

**URBAN ACADEMY  
CHARTER SCHOOL NO. 4088**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

For The Year Ended June 30, 2016

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## **INTRODUCTORY SECTION**

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**SCHOOL BOARD**

<u>Name</u>	<u>Board Position</u>
Melissa Jensen	President
Tamara Mattison	Finance Chair
Fong Lor	Vice Chair
Kristin Evans	Secretary
Roger Sykes	Member
Nancy Smith	Member
Caley Long	Member

**ADMINISTRATION**

Mongsher Ly	Executive Director
Susan Airhart	Contract Business Manager with Designs for Learning

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Urban Academy  
Charter School No. 4088  
Saint Paul, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Urban Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Urban Academy's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Urban Academy, as of June 30, 2016, 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.

## **Report on Summarized Comparative Information**

We have previously audited Urban Academy's 2015 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated October 19, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

The individual fund 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 individual fund 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 October 17, 2016, on our consideration of Urban 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 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 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 Urban Academy's internal control over financial reporting and compliance.

*Redpath and Company, Ltd.*  
REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

October 17, 2016

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**URBAN ACADEMY**  
INDEPENDENT SCHOOL DISTRICT NO. 4088  
St. Paul, Minnesota

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Year Ended June 30, 2016

This section of Urban Academy's (the School) annual audited financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the School's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2015-2016 fiscal year includes the following:

- Total net position increased by \$21,548. This follows an increase of \$90,277 in the School's net position for fiscal year 2015.
- General Fund revenues were \$3,780,955 as compared to \$3,791,196 of expenditures.
- Total fund balance increased in fiscal year 2016 by \$4,088 to a positive balance of \$1,052,867.
- The School continued its teacher compensation schedule to include Quality Compensation Programs and invest in quality teachers.
- The School relocated to a new location on July 1, 2015.
- School management continues to carefully monitor enrollment which is key to the financial stability of its programs.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

## MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

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

### School-Wide Statements

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

The two School-wide statements report the School’s net position and how they have changed. Net position, or the difference between the School’s assets plus deferred outflows, and liabilities plus deferred inflows, is one way to measure the School’s financial health or position.

- Over time, increases or decreases in the School’s net position are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the School you need to consider additional non-financial factors such as changes in the condition of the school building and other facilities.

In the School-wide financial statements, the School’s activities are shown in one category:

- **Governmental activities:** All of the School’s basic services are included here, such as regular and special education, and administration. State and federal aids finance most of these activities.

### Fund Financial Statements

The fund financial statements provide more detailed information about the School’s funds – focusing on its most significant or “major” funds – not the School as a whole. 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. In other words, funds are accounting devices the School uses to keep track of specific resources of funding and spending on particular programs. State law requires two different programmatic funds for charter schools:

- General Fund
- Food Service Fund

When these two funds are added together, they equal the total governmental funds, as seen in Statement 3 and Statement 4.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### Notes to the Financial Statements

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

### FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

#### Net Position

The School's net position was (\$527,172) and (\$548,720) at June 30, 2016 and 2015, respectively.

	June 30,	
	2016	2015
<b>The School's Net Position</b>		
Current assets	\$1,267,385	\$1,289,900
Capital assets	182,758	165,106
Deferred outflows of resources	501,977	473,756
Total assets and deferred outflows	<u>1,952,120</u>	<u>1,928,762</u>
Current liabilities	214,518	241,121
Noncurrent liabilities	1,743,916	1,534,002
Deferred inflows of resources	520,858	702,359
Total liabilities and deferred inflows	<u>2,479,292</u>	<u>2,477,482</u>
Net position:		
Net investment in capital assets	182,758	165,106
Restricted for food service	14,329	-
Restricted for letter of credit collateral	350,000	450,000
Unrestricted	<u>(1,074,259)</u>	<u>(1,163,826)</u>
Total net position	<u><u>(\$527,172)</u></u>	<u><u>(\$548,720)</u></u>

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

Urban Academy has been strategic in its planning and management of resources and academic priorities. In Fiscal Year 13 Urban Academy focused on quality compensation for its teachers and achieved the objective to set aside funds for the future by increasing the general fund balance. In Fiscal Year 14 Urban Academy focused on competitive wages for its highly qualified employees and preparing for the World's Best Workforce requirements. (Minn Stat. §120B.11) In Fiscal Year 15 the school focused on building fund balance reserves in order to begin a relocation program from the downtown St. Paul area. In Fiscal Year 16 the school completed the move to their new location in the Highland Park area of St. Paul.

Urban Academy continues to have successful financial management using a conservative approach to enrollment projections, careful spending, and a budgetary vision towards the future.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### Change in Net Position

The School's total revenues were \$4,079,878 for the year ended June 30, 2016 . Operating revenue accounted for 29% and the other 71% came from other general revenue combined with other investments and program service revenues.

<b>Change in Net Position</b>		
	<u>2016</u>	<u>2015</u>
<b>Revenues:</b>		
Program revenues:		
Operating grants and contributions	\$1,199,867	\$1,180,951
General revenues:		
Unrestricted local, state and federal aid	<u>2,880,011</u>	<u>2,856,417</u>
Total revenues	<u>4,079,878</u>	<u>4,037,368</u>
<b>Expenses:</b>		
Administration	266,122	294,406
District support services	355,131	336,332
Regular instruction	1,435,270	1,325,526
Special education instruction	397,783	402,652
Instructional support services	135,084	67,245
Pupil support services	409,866	294,026
Site, building and equipment	745,380	954,890
Fiscal and other fixed cost programs	56,462	15,847
Food service	257,232	256,167
Total expenses	<u>4,058,330</u>	<u>3,947,091</u>
Change in net position	<u>21,548</u>	<u>90,277</u>
Net position - July 1, as originally reported	(548,720)	867,078
Prior period adjustment	-	(1,506,075)
Net position - July 1, as restated	<u>(548,720)</u>	<u>(638,997)</u>
Net position - ending	<u>(\$527,172)</u>	<u>(\$548,720)</u>

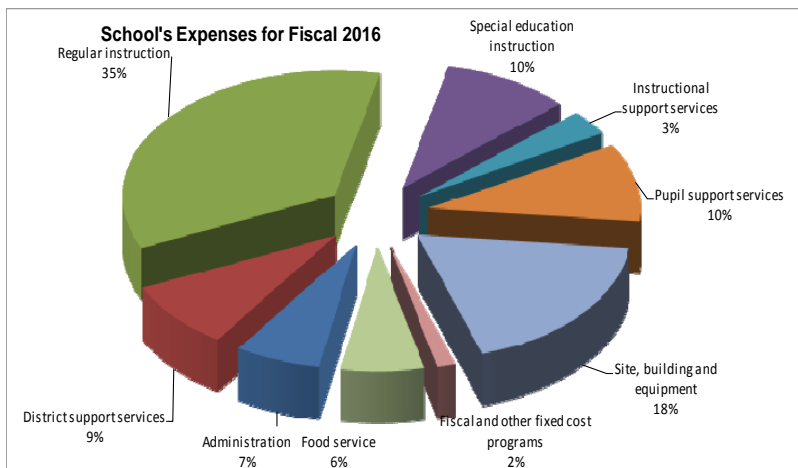
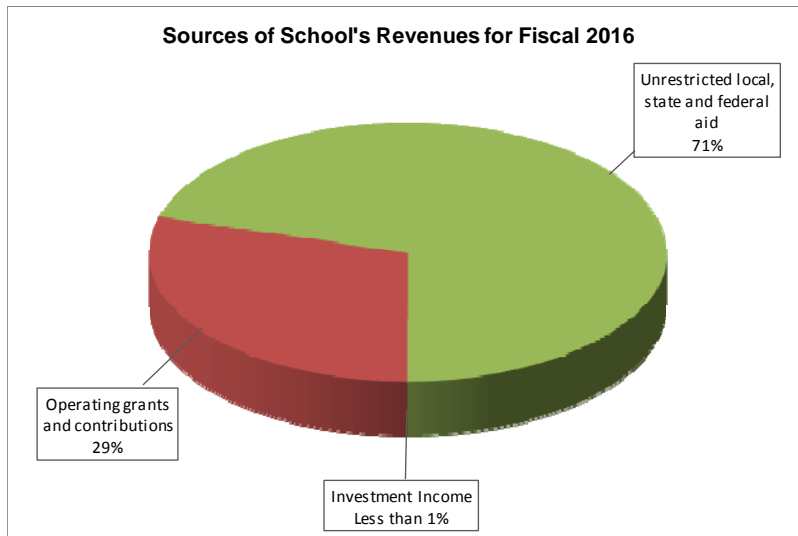
The total cost of all programs and services including interest and fiscal charges was \$4,058,330. Total revenues exceeded expenditures which increased net position by \$21,548 over last year.

