	-
Regular Instruction			-	-	-
Special Education Instruction			-	-	-
Instructional Support Services			-	-	-
Pupil Support Services			-	-	-
Food Services			78,839	78,839	-
Sites and Buildings			-	-	-
Total expenditures	-	-	78,839	78,839	-
Excess (deficit) of revenues over expenditures	\$ -	\$ -	\$ (27,714)	\$ (27,714)	\$ -
Other Financing Sources					
Loan proceeds					-
Transfers in			27,714		
Transfers out			-		
Net change in fund balances			-		-
Fund balance					
Beginning of Year			-		-
End of Year			\$ -		\$ -

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

NOTES TO FINANCIAL STATEMENTS

**SUCCESS ACADEMY
CHARTER SCHOOL NO. 4232
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Charter School No. 4232, also known as Success Academy (formerly Summit Charter School), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

B. Financial Reporting Entity

Success Academy (the School), is a nonprofit corporation that was formed, and began operating in June 2015. The School is sponsored by Innovative Quality Schools and operates under a contract ends June 30, 2020. The primary objective of Success Academy is to educate students to become environmentally responsible, socially conscious, and scholastically prepared for college and active community life. The governing body consisted of a board of directors composed of the three founding directors, and will expand by the end of the third year to nine members elected at an annual meeting by voters of the general membership of the School to serve three-year terms.

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 Success Academy. Therefore, the School is not considered a component unit of Innovative Quality Schools.

Student activity accounts are under control of the School Board and are included in these financial statements as part of the General Fund.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

School-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 are 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 School-wide financial statements.

Separate Fund financial statements are provided for governmental funds.

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 school-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.

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:

SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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.

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. Community education tuition and other miscellaneous revenue (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.

The School reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the School has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

Description of Funds

As required by state statute, Success Academy 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 equity, revenues, and expenditures. A description of the School's funds included in this report is as follows:

D. Measurement Focus and Basis of Accounting (Continued)

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 of the School, as well as the capital related activities such as maintenance of facilities and equipment purchases.

Food Service Special Revenue Fund

This fund is used to account for food service revenues and expenditures.

E. Income Taxes

The School has 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 U.S. generally accepted accounting principles. Each June, the School Board adopts an annual budget for the following fiscal year for each fund. 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 in relation to the original appropriations.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

At the end of each fiscal year, if the General Fund has a net unreserved deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota schools which excludes certain reserves 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. Expense is allocated over the periods benefitted.

J. Deferred outflows/inflows or resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Retirement Plans

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of TRA and PERA and additions to/deductions from TRA's and PERA's fiduciary net position have been determined on the same basis as they are reported by TRA and PERA.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association in 2015. Additional information can be found in Note 4.

M. Accrued Employee Benefits

Unpaid sick and personal leave is not accrued in any funds as these benefits do not vest to employees.

N. Fund Balance

In the fund financial statements, governmental funds report non-spendable portions of fund balance related to prepaid items. Unassigned fund balances are considered the remaining amounts in the General Fund. The spending priority for the 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 and then unassigned amounts.

The School goal is to maintain a fund balance of 20% of the next year's budgeted general fund expenditures after its fifth year.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. 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.

P. 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 accumulated 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.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

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 combined balance sheet as "Cash and Investments." 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 at 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, 2017 in the amount of \$137, 150 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 3 RETIREMENT PLANS

Substantially all employees of the School are required by state law to belong to pension plans administered by Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), both of which are cost-sharing multiple-employer defined benefit pension plans administered on a statewide basis. Disclosures relating to these plans are as follows:

A. PLAN DESCRIPTIONS

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

Teachers employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by Minnesota State 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.

The School also participates in the General Employees Retirement Plan (GERF), which is administered by PERA in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code. All full-time and certain part-time employees of the School, other than teachers, are covered by GERF. GERF members belong to either the Basic Plan (without Social Security coverage) or the Coordinated Plan (with Social Security coverage). The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. BENEFITS PROVIDED

TRA

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.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 3 RETIREMENT PLANS (CONTINUED)

Two methods (Tier I and Tier II) are used to compute benefits for TRA's Basic and Coordinated Plan members.

Tier 1 Benefits

<u>Tier 1</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years if Service Years are Up to July 1, 2006	1.2% per Year
	First Ten Years, if Service years are Up to 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

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.

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.

PERA

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

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

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

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).

