NEW DISCOVERIES MONTESSORI ACADEMY
HUTCHINSON, MINNESOTA

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2018

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

NEW DISCOVERIES MONTESSORI ACADEMY
HUTCHINSON, MINNESOTA
TABLE OF CONTENTS

INTRODUCTORY
SECTION

NEW DISCOVERIES MONTESSORI ACADEMY
BOARD OF DIRECTORS AND ADMINISTRATION
FOR THE YEAR ENDED JUNE 30, 2018

BOARD OF DIRECTORS

Name	Title	Term Expires
Tara Oberg	Chairperson	June 30, 2018
Tony Ashwill	Treasurer	June 30, 2018
Shari Colvin	Secretary	June 30, 2019
Patti Cogley	Member	June 30, 2020
Peggy Enerson	Member	June 30, 2018
Jennie Pirnie	Member	June 30, 2020
Patrick Selchert	Member	June 30, 2020
Amanda Sundblad	Member	June 30, 2019

ADMINISTRATION

Name	Title
Dave Conrad	Executive Director
Kirsten Kinzler	Associate Director
Tara Erickson	Administrative Assistant

NEW DICOVERIES AFFILIATED BUILDING COMPANY

Name	Title
Kirsten Kinzler	President
Dave Conrad	Treasurer
Tara Erickson	Secretary

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

December 6, 2018

Members of the Board of Directors
New Discoveries Montessori Academy
Hutchinson, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of New Discoveries Montessori Academy, Hutchinson, Minnesota (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School'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 School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

St. Cloud 320.251.0286 | Little Falls 320.632.6311 | Albany 320.845.2940 | Maple Lake 320.963.5414 | Monticello 763.295.5070

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of New Discoveries Montessori Academy, Hutchinson, Minnesota as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Supplementary Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The introductory section, combining nonmajor governmental funds, and the Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

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

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated December 6, 2018 on our consideration of New Discoveries Montessori Academy's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the School has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

Schlenner Wenner & Co.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

REQUIRED SUPPLEMENTARY INFORMATION

NEW DISCOVERIES MONTESSORI ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

As management of New Discoveries Montessori Academy (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2018.

FINANCIAL HIGHLIGHTS

- The liabilities and deferred inflows of resources of the School exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by $2,088,493 (negative net position). Of this amount, negative $2,207,972 is the unrestricted portion of net position.

- The School's total net position decreased $455,493 as a result of current year operations.

- At the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of $183,807, a decrease of $68,110 in comparison with the prior year. Approximately 92 percent of this amount, $163,377, is available for spending at the School's discretion.

- At the end of the current fiscal year, unassigned fund balance for the General Fund is $247,392 or 6 percent of total General Fund expenditures.

- The School's long-term debt decreased by $27,533 (28 percent) in the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The major features of the School's financial statements, including the portion of the School's activities they cover and the types of information they contain, are summarized in the following table. The remainder of the overview section of the Management Discussion and Analysis highlights the structure and contents of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

	Government-Wide	Fund Financial Statements
		Governmental Funds
Scope	Entire Charter School	All of the activities of the School, such as regular instruction, special education, support services, building lease, food service, and community education
Required financial statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenue, Expenditures, and Changes in Fund Balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Type of asset/deferred outflows/liability/ deferred inflows information	All assets, deferred outflows, liabilities, and deferred inflows of resources both financial and capital short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon there after; no capital assets or long-term liabilities included
Type of outflow/inflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

Government-Wide Financial Statements
The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the School's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the net difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *Statement of Activities* presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the School that are principally supported by intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the School include administration, school support services, regular instruction, exceptional instruction, community education and services, instructional support services, pupil support services, sites and buildings, and fiscal and other fixed cost programs. The School currently does not report any business-type activities.

The government-wide financial statements start on page 15 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements
A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Although governments often report multiple types of funds, all of the funds of the School are classified as governmental funds.

Governmental Funds
Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The School maintains two individual major governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and Building Company Fund, which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The School adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 17 of this report.

Notes to the Financial Statements
The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 21 of this report.

Other Information
The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining fund statements start on page 49 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources, for a net balance of negative $2,088,493 at the close of the most recent fiscal year.

A significant portion of the School's net position reflects its investment in capital assets (e.g., leasehold improvements, buildings and improvements, equipment and construction in process), less any related debt used to acquire those assets is still outstanding. The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the School's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position
Table 1

	Governmental Activities		
	2018	2017	Increase (Decrease)
Assets			
Current and Other Assets	$ 841,213	$ 516,179	$ 325,034
Capital Assets	232,880	182,532	50,348
Total Assets	1,074,093	698,711	375,382
Deferred Outflows of Resources	2,260,073	2,553,390	(293,317)
Liabilities			
Current and Other Liabilities	657,406	264,262	393,144
Noncurrrent Liabilities	3,966,458	4,323,178	(356,720)
Total Liabilities	4,623,864	4,587,440	36,424
Deferred Inflows of Resources	798,795	297,661	501,134
Net Position			
Net Investment in Capital Assets	119,479	41,598	77,881
Unrestricted	(2,207,972)	(1,674,598)	(533,374)
Total Net Position	$ (2,088,493)	$ (1,633,000)	$ (455,493)

The unrestricted balance of net position may be used to meet the School's ongoing obligations to citizens and creditors. The balance of unrestricted net position was negative $2,207,972 at year end.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Net Position
The School's net position decreased $455,493 during the most recent fiscal year. Key elements of this increase are as follows:

Changes in Net Position
Table 2

	Governmental Activities		
	2018	2017	Increase (Decrease)
Revenues			
Program Revenues:			
Charges for Services	$ 93,499	$ 96,892	$ (3,393)
Operating Grants and Contributions	2,278,604	1,930,992	347,612
General Revenues:			
State Aid Not Restricted to Specific Programs	1,478,514	1,292,543	185,971
Earnings on Investments	81	83	(2)
Miscellaneous	45,352	21,647	23,705
Total Revenues	3,896,050	3,342,157	553,893
Expenses			
Administration	190,294	184,380	5,914
District Support Services	200,491	183,405	17,086
Regular Instruction	793,514	698,513	95,001
Exceptional Instruction	1,656,189	1,474,076	182,113
Community Education and Services	23,371	23,782	(411)
Instructional Support Services	64,190	49,111	15,079
Pupil Support Services	872,478	653,527	218,951
Sites and Buildings	534,572	450,037	84,535
Fiscal and Other Fixed Costs Programs	16,444	14,656	1,788
Total Expenses	4,351,543	3,731,487	620,056
Change in Net Position	(455,493)	(389,330)	(66,163)
Net Position - Beginning of Year	(1,633,000)	(1,243,670)	(389,330)
Net Position - End of Year	$ (2,088,493)	$ (1,633,000)	$ (455,493)

Some significant items to note include the following:

- Revenues from Operating Grants and Contributions increased $347,612 primarily due to the State and Federal revenue sources for Exceptional Instruction.
- Pupil Support Services increased $218,951 primarily due to contracted transportation services in the current year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Total and Net Cost of Governmental Activities
The net cost of governmental activities is their total costs less program revenues applicable to each category. The following table presents these total and net costs.