The cost of all governmental activities this year was \$4,058,330 (increased from the fiscal 2015 total of \$3,947,091).

- The federal and state governments subsidized certain programs and grants and contributions (\$1,199,867).

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

- The remaining portion of governmental activities was paid for primarily with unrestricted State and local aid.



## MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

Typically the School does not include in an analysis of all governmental funds a breakout of expenditures. To do so distorts the latitude available to the School to allocate resources to instruction. All governmental funds include not only funds received for the general operation of the School, which are used for classroom instruction, but also include resources from the entrepreneurial-type fund of Food Service and from resources for fiscal service transactions. Funding for the general operation of the School is controlled by the state and the School does not have the latitude to allocate money received in Food Service or for fiscal services to enhance classroom instruction resources. The School cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction. The preceding graph, by pooling all expenditures, implies that the School does have equal access to all funds to impact classroom instruction. In Minnesota, that is simply not an option.

Program Expenses and Net Cost of Services						
	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2016	2015		2016	2015	
Administration	\$266,122	\$294,406	(9.61%)	\$266,122	\$294,406	(9.61%)
District support services	355,131	336,332	5.59%	355,131	336,332	5.59%
Regular instruction	1,435,270	1,325,526	8.28%	1,304,125	1,203,310	8.38%
Special education instruction	397,783	402,652	(1.21%)	(35,755)	(31,149)	14.79%
Instructional support services	135,084	67,245	100.88%	135,084	67,245	100.88%
Pupil support services	409,866	294,026	39.40%	409,866	294,026	39.40%
Sites and buildings	745,380	954,890	(21.94%)	381,757	585,417	(34.79%)
Fiscal and other fixed cost programs	56,462	15,847	256.29%	56,462	15,847	256.29%
Food service	257,232	256,167	0.42%	(14,329)	706	(2129.60%)
Total	<u>\$4,058,330</u>	<u>\$3,947,091</u>	2.82%	<u>\$2,858,463</u>	<u>\$2,766,140</u>	3.34%

## FINANCIAL ANALYSIS OF THE SCHOOL’S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds as well. As the School completed the year, its governmental funds reported a combined fund balance of \$1,052,867 which is \$4,088 above last year’s ending fund balance of \$1,048,779.

Revenues for the School’s governmental funds were \$4,052,516 of which total expenditures were \$4,048,428.

## GENERAL FUND

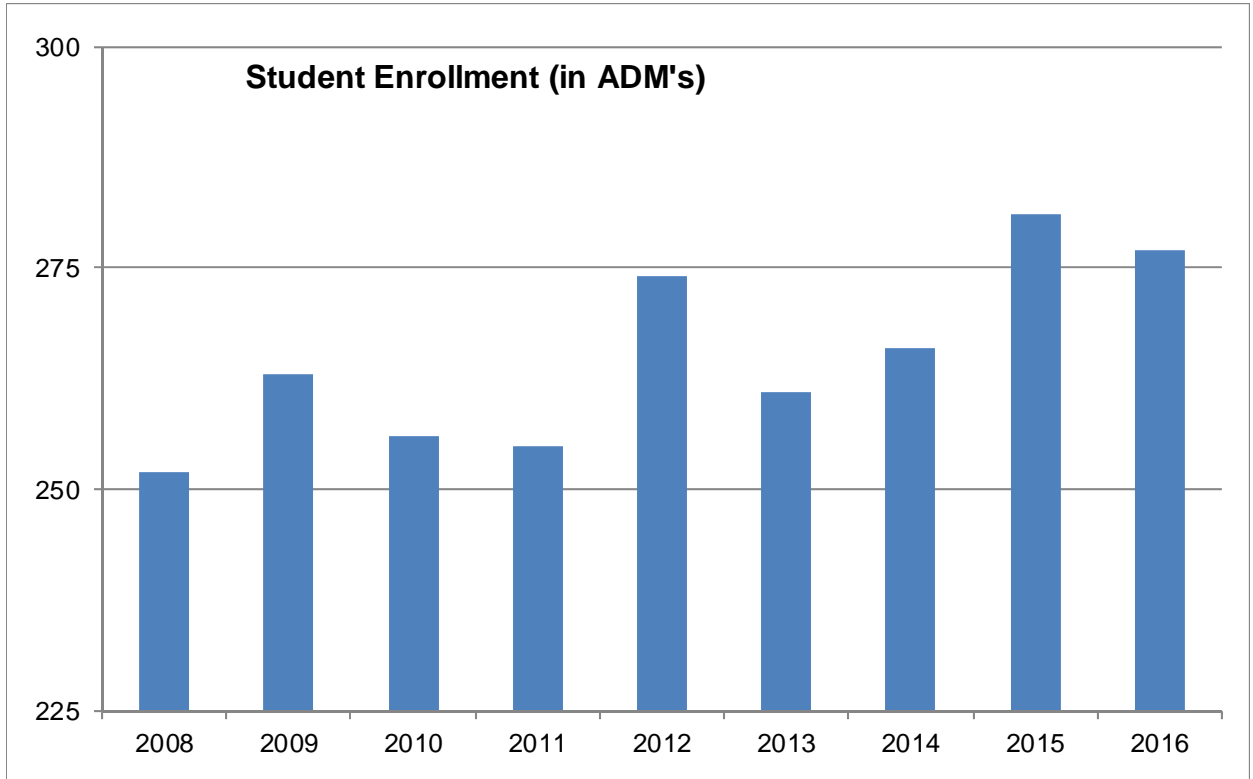
The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 6, including pupil transportation activities.

A significant amount of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes basic general education aid which is determined by multiple state formulas and is largely enrollment driven and special education state aid, which, is based upon a cost reimbursement model.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### ENROLLMENT

Enrollment is a critical factor in determining revenue. The following chart shows the latest seven years of student enrollment at the School.



Enrollment decreased from 281 ADMs (average daily membership) at the end of the 2014-2015 school year to 277 in school year 2015-2016. The change in student enrollment reflects a decrease of 4 ADM. The School is planning to increase this number over the next few years reaching out to a broader community into the future.

## MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

The following schedule presents a summary of General Fund revenues.

Fund	General Fund Revenues		Change	
	Year Ended June 30,		Increase	Percent
	2016	2015	(Decrease)	
Local sources	\$3,655	\$2,103	\$1,552	73.80%
State sources	3,597,691	3,608,061	(10,370)	(0.29%)
Federal sources	179,609	168,453	11,156	6.62%
Total general fund revenue	<u>\$3,780,955</u>	<u>\$3,778,617</u>	<u>\$2,338</u>	0.06%

During the current fiscal year the General Fund revenues increased by \$2,338 from the previous year. The difference primarily results from an increase in Federal funding.