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 3 RETIREMENT PLANS (CONTINUED)

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

C. CONTRIBUTIONS

Employee and employer contribution rates are established by Minnesota Statutes. Rates for the years ended June 30, 2016 and 2017 are as follows:

	<u>Employee</u>	<u>Employer</u>
TRA - Basic Plan	11.0%	11.50%
TRA - Coordinated Plan	7.50%	7.50%
PERA - Basic Plan	9.10%	11.78%
PERA - Coordinated Plan	6.50%	7.50%

The School's contributions to TRA and PERA for the plan's fiscal year ended June 30, 2017 were \$23,991 and \$7,006, which was equal to the required contributions as set by state statute.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 3 RETIREMENT PLANS (CONTINUED)

D. NET PENSION LIABILITY

The net pension liability reported at June 30, 2017 was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the measurement date. The School's proportionate share of the net pension liability was based on its contributions to each respective plan in relation to total contributions to the plan. For TRA, total contributions to the plan include direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. Pension-related assets reported by the School relating to TRA and PERA are \$0.

The School's net pension liability, its proportionate share of the plan's net pension liability, the direct aid, and total portion of the net pension liability that was associated with the School was as follows:

	<u>TRA</u>	<u>PERA</u>	<u>Total</u>
Net pension liability	\$262,376	\$40,598	\$302,974
Proportionate share of net pension liability: Measurement date	0.0011%	0.0005%	
Prior measurement date	NA	NA	
Pension expense	\$49,365	\$12,063	\$61,428

On June 30, 2017, the School reported deferred outflows and inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	2,690	3,305
Changes in Assumptions	158,373	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	27,025	
Changes in Proportion	77,459	
School Contributions Subsequent to the Measurement Date	<u>30,997</u>	
Total	<u>\$ 296,544</u>	<u>\$ 3,305</u>

The pension liability related to TRA reflected a reduction due to direct aid provided to TRA. The amount recognized by the School as its proportionate share of the net pension liability, the direct aid, and the total portion of the net pension liability that was associated with the School were \$262,376 and \$340,598, respectively. In addition, pension expense related to

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 3 RETIREMENT PLANS (CONTINUED)

TRA includes recognition of \$3,646 as an increase to pension expense for the support provided by direct aid.

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

<u>TRA</u>		<u>PERA</u>	
	Pension Expense		Pension Expense
<u>Year ended</u>	<u>Amount</u>	<u>Year ended</u>	<u>Amount</u>
2018	\$ 44,003	2018	\$ 6,918
2019	\$ 44,003	2019	\$ 6,918
2020	\$ 44,003	2020	\$ 6,918
2021	\$ 44,003	2021	\$ 6,918
2022	\$ 40,436	2022	\$ 3,192

E. ACTUARIAL ASSUMPTIONS

TRA

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Information

Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	4.66%
Price inflation	2.75%
Wage growth rate	3.5%
Projected salary increase	3.5 – 9.5
Cost of living adjustment	2.0%

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 3 RETIREMENT PLANS (CONTINUED)

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 projection uses the MP-2015 scale. Post-disability: RP-2014 disabled retiree mortality table, without adjustment.

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 TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 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 5 years as required by GASB 68.

PERA

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Measurement date	June 30, 2016
Valuation date	June 30, 2016
Inflation	2.75% per year

Active member payroll growth	3.50% per year
Investment rate of return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% effective every January 1st until 2034 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies. The experience study in the GEF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. There were no changes in actuarial assumptions in 2015.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 3 RETIREMENT PLANS (CONTINUED)

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

PERA

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

TRA and PERA

The target allocation and best estimates of 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	45%	5.50%
International stocks	15%	6.00%
Bonds	18%	1.45%
Alternative assets	20%	6.40%
Unallocated cash	2%	0.50%
Total	<u>100%</u>	

F. DISCOUNT RATE

The discount rates used to measure the total pension liability for TRA and PERA were 4.66% and 7.5%, (a decrease from 8.00% and 7.90% respectively).

The projection of cash flows used to determine the discount rate assumed that employee, employer, and state contributions, if any, will be made at current statutorily required rates. Based on those assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 3 RETIREMENT PLANS (CONTINUED)

G. PENSION LIABILITY SENSITIVITY

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

District proportionate share of NPL

Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
GERF Discount Rate	6.50%	7.50	8.50%
School's Proportionate Share of the GERF Net Pension Liability	\$ 57,661	\$ 40,598	\$ 26,542
TRA Discount Rate	3.66%	4.66%	5.66%
School's Proportionate Share of the TRA net Net Pension Liability	\$ 338,006	\$ 262,376	\$ 200,778

H. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about the plans' fiduciary net position is available in a separately-issued financial report. Those reports can be obtained at www.MinnesotaTRA.org, 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, or at www.mnpera.org. Alternatively, a copy of the report may be obtained by writing PERA at Public Employees' Retirement Association, 60 Empire Drive Suite 200, St. Paul MN 55103-2088, or calling 651-296-7460 or 800-652-9026.

