

**Bdote Learning Center
Charter School No. 4226
Minneapolis, Minnesota**

Financial Statements

June 30, 2017



**Bdote Learning Center
Charter School No. 4226
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**Bdote Learning Center
Charter School No. 4226
Board of Directors and Administration
June 30, 2017**

<u>Board of Directors</u>	<u>Position</u>
Louise Matson	Board Chair
Graham Hartley	Treasurer
Inyan Walking Elk	Secretary
Sheila Zephier	Board Member
Jenn Hall	Board Member
Beth Brown	Board Member
Tony Scallon	Board Member
Joseph Rice	Board Member
<u>Administration</u>	
Cindy Ward-Thompson	Director of Administration



Independent Auditor's Report

To the Board of Directors
Bdote Learning Center
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Bdote Learning Center, Minneapolis, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the School's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Bdote Learning Center, Minneapolis, Minnesota, as of June 30, 2017, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund and Food Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the School will continue as a going concern. As discussed in Note 8 to the financial statements, the School has minimal total fund balance in the governmental funds after a deficit fund balance in the prior year and is unable to satisfy obligations timely. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Matters

Required Supplementary Information

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

Other Information

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



Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 the School's internal control over financial reporting and compliance.

BerganKDV Ltd.

Minneapolis, Minnesota
November 27, 2017

**Bdote Learning Center
Charter School No. 4226
Management's Discussion and Analysis**

This section of Bdote Learning Center's (the "School") annual financial report presents our discussion and analysis of the School's financial performance during the school year that ended on June 30, 2017. Please read it in conjunction with the School's financial statements, which immediately follow this section. The Management's Discussion and Analysis (MD&A) is a required element of required supplementary information specified in GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year (2016-2017) and the prior year (2015-2016) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016-2017 year include the following:

- The total fund balance of the General Fund ended at a negative \$131,436.
- Overall General Fund revenues were \$1,645,111 as compared to \$1,771,069 of expenditures.

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 MD&A (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 government-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 government-wide statements.

The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

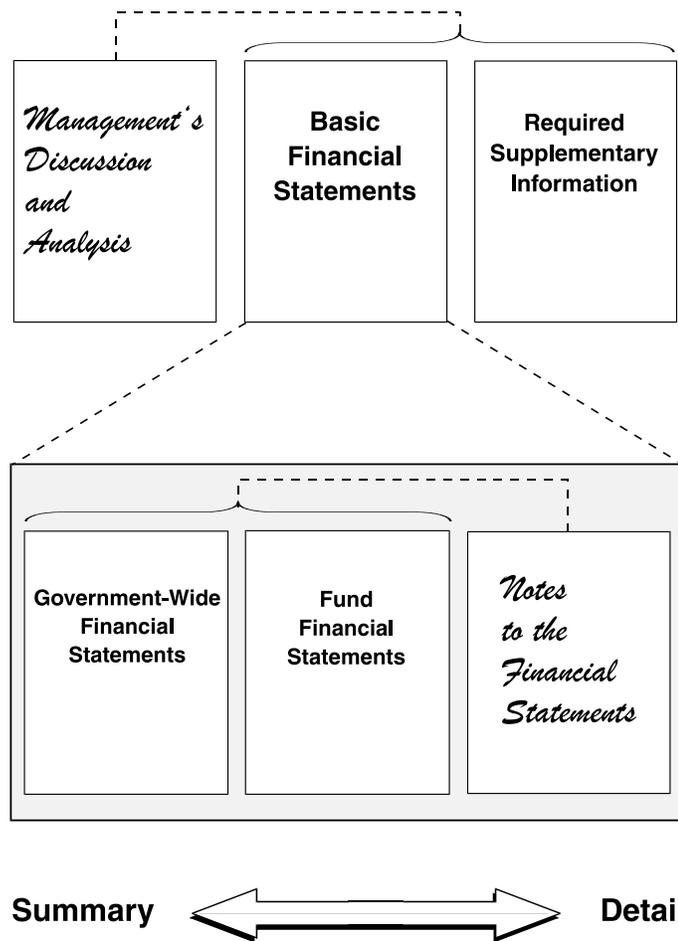
The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements.

**Bdote Learning Center
Charter School No. 4226
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Report Format**



**Bdote Learning Center
Charter School No. 4226
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The major features of the School's financial statements, including the portion of the School's activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

**Figure A-2
Major Features of the School's Government-Wide and Fund Financial Statements
Fund Statements**

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

Government-Wide Statements

The government-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 and liabilities. 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 government-wide statements report the School's net position and how they have changed. Net position, the difference between the School's assets and liabilities, 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, respectively.
- To assess the overall health of the School you need to consider additional non-financial factors such as changes in the School's creditworthiness and the condition of school buildings and other facilities.

**Bdote Learning Center
Charter School No. 4226
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements (Continued)

In the government-wide financial statements the School's activities are shown in one category:

Governmental Activities

Most of the School's basic services will be included here, such as regular and special education, transportation and administration. State and federal aids as well as federal and foundation grants financed these activities.

Fund financial Statements

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

Governmental Funds

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

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

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

Notes to the Basic Financial Statements

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

**Bdote Learning Center
Charter School No. 4226
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's net position was (\$512,331) on June 30, 2017 (See Table A-1).