The following schedule presents a summary of General Fund expenditures.

	General Fund Expenditures		Change	
	Year Ended June 30,		Increase	Percent
	2016	2015	(Decrease)	
Salaries	\$1,724,544	\$1,613,704	\$110,840	6.87%
Employee benefits	429,495	386,946	42,549	11.00%
Purchased services	1,425,595	1,341,751	83,844	6.25%
Supplies and materials	115,932	53,382	62,550	117.17%
Capital expenditures	70,040	9,414	60,626	644.00%
Other expenditures	25,590	55,935	(30,345)	(54.25%)
Total expenditures	<u>\$3,791,196</u>	<u>\$3,461,132</u>	<u>\$330,064</u>	9.54%

Total General Fund expenditures increased \$330,064 from the previous year. In the 2015-2016 school year Urban Academy continued to invest resources in instructional salaries and benefits. The School’s vision is to provide high quality staffing which ultimately enriches student learning and achievement. At the beginning of the 2015-2016 school year the school completed a relocation to a more advantageous facility for long-term growth.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**

### **General Fund Budgetary Highlights**

Following approval of the budget prior to the beginning of the fiscal year, the School revises the annual operating budget in mid-year and again at year end.

Projected revenues were at \$3,620,846 and were revised to \$3,715,107 after reviewing state and federal expenditures. Some of these programs are based on student services provided or actual expenditures which are calculated on a reimbursement basis. By the end of the fiscal year, the actual amount was at \$3,780,955, which is \$65,848 more than the revised budgeted amount.

Actual expenditures were \$41,596 less than budgeted.

From the standpoint of maintaining current operating expenditures within the range of annual revenue and maintaining a sound fund balance, the General Fund is operating on a sound financial basis.

### **OTHER MAJOR FUNDS**

Revenues exceeded expenditures in the Food Service Fund by \$14,329 compared to budgeted revenues exceeding expenditures of \$0. The School monitored its food purchases and meals distribution closely in an effort to decrease costs and increase revenue.

From the standpoint of maintaining current operating expenditures within the range of annual revenue and maintaining a sound fund balance, the Food Service Fund is operating on a sound financial basis.



## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

By the end of 2016, the School had invested \$415,645 in equipment. Total depreciation expense for the year was \$31,377.

	2016	2015
Capital assets, being depreciated:		
Computers and office equipment	\$80,048	\$67,389
Furniture and fixtures	187,950	187,950
Vehicles	56,870	26,763
Leasehold improvements	90,777	85,563
Total capital assets, being depreciated	<u>415,645</u>	<u>367,665</u>
Less accumulated depreciation for:		
Computers and office equipment	57,333	51,992
Furniture and fixtures	124,187	113,568
Vehicles	21,762	10,388
Leasehold improvements	29,605	26,611
Total accumulated depreciation	<u>232,887</u>	<u>202,559</u>
 Total capital assets being depreciated - net	 <u>\$182,758</u>	 <u>\$165,106</u>

#### FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the State of Minnesota for the vast majority of its revenue. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. As the School continues to strive for success it is forced to seek outside grants and funding to create and support innovative programs.

The School will strive to maintain its commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

#### CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Charter School No. 4088, Urban Academy, 1668 Montreal Avenue, St. Paul, Minnesota 55116.

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## **BASIC FINANCIAL STATEMENTS**

**URBAN ACADEMY**  
**CHARTER SCHOOL NO. 4088**  
**STATEMENT OF NET POSITION**

**Statement 1**

June 30, 2016

With Comparative Amounts For June 30, 2015

	Governmental Activities	
	2016	2015
Assets:		
Cash and cash equivalents	\$507,095	\$328,545
Restricted cash	350,000	450,000
Due from other governments	382,115	488,999
Other receivables	26,224	20,556
Prepaid items	1,951	1,800
Capital assets (net of accumulated depreciation)	182,758	165,106
Total assets	<u>1,450,143</u>	<u>1,455,006</u>
Deferred outflows of resources related to pensions	<u>501,977</u>	<u>473,756</u>
Total assets and deferred outflows of resources	<u><u>\$1,952,120</u></u>	<u><u>\$1,928,762</u></u>
Liabilities:		
Accounts payable	\$44,818	\$72,141
Salaries and taxes payable	169,700	168,980
Net pension liability, due in more than 1 year	1,743,916	1,534,002
Total liabilities	<u>1,958,434</u>	<u>1,775,123</u>
Deferred inflows of resources related to:		
Lease incentive	224,399	240,428
Pensions	296,459	461,931
Total deferred inflows of resources	<u>520,858</u>	<u>702,359</u>
Net position:		
Net investment in capital assets	182,758	165,106
Restricted for food service	14,329	-
Restricted for letter of credit collateral	350,000	450,000
Unrestricted	(1,074,259)	(1,163,826)
Total net position	<u>(527,172)</u>	<u>(548,720)</u>
Total liabilities, deferred inflows and net position	<u><u>\$1,952,120</u></u>	<u><u>\$1,928,762</u></u>

The accompanying notes are an integral part of these financial statements.

**URBAN ACADEMY  
CHARTER SCHOOL NO. 4088**

**Statement 2**

STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2016

With Comparative Totals For The Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	2016	2015
Governmental activities:					
Administration	\$266,122	\$ -	\$ -	(\$266,122)	(\$294,406)
District support services	355,131	-	-	(355,131)	(336,332)
Regular instruction	1,435,270	-	131,145	(1,304,125)	(1,203,310)
Special education instruction	397,783	-	433,538	35,755	31,149
Instructional support services	135,084	-	-	(135,084)	(67,245)
Pupil support services	409,866	-	-	(409,866)	(294,026)
Site, building and equipment	745,380	-	363,623	(381,757)	(585,417)
Fiscal and other fixed costs	56,462	-	-	(56,462)	(15,847)
Food service	257,232	-	271,561	14,329	(706)
Total governmental activities	<u>\$4,058,330</u>	<u>\$0</u>	<u>\$1,199,867</u>	<u>(2,858,463)</u>	<u>(2,766,140)</u>
General revenues:					
Local sources				3,655	2,103
State sources				2,876,356	2,854,314
Total general revenues				<u>2,880,011</u>	<u>2,856,417</u>
Change in net position				<u>21,548</u>	<u>90,277</u>
Net position - July 1, as originally reported				(548,720)	867,078
Prior period adjustment				-	(1,506,075)
Net position - July 1, as restated				<u>(548,720)</u>	<u>(638,997)</u>
Net position - ending				<u>(\$527,172)</u>	<u>(\$548,720)</u>

The accompanying notes are an integral part of these financial statements.