Total and Net Costs of Services

Table 3

	Total Cost of Services			Net Revenue (Cost) of Services		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Administration	$ 190,294	$ 184,380	$ 5,914	$ (190,294)	$ (184,380)	$ (5,914)
District Support Services	200,491	183,405	17,086	(200,491)	(183,405)	(17,086)
Regular Instruction	793,514	698,513	95,001	(675,785)	(546,422)	(129,363)
Exceptional Instruction	1,656,189	1,474,076	182,113	183,022	49,552	133,470
Community Education and Services	23,371	23,782	(411)	(4,361)	(4,617)	256
Instructional Support Services	64,190	49,111	15,079	(64,190)	(49,111)	(15,079)
Pupil Support Services	872,478	653,527	218,951	(728,651)	(535,540)	(193,111)
Sites and Buildings	534,572	450,037	84,535	(282,246)	(235,024)	(47,222)
Fiscal and Other Fixed Costs Programs	16,444	14,656	1,788	(16,444)	(14,656)	(1,788)
Totals	$4,351,543	$3,731,487	$ 620,056	$ (1,979,440)	$ (1,703,603)	$ (275,837)

Net costs related to Pupil Support Services increased $193,111 (36.1 percent) primarily due to increased contracted transportation service costs, as discussed above.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds
The focus of the School's *governmental funds* is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School's governmental funds reported combined ending fund balances of $183,807, a decrease of $68,110 in comparison with prior year. The following is a summary of the School's major funds:

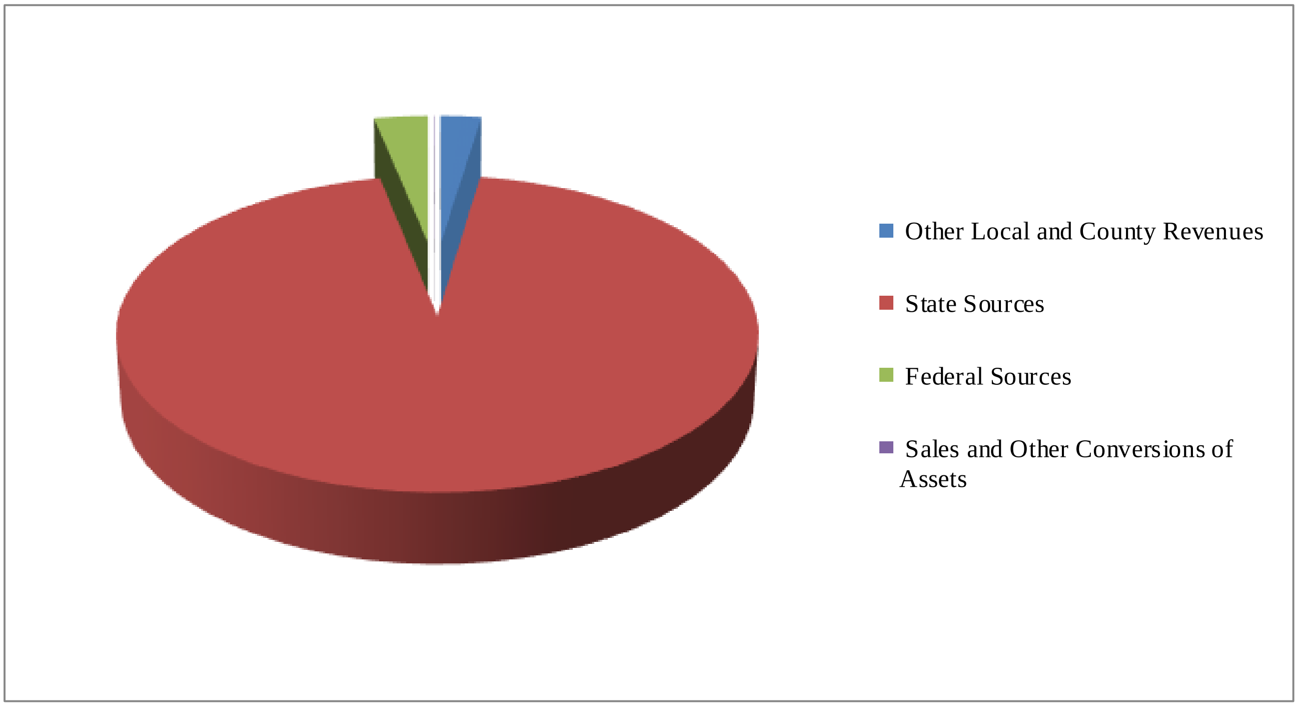
	Fund Balance June 30,		Increase
Major Funds	2018	2017	(Decrease)
General	$ 262,137	$ 246,594	$ 15,543

The fund balance of the General Fund increased by $15,543. Revenues decreased approximately 18.0 percent from the prior year, while expenditures decreased approximately 18.4 percent.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS (Continued)

Governmental Funds (Continued)