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 4 INTER-FUND TRANSACTIONS AND BALANCES

Transfers consist of the following for the year ended June 30, 2017:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Reason</u>
General	Food Service	\$ 27,714	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.

NOTE 5 LONG-TERM LIABILITIES

The School repaid \$15,000 to Diyar Real Estate, LLC in fiscal year 2017. Long-term liability activity for the year ended June 30, 2017 was as follows:

	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>
	Balance	Additions	Reductions	Balance	One Year
Governmental activities:					
Note Payable	15,000	-	(15,000)	-	-
Total governmental activity					
long-term liabilities	\$ 15,000	\$ -	\$ (15,000)	\$ -	\$ -

**SUCCESS ACADEMY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017**

NOTE 6 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 Lake Nokomis Lutheran Church effective July 1, 2017 through June 30, 2019 for \$9,583.33 monthly for fiscal year 2017.

Future minimum lease payments are as follows:

<u>Year Ended</u>	<u>Total Payments</u>
30-Jun-17	144,000
30-Jun-18	<u>156,000</u>
	<u><u>\$300,000</u></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.

REQUIRED SUPPLEMENTARY INFORMATION

**SUCCESS ACADEMY
 CHARTER SCHOOL NO. 4232
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 FOR THE YEAR ENDED JUNE 30, 2017**

Measurement Date	Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability	Proportionate Share (Amount) of the Net Pension Liability	Covered- Employee Payroll	Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a percentage of the total Pension Liability
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Teacher's Retirement Association

June 30, 2016	June 30, 2017	0.0011%	\$262,376	\$319,880	82.0%	44.88%
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PERA - General Employees Retirement Fund

June 30, 2016	June 30, 2017	0.0005%	\$40,598	\$93,413	43.5%	68.9%
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The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2017 and is intended to show a ten year trend. Additional years will be reported as they become available.

**SUCCESS ACADEMY
 CHARTER SCHOOL NO. 4232
 SCHEDULE OF SCHOOL CONTRIBUTIONS
 FOR THE YEAR ENDED JUNE 30, 2017**

Fiscal Year Ending	Statutorily Required Contribution	Contributions in Relation the the Statutorily Required Contribution	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
Teacher's Retirement Association					
30-Jun-17	\$23,991	\$23,991	\$0	\$319,880	7.50%
PERA - General Employees Retirement Fund					
30-Jun-17	\$7,006	\$7,006	\$0	\$93,413	7.50%

The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2017 and is intended to show a ten year trend. Additional years will be reported as they become available.

SUPPLEMENTAL INFORMATION

**SUCCESS ACADEMY
UNIFORM FINANCIAL ACCOUNTING AND REPORTING
STANDARDS COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2017**

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				02 FOOD SERVICE			
Total Revenue	\$ 1,296,271	\$ 1,296,270	\$ 1	Total Revenue	\$ 51,125	\$ 51,125	\$ -
Total Expenditures	\$ 1,148,180	\$ 1,148,180	\$ -	Total Expenditures	\$ 78,839	\$ 78,839	\$ -
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$ 20,529	\$ 20,529	\$ -	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	\$ -	\$ -	\$ -				
4.72 Medical Assistance	\$ (560)	\$ (560)	\$ -				
Retricted:							
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	\$ 99,679	\$ 99,679	\$ -				

OTHER REQUIRED REPORTS

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

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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 Members of the Board of Education
Success Academy
Minneapolis, 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, each major fund for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Success Academy's basic financial statements, and have issued our report thereon dated December 18, 2017.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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, MN

December 18, 2017

CHUCK RINKEY, LTD.

CERTIFIED PUBLIC ACCOUNTANT

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REPORT ON COMPLIANCE WITH MINNESOTA LAWS AND REGULATIONS

Members of the School Board
Success Academy
Minneapolis, Minnesota

I have audited the financial statements of the governmental activities and each major fund of Success Academy, as of and for the year ended June 30, 2017, which collectively comprise the School's basic financial statements and have issued my report thereon dated December 18, 2017.

I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat 6.65. Accordingly, the audit included such tests of the accounting records and such auditing procedures I considered necessary in the circumstances.

The Minnesota Legal Compliance Audit Guide for Political Subdivisions promulgated by the State Auditor pursuant to Minn. Stat. 6.65 identifies two main categories of compliance to be tested: uniform financial accounting and reporting standards, and charter schools. My study included both of the listed categories.

The results of my tests indicate that, with respect to the items tested, the School complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings.

This report is intended solely for the information and use of the Board, management of the School, and the state of Minnesota and is not intended to be and should not be used by anyone other than these specified parties.

Chuck Rinkey, Ltd.

Chuck Rinkey, Ltd.
Minneapolis, MN

December 18, 2017