**URBAN ACADEMY  
CHARTER SCHOOL NO. 4088**

**Statement 3**

BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2016

With Comparative Totals For June 30, 2015

	General	Food Service Fund	Total	
			2016	2015
<b>Assets</b>				
Cash and cash equivalents	\$488,204	\$18,891	\$507,095	\$328,545
Restricted cash	350,000	-	350,000	450,000
Due from Minnesota Department of Education	331,935	352	332,287	453,261
Due from Federal Government through Minnesota Department of Education	35,599	13,164	48,763	35,738
Due from other funds	-	-	-	7,563
Due from other governments	1,065	-	1,065	-
Other receivables	26,224	-	26,224	20,556
Prepaid items	1,951	-	1,951	1,800
<b>Total assets</b>	<b>\$1,234,978</b>	<b>\$32,407</b>	<b>\$1,267,385</b>	<b>\$1,297,463</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts and contracts payable	\$26,740	\$18,078	\$44,818	\$72,141
Due to other funds	-	-	-	7,563
Salaries and taxes payable	147,665	-	147,665	147,150
Payroll deductions and employer contributions payable	22,035	-	22,035	21,830
<b>Total liabilities</b>	<b>196,440</b>	<b>18,078</b>	<b>214,518</b>	<b>248,684</b>
<b>Fund balance:</b>				
Nonspendable - prepaid items	1,951	-	1,951	1,800
Restricted - food service fund	-	14,329	14,329	-
Restricted - letter of credit collateral	350,000	-	350,000	450,000
Unassigned	686,587	-	686,587	596,979
<b>Total fund balance</b>	<b>1,038,538</b>	<b>14,329</b>	<b>1,052,867</b>	<b>1,048,779</b>
<b>Total liabilities and fund balance</b>	<b>\$1,234,978</b>	<b>\$32,407</b>	<b>\$1,267,385</b>	<b>\$1,297,463</b>
Amounts reported for governmental activities in the statement of net position are different because:				
Fund balance reported above			\$1,052,867	\$1,048,779
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds			182,758	165,106
Deferred outflows of resources related to pensions			501,977	473,756
Net pension liability used in governmental activities are not financial resources, and therefore, are not reported in the funds			(1,743,916)	(1,534,002)
Deferred inflows of resources related to pensions			(296,459)	(461,931)
Deferred inflows of resources related to leases are not available to pay for current-period expenditures and, therefore, are not reported in the funds.			(224,399)	(240,428)
<b>Net position of governmental activities (Statement 1)</b>			<b>(\$527,172)</b>	<b>(\$548,720)</b>

The accompanying notes are an integral part of these financial statements.

**URBAN ACADEMY  
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**Statement 4**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
For The Year Ended June 30, 2016  
With Comparative Totals For The Year Ended June 30, 2015

	General	Food Service Fund	Total	
			2016	2015
<b>Revenues:</b>				
Local sources	\$3,655	\$ -	\$3,655	\$2,103
State sources	3,597,691	6,119	3,603,810	3,614,138
Federal sources	179,609	265,442	445,051	417,837
Total revenues	<u>3,780,955</u>	<u>271,561</u>	<u>4,052,516</u>	<u>4,034,078</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Administration	266,122	-	266,122	290,751
District support services	347,614	-	347,614	314,020
Regular instruction	1,400,367	-	1,400,367	1,306,177
Special education instruction	392,207	-	392,207	400,602
Instructional support services	129,493	-	129,493	63,688
Pupil support services	397,094	-	397,094	289,402
Site, building and equipment	731,287	-	731,287	764,973
Fiscal and other fixed costs	56,462	-	56,462	15,847
Food service	-	257,232	257,232	256,167
Capital outlay	70,040	-	70,040	9,414
Debt service	510	-	510	6,258
Total expenditures	<u>3,791,196</u>	<u>257,232</u>	<u>4,048,428</u>	<u>3,717,299</u>
Revenues over (under) expenditures	<u>(10,241)</u>	<u>14,329</u>	<u>4,088</u>	<u>316,779</u>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	-	706
Transfers out	-	-	-	(706)
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in fund balance	<u>(10,241)</u>	<u>14,329</u>	<u>4,088</u>	<u>316,779</u>
Fund balance - beginning	<u>1,048,779</u>	<u>-</u>	<u>1,048,779</u>	<u>732,000</u>
Fund balance - ending	<u>\$1,038,538</u>	<u>\$14,329</u>	<u>\$1,052,867</u>	<u>\$1,048,779</u>

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

Revenues over expenditures reported above	\$4,088	\$316,779
Governmental funds report capital outlays as expenditures, however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Depreciation	(31,377)	(31,276)
Capital outlay	70,040	9,414
Capital outlay not capitalized	(21,011)	-
Loss on dispositions	-	(2,770)
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities.	(16,221)	(16,102)
Amortization of deferred lease incentive	16,029	-
Termination fee and moving expenses paid by landlord	-	(185,768)
Change in net position of governmental activities (Statement 2)	<u>\$21,548</u>	<u>\$90,277</u>

The accompanying notes are an integral part of these financial statements.

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**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of Urban Academy (the School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the School are described below:

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

**A. FINANCIAL REPORTING ENTITY**

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the School (the primary government) and its component units. Generally, component units are legally separate organizations for which the officials of the primary government are financially accountable. The School does not have any component units, nor is it a component unit of any other entity.

The School is authorized by Novation Education Opportunities. The authorizer has limited oversight responsibility but is not financially accountable for the School. Therefore, the School is not considered a component unit of the authorizer.

**B. SCHOOL-WIDE AND FUND FINANCIAL STATEMENTS**

The School-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* generally are financed through intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not included among program revenues are reported instead as *general revenues*.

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. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

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

As required by State Statute, the School operates as a nonprofit corporation under Minnesota Statutes §317A. However, State law also requires that the School comply with Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota School Districts which mandates the use of a governmental accounting structure.

The school-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 School considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year 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, are recorded only when payment is due.

Intergovernmental revenues, grants, charges for services and interest associated with the current fiscal period are all 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 cash is received by the School.

*Fund Financial Statements:* The fund financial statements provide information about the School's funds. The emphasis of fund financial statements is on major funds, each displayed in a separate column.

The School reports the following major governmental funds:

The *General Fund* is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

The *Food Service Fund* is used to account for the School's food service program.

**D. INCOME TAXES**

The School is operating as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and comparable sections of the Minnesota income tax statutes. However, income from certain activities not directly related to the School's tax exempt purpose is subject to taxation as unrelated business income. The School has no unrelated business activities.

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A tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes the School has no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard.

**E. BUDGETS**

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the School Board adopts an annual budget for the following fiscal year for the General and Food Service Funds. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

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

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

<u>Revenues and Other Sources</u>	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
General Fund	\$3,620,846	\$94,261	\$3,715,107
Special Revenue Funds:			
Food Service Fund	\$215,110	\$9,949	\$225,059
<u>Expenditures and Other Uses</u>			
General Fund	\$3,573,183	\$259,609	\$3,832,792
Special Revenue Funds:			
Food Service Fund	\$256,543	(\$31,484)	\$225,059

**F. RESTRICTED CASH**

The School purchased a certificate of deposit in the amount of \$350,000 to be used as collateral to secure its letter of credit (see Note 4).

**G. RECEIVABLES**

Receivables represent amounts receivable from other governments, individuals, firms, and corporations. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

**H. PREPAID ITEMS**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both School-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures at the time of consumption.

**I. 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 acquisition value at the date of donation. The School maintains a threshold level of \$500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the School-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Useful lives vary from 5 to 20 years for equipment.

**J. STUDENT ACTIVITIES**

There were no student activities that were not under board control.

**K. USE OF ESTIMATES**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

**L. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

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

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

#### **M. ACCRUED EMPLOYEE BENEFITS**

Unpaid sick leave and vacation pay has not been accrued in any funds as these benefits do not vest to employees.

#### **N. FUND BALANCE CLASSIFICATIONS**

In the fund financial statements, fund balance is reported in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

*Nonspendable* - consists of amounts that are not in spendable form, such as prepaid items.

*Restricted* - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - consists of internally imposed constraints. These constraints are established by resolution of the School Board.

*Assigned* - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the School's intended use. These constraints are established by the School Board and/or management. Pursuant to Board resolution, the School's Director is authorized to establish assignments of fund balance.