General Fund Revenues

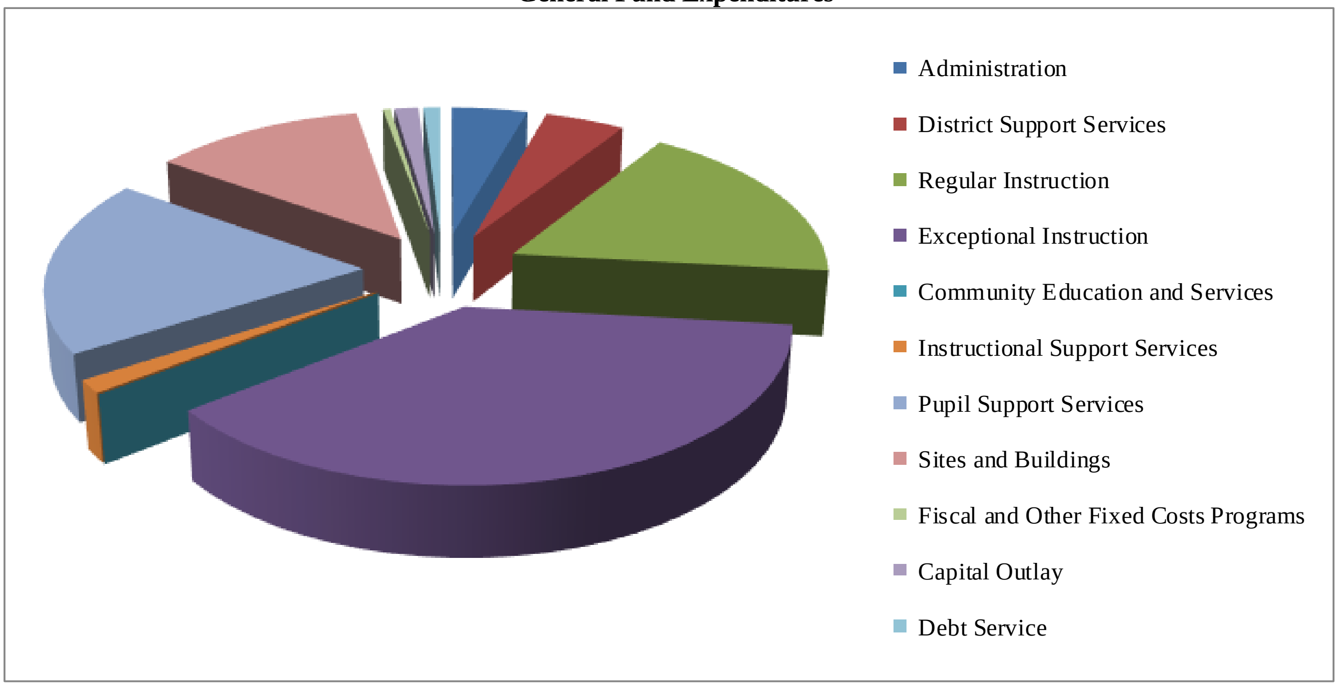


The School receives the vast majority of its funding in the General Fund from the State of Minnesota (94 percent), which is subject to fluctuation based on the number of pupils served by the School and changes in State legislation. In addition, the School receives approximately 3 percent of its General Fund revenues from Federal sources.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS (Continued)

Governmental Funds (Continued)

General Fund Expenditures



A significant portion of the School's General Fund expenditures are used for regular and exceptional instruction (55 percent). Expenditures for various support services total 25 percent, and the remaining 20 percent consists of expenditures for administration, sites and buildings and other items.

Major Funds	Fund Balance June 30, 2018	Increase (Decrease)
Building Company	$ (78,330)	$ (78,330)

The period ended June 30, 2018 was the Building Company's first period of operations. Therefore, the Building Company did not have a prior fund balance.

General Fund Budgetary Highlights
The School's General Fund budget was amended during the year. The revenues budget was increased by $404,415, and the expenditures budget was changed in several functions for an overall increase of $353,968 from original to final. The final budget called for expenditures of $3,771,348 and a decrease in fund balance of $19,853.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The School's investment in capital assets for its governmental activities as of June 30, 2018, amounts to $232,880 (net of accumulated depreciation). This investment in capital assets consists of leasehold improvements, buildings and improvements, equipment and furniture and construction in process. The total increase in the School's investment in capital assets for the current fiscal year was approximately 48 percent.

Major capital asset events during the current fiscal year included the purchase of computers, a lawnmower, and a classroom remodeling project.

Capital Assets Net of Depreciation

Table 4

	Governmental Activities		
	2018	2017	Increase (Decrease)
Leasehold Improvements	$ 101,722	$ 110,766	$ (9,044)
Buildings and Improvements	6,612	-	6,612
Equipment and Furniture	84,020	71,766	12,254
Construction in Progress	40,526	-	40,526
Total	$ 232,880	$ 182,532	$ 50,348

Additional information on the School's capital assets can be found in on page 27 of this report.

Long-Term Debt

At the end of the current fiscal year, the School had total long-term debt outstanding of $113,401, excluding the net pension liability of $3,853,057. A summary of long-term debt activity for the year ended June 30, 2018 follows:

Long-Term Debt

Table 5

	Governmental Activities		
	2018	2017	Increase (Decrease)
Capital Leases	$ 113,401	$ 140,934	$ (27,533)

The School's total debt decreased by $27,533 (28 percent) during the current fiscal year. Additional information on the School's long-term debt can be found on page 30 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The School's appointed and elected officials considered many factors when setting the fiscal year 2019 budget. These factors included the following:

- The School's enrollment is projected to increase which will provide additional resources for operation of the School's educational programs.

- The School will receive an additional 2 percent in the general aid funding formula, based on legislative action. Funding increases, if any, beyond fiscal year 2019 will be determined by the State Legislature as part of their budget setting process.

- Budgets include normal inflationary increases in expenditures, with more significant increases expected in educational support staff, instructional materials, and equipment.

REQUESTS FOR INFORMATION

This financial report is designed to provide our students, taxpayers, authorizer, customers, investors and creditors with 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 New Discoveries Montessori Academy, 1000 5th Ave SE, Hutchinson, MN 55350.

BASIC FINANCIAL STATEMENTS

NEW DISCOVERIES MONTESSORI ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Cash and Temporary Investments	$ 58,202
Accounts Receivable	51,944
Due from Other MN School Districts	30,158
Due from Government Agencies	688,326
Inventory	5,237
Prepaids	7,346
Capital Assets not Being Depreciated	40,526
Capital Assets Being Depreciated (Net)	192,354
TOTAL ASSETS	1,074,093
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	2,260,073
LIABILITIES	
Accounts Payable	58,699
Salaries Payable	155,569
Due to Other Governments	32
Payroll Deductions and Employer Contributions	34,295
Short-Term Debt	400,000
Accrued Interest	2,328
Unearned Revenue	6,483
Noncurrent Liabilities:	
Amount Due Within One Year	25,326
Amount Due After One Year	88,075
Net Pension Liability Due After One Year	3,853,057
TOTAL LIABILITIES	4,623,864
DEFERRED INFLOWS OF RESOURCES	
Pensions	798,795
NET POSITION	
Net Investment in Capital Assets	119,479
Unrestricted	(2,207,972)
TOTAL NET POSITION	$ (2,088,493)

See Accompanying Notes.

NEW DISCOVERIES MONTESSORI ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense)/ Revenue
Governmental Activities:				
Administration	$ 190,294	$ -	$ -	$ (190,294)
District Support Services	200,491	-	-	(200,491)
Regular Instruction	793,514	19,105	98,624	(675,785)
Exceptional Instruction	1,656,189	30,158	1,809,053	183,022
Community Education and Services	23,371	3,484	15,526	(4,361)
Instructional Support Services	64,190	-	-	(64,190)
Pupil Support Services	872,478	40,752	103,075	(728,651)
Sites and Buildings	534,572	-	252,326	(282,246)
Fiscal and Other Fixed Costs Programs	16,444	-	-	(16,444)
Total Governmental Activities	$ 4,351,543	$ 93,499	$ 2,278,604	(1,979,440)
General Revenues:				
State Aid Not Restricted to Specific Programs				1,478,514
Earnings on Investments				81
Miscellaneous				45,352
Total General Revenues				1,523,947
CHANGE IN NET POSITION				(455,493)
NET POSITION - BEGINNING OF YEAR				(1,633,000)
NET POSITION - END OF YEAR				$ (2,088,493)

See Accompanying Notes.