*Unassigned* - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

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

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

#### **O. MINIMUM FUND BALANCE POLICY**

The School Board has formally adopted a minimum fund balance policy for the General Fund. The policy establishes a year-end minimum fund balance of 20% of the annual budgeted expenditures. At June 30, 2016, the minimum unassigned fund balance for the General Fund was \$774,982. Actual unassigned fund balance in the General Fund was \$686,587. In addition, \$350,000 of fund balance is reported as restricted. This amount relates to the collateral provided for the letter of credit.

**P. NET POSITION**

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

**Q. RISK MANAGEMENT**

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

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

**R. COMPARATIVE DATA/RECLASSIFICATION**

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the School's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

**S. STEWARDSHIP AND ACCOUNTABILITY**

During fiscal year 2016, the Food Service Fund had expenditures of \$257,232, which exceeded budgeted expenditures of \$225,059 by \$32,173.

**T. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

The School does not have any significant fair value measurements as of June 30, 2016.

**Note 2 DEPOSITS AND INVESTMENTS**

Cash balances from all funds are combined and invested to the extent available in deposit accounts and securities as authorized by Minnesota Statutes.

**A. DEPOSITS**

In accordance with Minnesota Statutes, the School maintains deposits at financial institutions which are authorized by the School Board.

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

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

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated “A” or better; revenue obligations of a state or local government rated “AA” or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository. The School does not have a deposit policy that is more restrictive than Minnesota Statutes.

At June 30, 2016, all of the School’s deposits were covered by insurance or collateral.

**B. INVESTMENTS**

Minnesota Statutes outline authorized investments for charter schools. During 2016, the School did not have any such investments.

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**Note 3 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Computers and office equipment	\$67,389	\$13,708	(\$1,049)	\$80,048
Furniture and fixtures	187,950	-	-	187,950
Vehicles	26,763	30,107	-	56,870
Leasehold improvements	85,563	5,214	-	90,777
Total capital assets, being depreciated	<u>367,665</u>	<u>49,029</u>	<u>(1,049)</u>	<u>415,645</u>
Less accumulated depreciation for:				
Computers and office equipment	51,992	6,390	(1,049)	57,333
Furniture and fixtures	113,568	10,619	-	124,187
Vehicles	10,388	11,374	-	21,762
Leasehold improvements	26,611	2,994	-	29,605
Total accumulated depreciation	<u>202,559</u>	<u>31,377</u>	<u>(1,049)</u>	<u>232,887</u>
Total capital assets being depreciated - net	<u>\$165,106</u>	<u>\$17,652</u>	<u>\$0</u>	<u>\$182,758</u>

Depreciation expense was charged to functions/programs as follows:

Regular instruction	\$10,145
Special education instruction	684
Instructional support services	4,077
Pupil support services	11,666
Site, building and equipment	<u>4,805</u>
Total depreciation expense - governmental activities	<u>\$31,377</u>

**Note 4 SHORT-TERM DEBT**

**LINE OF CREDIT AGREEMENT**

The School renewed its line of credit on November 1, 2015 in the amount of \$450,000 for short-term cash flow needs with a variable interest rate equal to the prime rate plus 1.75% (5.25% at June 30, 2016) and a maturity date of October 31, 2016. It is secured by substantially all the School's assets. The outstanding balance at June 30, 2016 was \$0. There was no activity on the line of credit for the year ended June 30, 2016.



**LETTER OF CREDIT AGREEMENT**

The School obtained an irrevocable letter of credit on June 30, 2016 in the amount of \$350,000 with a variable interest rate equal to the prime rate plus 5% (8.5% at June 30, 2016) with no maturity date. The School's landlord has the right to draw on the letter of credit if the School defaults on its lease agreement, as defined in Article 10 of the agreement. The letter of credit is secured by a certificate of deposit that the School purchased, as described in Note 1F. The outstanding balance at June 30, 2016 was \$0. There was no activity on the letter of credit for the year ended June 30, 2016.

**Note 5 RETIREMENT PLANS**

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

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**B. PLAN DESCRIPTIONS**

The School participates in TRA's Basic Plan (without Social Security coverage) and its 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 are required to be TRA members.

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

coverage) or the Coordinated Plan (with Social Security coverage). The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

### C. BENEFITS PROVIDED

#### TRA

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service. Two methods (Tier I and Tier II) are used to compute benefits for TRA's Basic and Coordinated Plan members.

*Tier I Benefits* – a step rate formula of 2.2% per year for the first ten years of service and 2.7% for all other years is applied for Basic Plan members. For years of service prior to July 1, 2006, a step rate formula of 1.2% per year for the first ten years of service and 1.7% for all other years is applied for Coordinated Plan members. For years of service July 1, 2006 and after, a step rate formula of 1.4% per year for the first ten years of service and 1.9% for all other years is applied.

*Tier II Benefits* – for years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members is applied. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% per year for Basic Plan 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 before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described. Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

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

#### PERA

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

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

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2).

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

**D. CONTRIBUTIONS**

Employee and employer contribution rates are established by Minnesota Statutes. Rates for the years ended June 30, 2015 and 2016 are as follows:

	<u>Employee</u>	<u>Employer</u>
TRA - Basic Plan	11.0%	11.5%
TRA - Coordinated Plan	7.5%	7.5%
PERA - Basic Plan	9.1%	11.78%
PERA - Coordinated Plan	6.5%	7.5%

The School's contributions to TRA and PERA for the plan's fiscal year ended June 30, 2015 were \$78,432 and \$40,387, respectively, which were equal to the required contributions as set by state statute.

**E. MERGER OF DULUTH TEACHER’S RETIREMENT FUND ASSOCIATION (DTRFA)**

Legislation enacted in 2014 merged the DTRFA with TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	TRA CAFR June 30, 2014	Restated
Total pension liability	\$24,901,612,000	\$25,299,564,000
Plan fiduciary net position	20,293,684,000	20,519,756,000
Net pension liability	<u>\$4,607,928,000</u>	<u>\$4,779,808,000</u>

**F. NET PENSION LIABILITY AND PENSION EXPENSE**

The net pension liability reported at June 30, 2016 was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the measurement date. The School’s proportionate share of the net pension liability was based on its contributions to each respective plan in relation to total contributions to the plan. For TRA, total contributions to the plan include direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. Pension-related assets reported by the School relating to TRA and PERA are \$0.

The School’s net pension liability, its proportionate share of the plan’s net pension liability, and pension expense as of and for the year ended June 30, 2016 are as follows:

	TRA	PERA	Total
Net pension liability	\$1,261,942	\$481,974	\$1,743,916
Proportionate share of net pension liability:			
Measurement date	0.0204%	0.0093%	
Prior measurement date	0.0233%	0.0098%	
Pension expense	\$125,300	\$45,369	\$170,669

The pension liability related to TRA reflected a reduction due to direct aid provided to TRA. The amount recognized by the School as its proportionate share of the net pension liability, the direct aid, and the total portion of the net pension liability that was associated with the School were \$1,261,942, \$154,744 and \$1,416,716, respectively. In addition, pension expense related to TRA includes recognition of \$27,362 as an increase to pension expense for the support provided by direct aid.

**URBAN ACADEMY**  
**CHARTER SCHOOL NO. 4088**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

**G. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

At June 30, 2016, the School reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience:		
TRA	\$74,487	\$ -
PERA	4,710	24,300
Difference between projected and actual investment earnings:		
TRA	-	128,025
PERA	-	47,665
Changes in actuarial assumptions:		
TRA	97,010	-
PERA	31,630	-
Changes in proportion:		
TRA	167,054	78,853
PERA	-	17,616
Contributions paid subsequent to the measurement date:		
TRA	81,867	-
PERA	45,219	-
Total	<u>\$501,977</u>	<u>\$296,459</u>

Amounts reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense during the following years:

<u>Year</u>	<u>Pension Expense</u>		
	<u>TRA</u>	<u>PERA</u>	<u>Total</u>
2017	\$11,820	(\$15,493)	(\$3,673)
2018	11,820	(15,493)	(3,673)
2019	11,823	(33,662)	(21,839)
2020	96,210	11,407	107,617

**H. ACTUARIAL ASSUMPTIONS**

TRA

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

**Actuarial Information**

Measurement date	June 30, 2015
Valuation date	July 1, 2015
Experience study	October 30, 2009
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	8.00%
Wage inflation	3.0%
Projected salary increase	3.5 - 12%, based on years of service
Cost of living adjustment	2.0%

**Mortality Assumption**

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortality, without adjustment.

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to be 2% annually with no increase to 2.5% projected. The prior year valuation assumed a 2.5% increase commencing July 1, 2034. Also, the assumed investment rate of return and the discount rate used to measure the net pension liability was reduced from 8.25% at the prior measurement date to 8.0% at the current measurement date.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

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.

**URBAN ACADEMY**  
**CHARTER SCHOOL NO. 4088**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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PERA

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Measurement date	June 30, 2015
Valuation date	June 30, 2015
Inflation	2.75% per year
Active member payroll growth	3.50% per year
Investment rate of return	7.90%

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

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

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

TRA and PERA

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15%	6.00%
Bonds	18%	1.45%
Alternative assets	20%	6.40%
Unallocated cash	2%	0.50%
Total	100%	

**I. DISCOUNT RATE**

The discount rates used to measure the total pension liability for TRA and PERA were 8.0% and 7.9%, respectively. The Legislature has since set the discount rate in statute at 8%. Beginning with the June 30, 2016 measurement date, the discount rate used when calculating the total net pension liability for PERA will be increased to 8% to be consistent with the rate set in statute used for funding progress.

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

**J. PENSION LIABILITY SENSITIVITY**

The following presents the School’s proportionate share of the net pension liability calculated using the discount rate for each plan, as well as the liability measured using one percent lower (7.0% for TRA; 6.9% for PERA) and one percent higher (9.0% for TRA; 8.9% for PERA).

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
TRA	\$1,920,839	\$1,261,942	\$712,073
PERA	\$757,835	\$481,974	\$254,156

**K. PENSION PLAN FIDUCIARY NET POSITION**

Detailed information about TRA’s fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org), by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103; or by calling 651-296-2409 or 1-800-657-3669.

Detailed information about PERA’s fiduciary net position is available in a separately issued PERA financial report. That report may be obtained at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, MN, 55103; or by calling 651-296-7460 or 1-800-652-9026.



**Note 6 COMMITMENTS AND CONTINGENCIES**

**A. FEDERAL AND STATE PROGRAMS**

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial. The federal financial assistance received may be subject to an audit pursuant to Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) or audits by the grantor agency.

**B. OPERATING LEASE COMMITMENTS AND TERMS**

Effective July 1, 2015, the School entered into a new lease agreement for classroom and office space at 1668 Montreal Avenue, St. Paul, MN. The term of the lease is for fifteen years, expiring June 30, 2030. Annual base rent is the greater of (a) minimum amounts summarized below, or (b) the lease aid maximum amount, as defined in the lease agreement. Base lease expense was \$509,391 for 2016. Future estimated lease payments based on these terms are as follows:

Year Ending June 30,	Minimum Lease Payments
2017	\$517,391
2018	525,391
2019	533,391
2020	541,391
2021	549,391
2022-2026	2,595,000
2027-2030	2,220,000
Total	<u>\$7,481,955</u>

Additional rent not included in the above schedule is also required for the School's share of operating costs.

The School's ability to make payments under the lease agreement is dependent on its revenues, which are in turn, largely dependent on sufficient enrollments being served at the School and on sufficient state aids per student being authorized and received from the State of Minnesota. The School believes that its enrollments and aid entitlements will be sufficient to meet the lease obligations as they become due. For 2016, the School qualified for estimated lease aid of \$363,623 based on a statutory cap equal to \$1,314 times the pupil unites served.

**URBAN ACADEMY**  
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NOTES TO FINANCIAL STATEMENTS  
June 30, 2016

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**Note 7 DEFERRED LEASE INCENTIVE**

As part of the lease agreement for classroom and office space, as summarized in Note 6, the School's landlord provided the School a \$485,000 tenant allowance upon executing the lease. As of June 30, 2016, the School used \$240,428 of this allowance. Accounting standards require the School to recognize the allowance used as a reduction to rental expense on the Statement of Activities over the lease term. The amount to be recognized in future periods is recorded as a deferred lease incentive on the Statement of Net Position.

During fiscal year 2016, the School recorded \$16,029 as a reduction to rental expense, leaving \$224,399 to be recognized in future periods as summarized below:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2017	\$16,029
2018	16,029
2019	16,029
2020	16,029
2021	16,029
2022-2026	80,145
2027-2030	64,109
Total	<u><u>\$224,399</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**URBAN ACADEMY**  
**CHARTER SCHOOL NO. 4088**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 For The Year Ended June 30, 2016  
 With Comparative Actual Amounts For the Year Ended June 30, 2015

	2016		Actual Amounts	Variance with Final Budget - Over (Under)	2015 Actual Amounts
	Budgeted Amounts				
	Original	Final			
<b>Revenues:</b>					
Local sources	\$2,450	\$3,750	\$3,655	(\$95)	\$2,103
State sources	3,452,461	3,533,435	3,597,691	64,256	3,608,061
Federal sources	165,935	177,922	179,609	1,687	168,453
Total revenues	<u>3,620,846</u>	<u>3,715,107</u>	<u>3,780,955</u>	<u>65,848</u>	<u>3,778,617</u>
<b>Expenditures:</b>					
Administration:					
Current:					
Salaries	191,566	173,800	175,200	1,400	187,833
Employee benefits	32,758	30,431	34,698	4,267	34,736
Purchased services	27,121	23,125	24,164	1,039	32,377
Supplies and materials	3,900	500	336	(164)	3,984
Other expenditures	33,982	32,982	31,724	(1,258)	31,821
Total administration	<u>289,327</u>	<u>260,838</u>	<u>266,122</u>	<u>5,284</u>	<u>290,751</u>
District support services:					
Current:					
Salaries	134,500	146,340	148,731	2,391	129,920
Employee benefits	30,265	35,935	38,569	2,634	32,387
Purchased services	148,450	146,149	147,804	1,655	141,605
Supplies and materials	7,300	10,550	11,074	524	8,773
Other expenditures	1,350	1,550	1,436	(114)	1,335
Total district support services	<u>321,865</u>	<u>340,524</u>	<u>347,614</u>	<u>7,090</u>	<u>314,020</u>
Regular instruction:					
Current:					
Salaries	1,004,374	1,038,519	1,016,876	(21,643)	958,908
Employee benefits	272,818	291,013	265,118	(25,895)	242,977
Purchased services	71,250	65,511	61,583	(3,928)	77,155
Supplies and materials	35,410	56,655	56,490	(165)	26,463
Other expenditures	675	300	300	-	674
Capital expenditures	10,000	2,500	759	(1,741)	2,458
Total regular instruction	<u>1,394,527</u>	<u>1,454,498</u>	<u>1,401,126</u>	<u>(53,372)</u>	<u>1,308,635</u>
Special education instruction:					
Current:					
Salaries	235,919	190,332	186,435	(3,897)	217,100
Employee benefits	55,864	48,333	50,855	2,522	55,162
Purchased services	104,452	151,502	152,994	1,492	127,562
Supplies and materials	1,520	2,261	1,923	(338)	778
Total special education instruction	<u>397,755</u>	<u>392,428</u>	<u>392,207</u>	<u>(221)</u>	<u>400,602</u>