NEW DISCOVERIES MONTESSORI ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Building Company Fund	Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Temporary Investments	$ 58,202	$ -	$ -	$ 58,202
Accounts Receivable	50,397	-	1,547	51,944
Due from Other Funds	81,248	-	-	81,248
Due from Other MN School Districts	30,158	-	-	30,158
Due from Government Agencies	688,118	-	208	688,326
Inventory	-	-	5,237	5,237
Prepaids	6,898	-	448	7,346
TOTAL ASSETS	$ 915,021	$ -	$ 7,440	$ 922,461
LIABILITIES				
Accounts Payable	$ 57,260	$ -	$ 1,439	$ 58,699
Salaries Payable	155,569	-	-	155,569
Due to Other Governments	32	-	-	32
Payroll Deductions and Employer Contributions	34,295		-	34,295
Due to Other Funds	-	78,330	2,918	81,248
Short-Term Debt	400,000	-	-	400,000
Accrued Interest Payable	2,328	-	-	2,328
Unearned Revenue	3,400	-	3,083	6,483
Total Liabilities	652,884	78,330	7,440	738,654
FUND BALANCES				
Nonspendable	6,898	-	5,685	12,583
Restricted	2,662	-	-	2,662
Committed	5,185	-	-	5,185
Unassigned	247,392	(78,330)	(5,685)	163,377
Total Fund Balances	262,137	(78,330)	-	183,807
TOTAL LIABILITIES AND FUND BALANCES	$ 915,021	$ -	$ 7,440	$ 922,461

NEW DISCOVERIES MONTESSORI ACADEMY
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances - Governmental Funds		$ 183,807
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 governmental funds:		
Capital Assets	$ 689,712	
Construction in Progress	40,526	
Accumulated Depreciation	(497,358)	
Capital Assets (Net)		232,880
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds Balance Sheet:		
Capital Lease Payable		(113,401)
The net pension liability and related outflows/inflows represent the allocation of the pension obligations of the statewide plans to the School. Such balances are not reported in the funds:		
Net Pension Liability	(3,853,057)	
Deferred Outflows - Pensions	2,260,073	
Deferred Inflows - Pensions	(798,795)	
		(2,391,779)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (2,088,493)

See Accompanying Notes.

NEW DISCOVERIES MONTESSORI ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Building Company Fund	Nonmajor Funds	Total Governmental Funds
REVENUES				
Other Local Revenues	$ 89,170	$ -	$ 3,484	$ 92,654
State Sources	3,514,721	-	27,406	3,542,127
Federal Sources	117,563	-	91,195	208,758
Sales and Other Conversions of Assets	1,485	-	40,752	42,237
TOTAL REVENUES	3,722,939	-	162,837	3,885,776
EXPENDITURES				
Current:				
Administration	162,676	-	-	162,676
District Support Services	172,097	7,295	-	179,392
Regular Instruction	658,259	-	-	658,259
Exceptional Instruction	1,398,459	-	-	1,398,459
Community Education and Services	-	-	19,010	19,010
Instructional Support Services	52,715	-	-	52,715
Pupil Support Services	700,426	-	150,310	850,736
Sites and Buildings	458,288	25,209	-	483,497
Fiscal and Other Fixed Costs Programs	16,444	-	-	16,444
Capital Outlay	51,339	45,826	-	97,165
Debt Service:				
Principal	35,533	-	-	35,533
TOTAL EXPENDITURES	3,706,236	78,330	169,320	3,953,886
DEFICIENCIES OF REVENUES UNDER EXPENDITURES	16,703	(78,330)	(6,483)	(68,110)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	1,160	1,160
Transfers Out	(1,160)	-	-	(1,160)
TOTAL OTHER FINANCING SOURCES (USES)	(1,160)	-	1,160	-
NET CHANGE IN FUND BALANCES	15,543	(78,330)	(5,323)	(68,110)
FUND BALANCES - BEGINNING	246,594	-	5,323	251,917
FUND BALANCES - ENDING	$ 262,137	$ (78,330)	$ -	$ 183,807

NEW DISCOVERIES MONTESSORI ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Total Governmental Funds		$ (68,110)
Amounts reported for governmental activities in the Statement of Activities are different due to the following:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense:		
Capital Outlay Capitalized	$ 88,074	
Donated Assets	4,041	
Assets Acquired via Capital Lease	8,000	
Loss on Disposal	(41)	
Depreciation Expense	(49,727)	
		50,347
The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The amounts below are the effects of these differences in the treatment of long term debt:		
Debt Incurred Under Capital Lease	(8,000)	
Lease Payments	35,533	
		27,533
Net pension liability does not represent the impending use of current resources. Therefore, the change in this liability and the related deferrals are not reported in the governmental funds:		(465,263)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (455,493)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Discoveries Montessori Academy (the School) is an educational entity established in December 2005 in accordance with Minnesota Statutes. The School is authorized by Audubon Center of the North Woods and is operating under a two-year contract extending through the 2019-2020 school year. The School is directed by an elected eight-member Board of Directors (the Board). The Board exercises legislative authority and determines all matters of policy. The Board appoints personnel responsible for the proper administration of all affairs relating to the School. The accompanying financial statements present the government entities for which the School is considered to be financially accountable.

1.A. FINANCIAL REPORTING ENTITY

The School has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include (1) appointing a voting majority of an organization's governing body, and the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. In accordance with Minnesota State Statutes, the School's Board has elected to control and exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are included in the basic financial statements as part of the General Fund.

Aside from its authorizer relationship, Audubon Center of the North Woods has no authority, control, power or administrative responsibilities over New Discoveries Montessori Academy. Therefore, the School is not considered a component unit of Audubon Center of the North Woods.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Board of Directors or the component unit provides services entirely to the School. These component units' funds are blended into those of the School's by appropriate activity type to compose the primary government presentation. The School's blended component unit consists of:

<u>New Discoveries Affiliated Building Company (NDABC)</u>
The NDABC was established in 2017 as a nonprofit organization formed solely for the purpose of maintaining and managing a building rented to New Discoveries Montessori Academy. The anticipated future revenues of the NDABC consist primarily of the loan debt proceeds and rent received from the School, and the future mortgage debt of the NDABC is expected to be guaranteed by the School as the sole tenant. The financial activity of the NDABC has been incorporated into the School's basic financial statements.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the School has no discretely presented component units.

1.B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government. For the most part, interfund activities have been removed from these statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

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

1.C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements of New Discoveries Montessori Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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 as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenses are classified by function for governmental activities.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due. In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character	Current (further classified by function)
	Capital Outlay
	Debt Service

Intergovernmental revenue and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when received by the School.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as unearned revenue in the fund financial statements.

The School reports the following major governmental funds:

> The G*eneral Fund* is the School's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
>
> The *Building Company Fund* is a special revenue fund used to account for the financial activity of the building company, including resources used for the acquisition or construction of major capital facilities authorized by bond issue and payment of charter school lease revenue bonds, interest and related costs.