**URBAN ACADEMY**  
**CHARTER SCHOOL NO. 4088**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 For The Year Ended June 30, 2016  
 With Comparative Actual Amounts For the Year Ended June 30, 2015

	2016		Actual Amounts	Variance with Final Budget - Over (Under)	2015 Actual Amounts
	Budgeted Amounts				
	Original	Final			
Expenditures: (continued)					
Instructional support services:					
Current:					
Salaries	\$37,740	\$87,740	\$85,657	(\$2,083)	\$37,000
Employee benefits	5,882	17,274	18,974	1,700	6,339
Purchased services	18,000	10,000	4,890	(5,110)	18,631
Supplies and materials	7,100	4,600	19,972	15,372	1,718
Capital expenditures	12,000	28,500	3,834	(24,666)	6,956
Total instructional support services	<u>80,722</u>	<u>148,114</u>	<u>133,327</u>	<u>(14,787)</u>	<u>70,644</u>
Pupil support services:					
Current:					
Salaries	53,580	72,345	73,690	1,345	53,029
Employee benefits	6,243	8,649	10,811	2,162	6,231
Purchased services	247,900	299,814	310,522	10,708	228,144
Supplies and materials	2,100	2,100	2,071	(29)	1,998
Capital expenditures	-	30,107	30,107	-	-
Total pupil support services	<u>309,823</u>	<u>413,015</u>	<u>427,201</u>	<u>14,186</u>	<u>289,402</u>
Site, building and equipment:					
Current:					
Salaries	31,000	32,000	30,880	(1,120)	29,914
Employee benefits	8,773	8,784	9,165	381	9,114
Purchased services	682,391	706,491	667,176	(39,315)	716,277
Supplies and materials	10,000	13,000	24,066	11,066	9,668
Capital expenditures	20,000	10,100	35,340	25,240	-
Total site, building and equipment	<u>752,164</u>	<u>770,375</u>	<u>766,627</u>	<u>(3,748)</u>	<u>764,973</u>
Fiscal and other fixed costs:					
Current:					
Purchased services	17,000	52,000	56,462	4,462	15,847
Debt service	10,000	1,000	510	(490)	6,258
Total fiscal and other fixed costs	<u>27,000</u>	<u>53,000</u>	<u>56,972</u>	<u>3,972</u>	<u>22,105</u>
Total expenditures	<u>3,573,183</u>	<u>3,832,792</u>	<u>3,791,196</u>	<u>(41,596)</u>	<u>3,461,132</u>
Revenues over (under) expenditures	47,663	(117,685)	(10,241)	107,444	317,485
Other financing sources (uses):					
Transfer to Food Service Fund	<u>(41,433)</u>	-	-	-	<u>(706)</u>
Net change in fund balance	<u>\$6,230</u>	<u>(\$117,685)</u>	(10,241)	<u>\$107,444</u>	316,779
Fund balance - beginning			<u>1,048,779</u>		<u>732,000</u>
Fund balance - ending			<u>\$1,038,538</u>		<u>\$1,048,779</u>

**URBAN ACADEMY  
CHARTER SCHOOL NO. 4088**

**Statement 6**

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE SPECIAL REVENUE FUND  
For The Year Ended June 30, 2016  
With Comparative Actual Amounts For the Year Ended June 30, 2015

	2016				2015 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Revenues:					
Local sources	\$10	\$10	\$ -	(\$10)	\$ -
State sources	5,200	5,960	6,119	159	6,077
Federal sources	209,900	219,089	265,442	46,353	249,384
Total revenues	<u>215,110</u>	<u>225,059</u>	<u>271,561</u>	<u>46,502</u>	<u>255,461</u>
Expenditures:					
Food service					
Current:					
Salaries	28,000	8,798	7,075	(1,723)	24,158
Employee benefits	5,993	1,251	1,305	54	5,769
Purchased services	50	10	-	(10)	-
Supplies and materials	222,500	215,000	248,852	33,852	226,240
Total expenditures	<u>256,543</u>	<u>225,059</u>	<u>257,232</u>	<u>32,173</u>	<u>256,167</u>
Revenues over (under) expenditures	(41,433)	0	14,329	14,329	(706)
Other financing sources (uses):					
Transfer from General Fund	<u>41,433</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>706</u>
Net change in fund balance	<u>\$0</u>	<u>\$0</u>	14,329	<u>\$14,329</u>	0
Fund balance - beginning			<u>-</u>		<u>-</u>
Fund balance - ending			<u>\$14,329</u>		<u>\$0</u>

**URBAN ACADEMY**  
**CHARTER SCHOOL NO. 4088**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY\*  
 For The Year Ended June 30, 2016

Measurement Date	School Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability	Proportionate Share (Amount) of the Net Pension Liability (a)	Covered Payroll (b)	Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b><u>Teacher's Retirement Association</u></b>						
June 30, 2014	June 30, 2015	0.0233%	\$1,073,647	\$1,096,576	97.91%	81.5%
June 30, 2015	June 30, 2016	0.0204%	\$1,261,942	\$1,037,627	121.62%	76.8%
<b><u>PERA - General Employees Retirement Fund</u></b>						
June 30, 2014	June 30, 2015	0.0098%	\$460,355	\$513,308	89.68%	78.7%
June 30, 2015	June 30, 2016	0.0093%	\$481,974	\$547,590	88.02%	78.2%

\* The schedule is provided prospectively beginning 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.

**URBAN ACADEMY**  
**CHARTER SCHOOL NO. 4088**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF PENSION CONTRIBUTIONS\*  
 For The Year Ended June 30, 2016

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School Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
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**Teacher's Retirement Association**

June 30, 2015	\$77,822	\$77,822	\$0	\$1,037,627	7.50%
June 30, 2016	\$81,867	\$81,867	\$0	\$1,091,554	7.50%

**PERA - General Employees Retirement Fund**

June 30, 2015	\$40,328	\$40,328	\$0	\$547,590	7.36%
June 30, 2016	\$45,219	\$45,219	\$0	\$602,889	7.50%

\* The schedule is provided prospectively beginning 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.



**URBAN ACADEMY**  
**CHARTER SCHOOL NO. 4088**  
REQUIRED SUPPLEMENTARY INFORMATION  
NOTES TO RSI  
June 30, 2016

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**Note A BUDGETARY INFORMATION**

The General Fund and Food Service Special Revenue Fund budgets are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level.

**Note B PENSION INFORMATION**

Changes of benefit terms (TRA) – the Duluth Teacher’s Retirement Fund Association was merged into TRA on June 30, 2015.

Changes of assumptions (TRA) – Post-retirement benefit adjustments used for the June 30, 2015 valuation are now assumed to be 2% annually with no increase to 2.5% projected. The previous valuation assumed a 2.5% increase commencing July 1, 2034. Also, 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%.

There were no changes of benefit terms or assumptions for PERA. Additional details can be obtained from the financial reports of TRA and PERA.