Additionally, the government reports the following fund type:

> The *Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements.

In the government-wide financial statements, amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, if any. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

1.D. USE OF ESTIMATES

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

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY

Deposits 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 participation by each of the funds. Temporary cash investments are stated at cost which approximates fair value. Investments in external investment pools, if any, are valued at the pool's share price.

See Note 3.A. for additional information related to Deposits and Investments.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY (Continued)

Due from Other Governments

Amounts due from the Minnesota Department of Education, from the Federal Government through the Department of Education and from other governmental units for general education aids and reimbursements under various specific programs are reported at the estimated amounts to be received based on available information at the date of this report. In some instances, adjustments and proration by these agencies, which are dependent upon the amount of funds available for distribution, and may result in differing amounts actually being received. Any such differences will be absorbed into operations as of the subsequent period.

Inventory

Inventory is recorded using the consumption method of accounting and consists of purchased food, supplies and surplus commodities received from the Federal Government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

Prepaids

Prepaid expenses consist of amounts paid during the year ended June 30, 2018 which will benefit future periods. Included in this amount are services and supplies purchased for use in subsequent periods.

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 acquisition value at the date of donation. The School maintains a threshold level of $500 or more for capitalizing capital assets. The system for accumulation of capital asset cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the School, no salvage value is taken into consideration for depreciation purposes. Capital assets consist of leasehold improvements, buildings and improvements, and equipment owned by the School which are being depreciated over useful lives varying from five to twenty-five years, along with construction in process which is not depreciated.

Accrued Payroll Liabilities

Salaries pertaining to the school year ended June 30, 2018, which are payable in July and August 2018, are accrued as of June 30, 2018, and are shown as a liability on the accompanying financial statements. Liabilities for payroll taxes, amounts withheld from payroll checks and benefits accrued are also included.

Short Term Debt

The School’s short-term debt consists of lines of credit held with a local financial institution to assist in financing immediate operating expenditures.

Unearned Revenue

Unearned revenue consists of local revenue received but not yet earned. Such amounts typically consist of grants and entitlements received before eligibility requirement are met.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY (Continued)

Compensated Absences

Unused paid time off at year end does not carry forward to subsequent years, and employees are not compensated for unused paid time off upon termination. Therefore, no amount has been accrued for accrued paid time off in the financial statements.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts are deferred and are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Pension Liability

The net pension liability represents the School's allocation of their pro-rata share of the statewide General Employees Retirement Fund and Teachers Retirement Association net pension liability.

Pensions

PERA

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA. TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School Academy. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association in 2015.

Interfund Transactions and Balances

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. If short-term in nature or incurred through goods and service type transactions, such interfund balances are reported as "due to/from other funds." Long-term interfund loans are reported as "advances to/from other funds." Interfund transactions and balances between governmental funds are eliminated in the Statement of Net Position. Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers.

See additional information related to Interfund Transactions and Balances at Note 3.F.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY (Continued)

Fund Balance (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods and, therefore, will not be recognized as an outflow of resources (expense) until that time. The School reports deferred outflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which School employees participate.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This element represents an acquisition of net position that applies to future periods and, therefore, will not be recognized as an inflow of resources (revenue) until that time. The School reports deferred inflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which School employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

See Note 4 for additional information pertaining to the deferred outflows and deferred inflows of resources recorded to account for pension activities.

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the School is bound to observe constraints imposed upon the use of resources reported in the governmental funds.

These classifications are defined as follows:

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or they are legally or contractually required to be maintained intact. The nonspendable fund balance at June 30, 2018 consists of prepaid expenditures and inventory.

Restricted – Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed – Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the Board of Directors (the Board), which is the School's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned – Amounts that are neither restricted or committed but are constrained by the School's intent to be used for specific purposes. The Board currently has the authority to assign as it has not delegated this ability to an official.

Unassigned – The residual classification for the General Fund and also negative residual amounts in other funds, if any.

The School has formally adopted a policy under which it strives to maintain an unassigned fund balance greater than or equal to zero in each of its governmental funds.

When both restricted and unrestricted resources are available for use, it is the School's practice to first use restricted resources, and then use unrestricted resources as they are needed. If resources from more than one fund balance classification could be spent, the School will spend the resources from fund balance classifications in the following order: committed, assigned and unassigned, in accordance with the School's policy. See Note 3.E. for additional disclosures.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY (Continued)

Net Position

Net position represents the difference between the sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources. Net position is displayed in three components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquiring the capital assets.

Restricted Net Position – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

It is the School’s policy to consider restricted net position to its depletion before unrestricted net position is applied.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature, the School is subject to various Federal, State and local laws and contractual regulations. The School complies with all State and local laws and regulations requiring the use of separate funds.

2.A. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and major special revenue funds. Formal budgetary integration is employed as a management control device. All annual appropriations lapse at fiscal year-end. The School Board must approve revisions to budgeted amounts.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve the portion of the applicable appropriations, is employed by the School to assure effective budgetary control and to facilitate effective cash planning and control. All appropriations lapse at year-end. Encumbrance information, however, has not been incorporated into the financial statements. The School does not prepare a budget for the Building Company special revenue fund.

The School’s General Fund budget was amended during the year. The revenues budget was increased by $404,415 and the expenditures budget was changed in several functions for an overall increase of $353,968 from original to final. The final budget called for expenditures of $3,771,348 and a decrease in fund balance of $19,853. Budgeted expenditures of $3,771,348 exceeded actual expenditures by $65,112.

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. DEPOSITS AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the School maintains deposits in financial institutions designated by the School Board.

Minnesota Statutes require that all School deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The School complies with such laws.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated "A" or better;
- A revenue obligation of a state or local government, with taxing powers, rated "AA" or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity.
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- Time deposits insured by any federal agency.

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the School.

At June 30, 2018, the School's deposits were not exposed to custodial credit risk. The School's deposits were sufficiently covered by federal depository insurance or by collateral held by the School's agent in the School's name.

Investments

The School may also invest idle funds as authorized by *Minnesota Statutes* as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A: or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The School does not have any investment policies that would further limit investment choices. The School does not hold any investments as of June 30, 2018.

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.B. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not Being Depreciated				
Construction in Progress	$ -	$ 40,526	$ -	$ 40,526
Capital Assets, Being Depreciated				
Leasehold Improvements	142,556	-	-	142,556
Buildings and Improvements	-	6,887	-	6,887
Equipment and Furniture	500,976	52,702	13,409	540,269
Total Capital Assets Being Depreciated	643,532	59,589	13,409	689,712
Less Accumulated Depreciation for				
Leasehold Improvements	31,790	9,044	-	40,834
Buildings and Improvements	-	275	-	275
Equipment and Furniture	429,210	40,408	13,369	456,249
Total Accumulated Depreciation	461,000	49,727	13,369	497,358
Governmental Activities				
Capital Assets, Net	$ 182,532	$ 50,388	$ 40	$ 232,880

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

Governmental Activities	
District Support Services	$ 3,534
Regular Instruction	10,469
Exceptional Instruction	392
Instructional Support Services	8,503
Pupil Support Services	226
Sites and Buildings	26,603
Total Depreciation Expense - Governmental Activities	$ 49,727

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.C. SHORT-TERM DEBT

During the current year, the School issued a short-term promissory notes in the amount of $250,000 and $150,000 to assist in financing immediate operating expenditures. The notes have a variable interest rate calculated as the current index rate plus 1.00 percent. At June 30, 2018, such rate is 7.50 percent. The notes mature on November 1, 2018 and September 1, 2018. Aggregate current year activity is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Short-Term Promissory Notes	$ 68,000	$ 640,000	$ 308,000	$ 400,000

3.D. NONCURRENT LIABILITIES

Capital Leases

The School occasionally enters into lease/purchase agreements as a means for financing the acquisition of new equipment. Collateral pledged to under these agreements consists of the equipment acquired by the School through the lease/purchase agreements. Additional information, including the outstanding balance on the lease/purchase agreement at June 30, 2018, is as follows:

Description	Original Issue Amount	Interest Rate	Final Maturity Date	Balance Outstanding
Governmental Activities:				
Equipment/Improvements Capital Lease	$ 263,906	0.00%	12/31/2023	$ 101,323
IT Equipment Capital Lease	145,198	0.00%	9/30/2018	5,122
Lawnmower Capital Lease	8,000	0.00%	10/15/2021	6,956
	$ 417,104			$ 113,401

The carrying value of the assets acquired by the Equipment/Improvements Capital Lease is estimated to approximate the outstanding balance on the lease at June 30, 2018. The majority of the assets acquired with the IT Equipment Capital Lease are individually below the School's capitalization threshold. The assets acquired with this lease that are capitalized have a cumulative original cost of $34,404 and accumulated depreciation of $30,964, for a net carrying value of $3,440 at June 30, 2018. The assets acquired by the Lawnmower Capital Lease have an original cost of $8,299 and accumulated depreciation of $323, for a net carrying value of $7,976.

Changes in Noncurrent Liabilities

Long-term liability activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital Leases	$ 140,934	$ 8,000	$ (35,533)	$ 113,401	$ 25,326

Capital leases are typically funded through the General Fund.

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.D. NONCURRENT LIABILITIES (Continued)

Annual Debt Service Requirements

At June 30, 2018, the estimated annual debt service requirements to maturity for the capital leases are as follows:

Year Ended June 30,	Amount
2019	$ 25,326
2020	20,579
2021	20,579
2022	19,182
2023	18,490
2024	9,245
	$ 113,401

3.E. FUND BALANCE CLASSIFICATIONS

At June 30, 2018, governmental fund equity includes the following:

	General Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable:			
Prepaids	$ 6,898	$ 448	$ 7,346
Inventory	-	5,237	5,237
Total Nonspendable	$ 6,898	$ 5,685	$ 12,583
Restricted for:			
Medical Assistance	$ 2,662	$ -	$ 2,662
Committed for:			
Facility and Equipment Repairs and Maintenance	$ 5,185	$ -	$ 5,185

<u>Committed for Facility and Equipment Repairs and Maintenance</u> - This amount represents resources the School Board has formally committed for the repairs and maintenance of the School's facilities and equipment.

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.F. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances at June 30, 2018 are as follows:

Due To Fund	Due From Fund	Amount	Reason
General	Food Service	$ 2,918	To eliminate negative fund balance
General	Building Company	78,330	Reimbursement for expenses paid by the School
	Total Interfund Balances	$ 81,248	

The interfund balances above are to be repaid as cash flows become available in the Food Service and Building Company Funds, respectively.

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

Funds	Transfers Out	Transfers In Nonmajor Funds
General	$ 1,160	$ 1,160

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them 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 4 DEFINED BENEFIT PENSION PLANS - STATEWIDE

4.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

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

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

All full-time and certain part-time employees of the School, 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.

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 service.

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Benefits Provided (Continued)

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 Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years of service and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent 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 50.0 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.

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 6.50 percent, respectively, of their annual covered salary in fiscal year 2018. The School was required to contribute 7.50 percent for Coordinated Plan members. The School's contributions to the General Employees Fund for the year ended June 30, 2018 were $59,772. The School's contributions were equal to the required contributions for each year as set by State Statute.

Pension Costs

General Employees Fund Pension Costs

At June 30, 2018, the School reported a liability of $619,243 for its proportionate share of the General Employees Fund’s net pension liability. The School’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 School totaled $7,814. 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 School's proportion of the net pension liability was based on the School'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 School's proportionate share was 0.0097 percent, which was a decrease of 0.0002 percent from its proportion measured as of June 30, 2016.

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

For the year ended June 30, 2018 the School recognized pension expense of $29,460 for its proportionate share of the General Employees Plan's pension expense. In addition, the School recognized an additional $226 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.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 20,408	$ 42,413
Changes in actuarial assumptions	100,688	62,079
Differences between projected and actual investment earnings	-	31,204
Changes in proportion and differences between contributions made and the School's proportionate share of contributions	12,179	122,702
School's contributions subsequent to the measurement date	59,772	-
Total Deferred Outflows/Inflows	$ 193,047	$ 258,398

A total of $59,772 reported as deferred outflows of resources related to pensions resulting from School 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:

Year Ended June 30,	Pension Expense
2019	$ (83,208)
2020	$ (7,375)
2021	$ (8,254)
2022	$ (26,286)

Actuarial Assumptions

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

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

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

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 the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years for the General Employees Plan.

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:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.50 percent 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:

Asset Class	Target Allocation	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%
Cash	2%	0.00%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statute. Based on these assumptions, the fiduciary net position of the General Employees Fund 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.

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Pension Liability Sensitivity

The following table presents the School'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 School's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Sensitivity of Net Pension Liability at Current Single Discount Rate		
	Rates	Amounts
1% Increase in Discount Rate	8.50%	$339,868
Current Discount Rate	7.50%	$619,243
1% Decrease in Discount Rate	6.50%	$960,490

Pension Plan Fiduciary Net Position

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

4.B. TEACHERS RETIREMENT ASSOCIATION

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

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 on the next page.

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Benefits Provided (Continued)

Tier 1 Benefits

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

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) 3.0 percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated members and 2.7 percent per year for Basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent 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.

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Contribution Rate

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

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

The School's contributions to TRA for the plan's fiscal year ended June 30, 2018, were $74,104. The School's contributions were equal to the required contributions for each year as set by State Statute.

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.

	in thousands
Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	$367,791
Add 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 Allocations*	$403,733

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.