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## **INDIVIDUAL FUND FINANCIAL STATEMENTS**

**URBAN ACADEMY**  
**CHARTER SCHOOL NO. 4088**  
 BALANCE SHEET - GENERAL FUND  
 June 30, 2016  
 With Comparative Totals For June 30, 2015

**Statement 7**

Assets	2016	2015
Cash and cash equivalents	\$488,204	\$328,545
Restricted cash	350,000	450,000
Due from Minnesota Department of Education	331,935	453,082
Due from Federal Government through Minnesota Department of Education	35,599	28,573
Due from other funds	-	7,563
Due from other government	1,065	-
Other receivables	26,224	20,030
Prepaid items	1,951	1,800
	<u>\$1,234,978</u>	<u>\$1,289,593</u>
<b>Liabilities and Fund Balances</b>		
Liabilities:		
Accounts and contracts payable	\$26,740	\$71,834
Salaries and taxes payable	147,665	147,150
Payroll deductions and employer contributions payable	22,035	21,830
Total liabilities	<u>196,440</u>	<u>240,814</u>
Fund balance:		
Nonspendable - prepaid items	1,951	1,800
Restricted - letter of credit collateral	350,000	450,000
Unassigned	686,587	596,979
Total fund balance	<u>1,038,538</u>	<u>1,048,779</u>
	<u>\$1,234,978</u>	<u>\$1,289,593</u>

**URBAN ACADEMY  
CHARTER SCHOOL NO. 4088**

**Statement 8**

**BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND**

June 30, 2016

With Comparative Totals For June 30, 2015

Assets	2016	2015
Cash and cash equivalents	\$18,891	\$ -
Due from Minnesota Department of Education	352	179
Due from Federal Government through Minnesota Department of Education	13,164	7,165
Other receivables	-	526
Total assets	\$32,407	\$7,870
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$18,078	\$307
Due to other funds	-	7,563
Total liabilities	18,078	7,870
Fund balance:		
Restricted	14,329	-
Total liabilities and fund balance	\$32,407	\$7,870

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## **SUPPLEMENTAL INFORMATION**

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE  
June 30, 2016

	Audit	UFARS	Variance		Audit	UFARS	Variance
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$3,780,955	\$3,780,953	\$2	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	3,791,196	3,791,192	4	Total Expenditures	-	-	-
<i>Non-Spendable:</i>				<i>Non-Spendable:</i>			
4.60 Non Spendable Fund Balance	1,951	1,951	-	4.60 Non Spendable Fund Balance	-	-	-
<i>Restricted/Reserve:</i>				<i>Restricted/Reserve:</i>			
4.03 Staff Development	-	-	-	4.07 Capital Projects Levy	-	-	-
4.05 Deferred Maintenance	-	-	-	4.09 Alternative Fac. Program	-	-	-
4.06 Health and Safety	-	-	-	4.13 Projects Funded By COP	-	-	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Revenue	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.14 Operating Debt	-	-	-	<i>Unassigned:</i>			
4.16 Levy Reduction	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.17 Taconite Building Maint	-	-	-				
4.23 Certain Teacher Programs	-	-	-	<b>07 DEBT SERVICE</b>			
4.24 Operating Capital	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.26 \$25 Taconite	-	-	-	Total Expenditures	-	-	-
4.27 Disabled Accessibility	-	-	-	<i>Non-Spendable:</i>			
4.28 Learning and Development	-	-	-	4.60 Non Spendable Fund Balance	-	-	-
4.34 Area Learning Center	-	-	-	<i>Restricted/Reserve:</i>			
4.35 Contracted Alt. Programs	-	-	-	4.25 Bond Refundings	-	-	-
4.36 St. Approved Alt. Program	-	-	-	4.51 QZAB Payments	-	-	-
4.38 Gifted & Talented	-	-	-	<i>Restricted:</i>			
4.41 Basic Skills Programs	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.45 Career & Tech Programs	-	-	-	<i>Unassigned:</i>			
4.49 Safe School Crime	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.50 Pre-Kindergarten	-	-	-				
4.51 QZAB Payments	-	-	-	<b>08 TRUST</b>			
4.52 OPEB Liab Not In Trust	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.53 Unfunded Sev & Retirement Levy	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.64 Restricted Fund Balance	350,000	350,000	-				
<i>Committed:</i>				<b>20 INTERNAL SERVICE</b>			
4.18 Committed For Separation	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.61 Committed Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Assigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.62 Assigned Fund Balance	-	-	-				
<i>Unassigned:</i>				<b>25 OPEB REVOCABLE TRUST</b>			
4.22 Unassigned Fund Balance	686,587	686,588	(1)	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	-	-	-
<b>02 FOOD SERVICE</b>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
Total Revenue	\$271,561	\$271,561	\$ -				
Total Expenditures	257,232	257,232	-	<b>45 OPEB IRREVOCABLE TRUST</b>			
<i>Non-Spendable:</i>				Total Revenue	\$ -	\$ -	\$ -
4.60 Non Spendable Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Restricted/Reserve:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-				
<i>Restricted:</i>				<b>47 OPEB DEBT SERVICE FUND</b>			
4.64 Restricted Fund Balance	14,329	14,329	-	Total Revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	-	-	-
4.63 Unassigned Fund Balance	-	-	-	<i>Non-Spendable:</i>			
				4.60 Non Spendable Fund Balance	-	-	-
<b>04 COMMUNITY SERVICE</b>				<i>Restricted:</i>			
Total Revenue	\$ -	\$ -	\$ -	4.25 Bond Refundings	-	-	-
Total Expenditures	-	-	-	4.64 Restricted Fund Balance	-	-	-
<i>Restricted/Reserve:</i>				<i>Unassigned:</i>			
4.26 \$25 Taconite	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.31 Community Education	-	-	-				
4.32 E.C.F.E	-	-	-				
4.44 School Readiness	-	-	-				
4.47 Adult Basic Education	-	-	-				
4.52 OPEB Liab Not In Trust	-	-	-				
<i>Restricted:</i>							
4.64 Restricted Fund Balance	-	-	-				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	-	-	-				



## **OTHER REQUIRED REPORTS**

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Urban Academy  
Charter School No. 4088  
Saint Paul, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Urban Academy, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Urban Academy's basic financial statements and have issued our report thereon dated October 17, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Urban 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 Urban Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Urban Academy's internal control.

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

October 17, 2016



## MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Directors  
Urban Academy  
Charter School No. 4088  
Saint Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Urban Academy as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 17, 2016.

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

In connection with our audit, nothing came to our attention that caused us to believe that Urban Academy failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*, except as described in the Schedule of Findings and Responses as item 2016-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Urban Academy's noncompliance with the above referenced provisions.

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

*Redpath and Company, Ltd.*

REDPATH AND COMPANY, LTD.  
St. Paul, Minnesota

October 17, 2016

**URBAN ACADEMY  
CHARTER SCHOOL NO. 4088  
SCHEDULE OF FINDINGS AND RESPONSES  
For The Year Ended June 30, 2016**

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**STATE LEGAL COMPLIANCE FINDING**

**2016-001 Deficiencies in Collateral for Deposits**

*Criteria:* The School is required to obtain a corporate surety bond or collateral for deposits in excess of FDIC coverage. Minnesota Statute 118A provides certain specific collateral requirements for deposits.

*Condition:* Audit procedures considered sufficiency of collateral coverage at month-end throughout the year, and found that on July 31, 2015 and December 31, 2015 the School's deposits exceeded FDIC coverage and proper collateral coverage was not obtained.

*Cause:* The School's bank did not offer an automatic sweep from the School's checking account to the School's ICS savings account.

*Effect:* The effect was noncompliance with Minnesota Statutes. The School did not have any losses of uninsured bank deposits.

*Recommendation:* We recommend the School obtain sufficient collateral to comply with Minnesota Statute 118A.03, and monitor it on an ongoing basis to verify that pledged collateral remains sufficient to cover uninsured deposits.

**Management Response**

*Correction Action Plan (CAP):* The School's Executive Director and Business Manager have worked with the School's bank to make changes necessary to ensure that School balances are properly collateralized in FY 2017 and the future.

*Explanation of agreement or disagreement:* The School agrees with the finding.

*Official responsible for ensuring CAP:* The School's Executive Director.

*Planned completion date for CAP:* June 30, 2017.

*Plan to monitor completion for CAP:* The Executive Director and Business Manager will monitor bank balances and the necessity for collateral.