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information:	
Valuation date	July 1, 2017
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial Assumptions:	
Investment rate of return	5.12%, from the Single Equivalent Interest Rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for 10 years and 3.25%, thereafter
Projected salary increase	2.85 to 8.85% for 10 years and 3.25 to 9.25%, thereafter
Cost of living adjustment	2.0%
Mortality Assumptions:	
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 target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Unallocated Cash	2%	0.00%
Total	100%	

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Actuarial Assumptions (Continued)

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 5 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 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0% and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Discount Rate

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

Net Pension Liability

At June 30, 2018, the School reported a liability of $3,233,815 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The School's proportionate share was 0.0162% at the end of the measurement period and 0.0143% for the beginning of the year.

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Net Pension Liability (Continued)

The pension liability amount 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 total portion of the net pension liability that was associated with the School were as follows:

School's proportionate share of net pension liability	$3,233,815
State's proportionate share of the net pension liability associated with the School	$313,201

For the year ended June 30, 2018, the School recognized pension expense of $160,000. It also recognized $6,007 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 20,894	$ 22,698
Changes in actuarial assumptions	1,551,267	453,006
Differences between projected and actual investment earnings	-	42,535
Changes in proportion and differences between contributions made and the School's proportionate share of contributions	420,761	22,158
School's contributions subsequent to the measurement date	74,104	-
Total Deferred Outflows/Inflows	$ 2,067,026	$ 540,397

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

Year Ended June 30,	Pension Expense
2019	$ 365,982
2020	$ 410,807
2021	$ 375,997
2022	$ 319,331
2023	$ (19,592)

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Pension Liability Sensitivity

The following presents the net pension liability of TRA calculated using the discount rate of 5.12 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (4.12 percent) or one percentage point higher (6.12 percent) than the current rate.

Sensitivity of Net Pension Liability at Current Single Discount Rate		
	Rates	Amounts
1% Increase in Discount Rate	5.66%	$2,361,860
Current Discount Rate	4.66%	$3,233,815
1% Decrease in Discount Rate	3.66%	$4,268,011

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

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report 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.

NOTE 5 OTHER INFORMATION

5.A. COMMITMENTS AND CONTINGENCIES

Operating Leases

The School currently rents building of approximately 40,000 square feet under an operating lease agreement. Such agreement has an expiration date of June 30, 2020. The lease calls for monthly base rent of $30,000, for a total of $360,000 annually through June 30, 2020. The lease also requires the School to pay 100% of the real estate taxes incurred through the duration of the lease.

Additionally, the School rents various equipment and lease improvements from its landlord, at a rate of approximately $4,489 per year, through July 2018. These payments do not include the portion of the lease utilized to purchase capital assets. The capital portion of the lease has been disclosed at Note 3.D.

At June 30, 2018, estimated future minimum lease payments are as follows:

Year Ended June 30,	Amount
2019	$ 360,374
2020	360,000
	$ 720,374

For the year ended June 30, 2018, expenditures under operating leases total $264,848.

NOTE 5 OTHER INFORMATION (Continued)

5.A. COMMITMENTS AND CONTINGENCIES (Continued)

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. However, management of the School expects such amounts, if any, to be immaterial.

5.B. RISK MANAGEMENT – CLAIMS AND JUDGMENTS

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. To manage these risks, the School purchases commercial insurance. The School retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

REQUIRED SUPPLEMENTARY INFORMATION

NEW DISCOVERIES MONTESSORI ACADEMY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts Budgetary	Variance with Final Budget
	Original	Final	Basis	Over (Under)
REVENUES				
Other Local and County Revenues	$ 28,259	$ 56,049	$ 89,170	$ 33,121
State Sources	3,212,451	3,569,427	3,514,721	(54,706)
Federal Sources	106,370	126,019	117,563	(8,456)
Sales and Other Conversions of Assets	-	-	1,485	1,485
TOTAL REVENUES	3,347,080	3,751,495	3,722,939	(28,556)
EXPENDITURES				
Administration	146,745	159,870	162,676	2,806
District Support Services	164,252	170,643	172,097	1,454
Regular Instruction	598,152	646,096	658,259	12,163
Exceptional Instruction	1,378,520	1,445,629	1,398,459	(47,170)
Instructional Support Service	55,593	68,748	66,716	(2,032)
Pupil Support Services	550,819	737,705	700,426	(37,279)
Site and Buildings	491,499	480,373	479,820	(553)
Fiscal and Other Fixed Costs Programs	15,514	16,507	16,444	(63)
Capital Outlay	16,286	45,777	51,339	5,562
TOTAL EXPENDITURES	3,417,380	3,771,348	3,706,236	(65,112)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(70,300)	(19,853)	16,703	36,556
OTHER FINANCING USES				
Transfers Out	-	-	(1,160)	(1,160)
NET CHANGE IN FUND BALANCES	$ (70,300)	$ (19,853)	15,543	$ 35,396
FUND BALANCES - BEGINNING			246,594	
FUND BALANCES - ENDING			$ 262,137	

NEW DISCOVERIES MONTESSORI ACADEMY
SCHEDULE OF SCHOOL'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN YEARS (Presented Prospectively)

For the Measurement Year Ended June 30	School's Proportion of the Net Pension Liability (Asset)	School's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the School (b)	School's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the School (a+b)	School's Covered Payroll (c)	School's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Public Employees Retirement Association							
2017	0.0097%	$ 619,243	$ 7,814	$ 627,056	$ 627,347	100.0%	75.9%
2016	0.0095%	$ 771,353	$ 10,154	$ 781,507	$ 583,920	133.8%	68.9%
2015	0.0134%	$ 694,458	$ -	$ 694,458	$ 767,874	90.4%	78.2%
2014	0.0150%	$ 704,625	$ -	$ 704,625	$ 801,725	87.9%	78.7%
Teachers Retirement Association							
2017	0.0162%	$ 3,233,814	$ 313,201	$ 3,547,015	$ 907,333	390.9%	51.6%
2016	0.0143%	$ 3,410,891	$ 341,595	$ 3,752,486	$ 750,613	499.9%	44.9%
2015	0.0139%	$ 859,852	$ 105,436	$ 965,288	$ 704,841	137.0%	76.8%
2014	0.0153%	$ 705,013	$ 49,668	$ 754,681	$ 698,125	108.1%	81.5%

Note: The schedule is provided propsectively with the School's fiscal year ended June 30, 2015 (June 30, 2014 measurement period) and is intended to show a ten year trend. Additional years will be reported as they become available.

NEW DISCOVERIES MONTESSORI ACADEMY
SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
PERA/TRA RETIREMENT FUNDS
LAST TEN YEARS (Presented Prospectively)

For the Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	School's Covered Payroll	Contributions as a Percentage of Covered Payroll
Public Employees Retirement Association					
2018	$ 59,772	$ 59,772	$ -	$ 796,959	7.5%
2017	$ 47,051	$ 47,051	$ -	$ 627,347	7.5%
2016	$ 43,794	$ 43,794	$ -	$ 583,920	7.5%
2015	$ 58,600	$ 58,600	$ -	$ 767,874	7.6%
Teachers Retirement Association					
2018	$ 74,104	$ 74,104	$ -	$ 988,057	7.5%
2017	$ 68,050	$ 68,050	$ -	$ 907,333	7.5%
2016	$ 56,296	$ 56,296	$ -	$ 750,613	7.5%
2015	$ 53,327	$ 53,327	$ -	$ 704,841	7.6%

Note: The schedule is provided propsectively with the School's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2017 Changes

Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60.0 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

NOTE 2 TEACHERS RETIREMENT ASSOCIATION

2017 Changes

Changes in Actuarial Assumptions

- The cost of living adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0 percent and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes

Changes in Actuarial Assumptions

- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

Changes of Benefit Terms

- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions

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

SUPPLEMENTARY INFORMATION

NEW DISCOVERIES MONTESSORI ACADEMY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Food Service	Community Service	Total Nonmajor Funds
ASSETS			
Accounts Receivable	$ 1,547	$ -	$ 1,547
Due from Government Agencies	208	-	208
Inventory	5,237	-	5,237
Prepaids	448	-	448
TOTAL ASSETS	$ 7,440	$ -	$ 7,440
LIABILITIES			
Accounts Payable	$ 1,439	$ -	$ 1,439
Due to Other Funds	2,918	-	2,918
Unearned Revenue	3,083	-	3,083
Total Liabilities	7,440	-	7,440
FUND BALANCES			
Nonspendable:			
Inventory	5,237	-	5,237
Prepaids	448	-	448
Unassigned	(5,685)	-	(5,685)
Total Fund Balances	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	$ 7,440	$ -	$ 7,440

NEW DISCOVERIES MONTESSORI ACADEMY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Food Service	Community Service	Total Nonmajor Funds
REVENUES			
Other Local and County Revenues	$ -	$ 3,484	$ 3,484
State Sources	11,880	15,526	27,406
Federal Sources	91,195	-	91,195
Sales and Other Conversions of Assets	40,752	-	40,752
TOTAL REVENUES	143,827	19,010	162,837
EXPENDITURES			
Current:			
Community Education and Services	-	19,010	19,010
Pupil Support Services	150,310	-	150,310
TOTAL EXPENDITURES	150,310	19,010	169,320
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(6,483)	-	(6,483)
OTHER FINANCING SOURCES			
Transfers In	1,160	-	1,160
NET CHANGE IN FUND BALANCES	(5,323)	-	(5,323)
FUND BALANCES - BEGINNING	5,323	-	5,323
FUND BALANCES - ENDING	$ -	$ -	$ -

NEW DISCOVERIES MONTESSORI ACADEMY
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2018

01 GENERAL FUND	Audited	UFARS	Difference
Total Revenue	3,722,939	3,722,943	(4)
Total Expenditures	3,706,236	3,706,239	(3)
Non Spendable:			
460 Non Spendable Fund Balance	6,898	6,898	-
Restricted/Reserve:			
403 Staff Development	-	-	-
406 Health & Safety	-	-	-
407 Capital Projects Levy	-	-	-
408 Cooperative Revenue	-	-	-
413 Project Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maint	-	-	-
423 Certain Teacher Programs	-	-	-
424 Operating Capital	-	-	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning & Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alt. Programs	-	-	-
436 St. Approved Alt. Program	-	-	-
438 Gifted & Talented	-	-	-
440 Teacher Development & Eval	-	-	-
441 Basic Skills Programs	-	-	-
445 Career & Tech Programs	-	-	-
448 Achievement & Integration	-	-	-
449 Safe Schools Levy	-	-	-
450 Prekindergarten	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liab Not in Trust	-	-	-
453 Unfunded Sev. & Retirement	-	-	-
459 Basic Skills Ext Time	-	-	-
467 LTFM	-	-	-
472 Medical Assistance	2,662	2,662	-
Restricted:			
464 Restricted Fund Balance	-	-	-
475 Title VII - Impact Aid	-	-	-
476 PILT	-	-	-
Committed:			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	5,185	5,185	-
Assigned:			
462 Assigned Fund Balance	-	-	-
Unassigned:			
422 Unassigned Fund Balance	247,392	247,391	1

02 FOOD SERVICE	Audited	UFARS	Difference
Total Revenue	143,827	143,827	-
Total Expenditures	150,310	150,312	(2)
Non Spendable:			
460 Non Spendable Fund Balance	5,685	5,685	-
Restricted/Reserve:			
452 OPEB Liab. Not in Trust	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	(5,685)	(5,685)	-

04 COMMUNITY SERVICE	Audited	UFARS	Difference
Total Revenue	19,010	19,010	-
Total Expenditures	19,010	19,010	-
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
426 $25 Taconite	-	-	-
431 Community Education	-	-	-
432 E.C.F.E.	-	-	-
440 Teacher Development & Eval	-	-	-
444 School Readiness	-	-	-
447 Adult Basic Education	-	-	-
452 OPEB Liab. Not in Trust	-	-	-

06 BUILDING CONSTRUCTION	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
407 Capital Projects Levy	-	-	-
413 Projects Funded by COP	-	-	-
467 LTFM	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

07 DEBT SERVICE	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
425 Bond Refundings	-	-	-
433 Max Effort Loan	-	-	-
451 QZAB Payments	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

08 TRUST	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-

20 INTERNAL SERVICE	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-

25 OPEB REVOCABLE TRUST FUND	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-

45 OPEB IRREVOCABLE TRUST FUND	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-

47 OPEB DEBT SERVICE FUND	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted:			
425 Bond Refundings	-	-	-
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

OTHER REQUIRED REPORTS

SCHLENNER WENNER & CO.
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS CONSULTANTS

Professional Association

INDEPENDENT AUDITORS' 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*

December 6, 2018

Members of the Board of Directors
New Discoveries Montessori Academy
Hutchinson, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of New Discoveries Montessori Academy, Hutchinson, Minnesota (the School) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise New Discoveries Montessori Academy's basic financial statements, and have issued our report thereon dated December 6, 2018.

Internal Control Over Financial Reporting

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

St. Cloud 320.251.0286
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Albany 320.845.2940
Maple Lake 320.963.5414
Monticello 763.295.5070

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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 School'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 School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Schlenner Wenner & Co.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

**INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE**

December 6, 2018

Members of the Board of Directors
New Discoveries Montessori Academy
Hutchinson, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of New Discoveries Montessori Academy, Hutchinson, Minnesota (the 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 6, 2018.

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

In connection with our audit, nothing came to our attention that caused us to believe that the 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 we performed additional procedures, other matters may have come to our attention regarding the School's noncompliance with the above referenced provisions.

This report is intended for the information and use of the Board of Directors and management of New Discoveries Montessori Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

Schlenner Wenner & Co.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

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