**Table A-1
The School's Net Position**

	Governmental Activities		Change
	2017	2016	
Current and other assets	\$ 324,039	\$ 269,955	\$ 54,084
Capital and noncurrent assets	86,086	97,703	(11,617)
Total assets	\$ 410,125	\$ 367,658	\$ 42,467
Deferred outflows related to pensions	\$ 1,394,372	\$ 456,759	\$ 937,613
Liabilities	\$ 2,297,170	\$ 826,390	\$ 1,470,780
Deferred inflows related to pensions	\$ 19,658	\$ 52,182	\$ (32,524)
Net Position			
Net investment in capital assets	\$ 86,086	\$ 97,703	\$ (11,617)
Unrestricted	(598,417)	(151,858)	(446,559)
Total net position	\$ (512,331)	\$ (54,155)	\$ (458,176)

**Bdote Learning Center
Charter School No. 4226
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (CONTINUED)

Changes in Net Position

The School's total revenues were \$1,731,948 for the period ended June 30, 2017. The majority of the revenues were from state aids, as well as federal grants, private grants and investment earnings (See Table A-2.).

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

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2017</u>	<u>2016</u>	
Revenues			
Program revenues			
Charges for services	\$ 886	\$ 687	\$ 199
Operating grants and contributions	879,128	879,518	(390)
General revenues			
Unrestricted federal and state aid	689,393	547,427	141,966
Other	162,541	242,461	(79,920)
	<u>1,731,948</u>	<u>1,670,093</u>	<u>61,855</u>
Expenditures			
Administration	225,955	140,198	85,757
School support services	229,697	277,680	(47,983)
Elementary and secondary regular instruction	804,841	489,355	315,486
Special education instruction	362,273	147,872	214,401
Instructional support services	52,766	254,622	(201,856)
Pupil support services	244,466	202,748	41,718
Sites and buildings	183,480	168,502	14,978
Fiscal and other fixed cost programs	12,632	9,631	3,001
Food service	74,014	62,196	11,818
	<u>2,190,124</u>	<u>1,752,804</u>	<u>437,320</u>
Change in net position	(458,176)	(82,711)	(375,465)
Net Position			
Beginning of year	(54,155)	28,556	(82,711)
End of year	<u>\$ (512,331)</u>	<u>\$ (54,155)</u>	<u>\$ (458,176)</u>

Revenue was less than total cost of all programs of \$2,190,124, by \$458,176.

**Bdote Learning Center
Charter School No. 4226
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (CONTINUED)

Figure A-3 Sources of School's Revenues for 2017

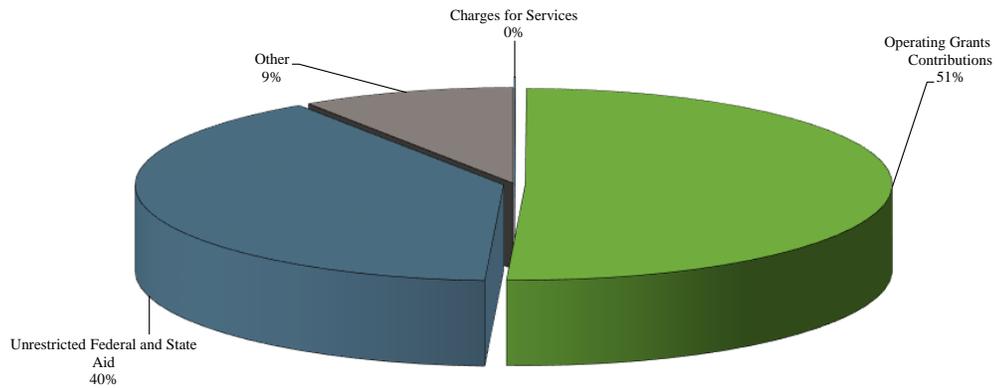
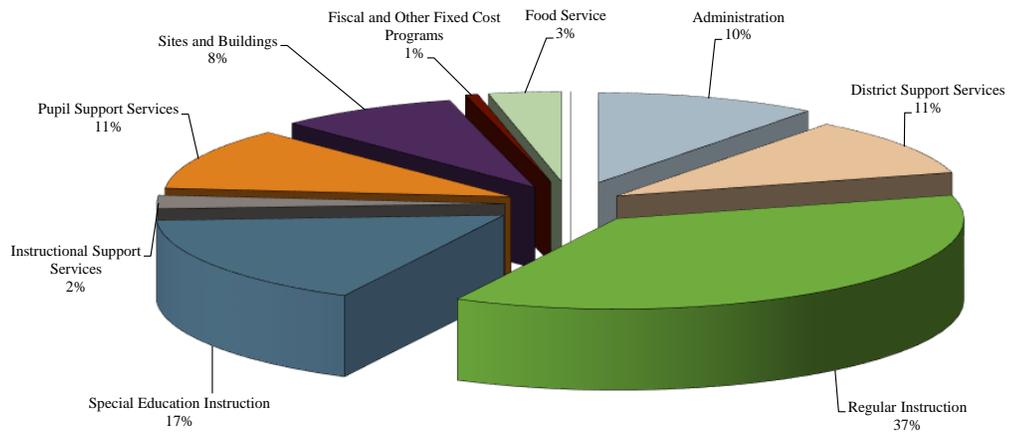


Figure A-4 School Expenses for 2017



**Bdote Learning Center
Charter School No. 4226
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (CONTINUED)

	Total Costs of Services			Net Costs of Services		
	2017	2016	Change	2017	2016	Change
Administration	\$ 225,955	\$ 140,198	\$ 85,757	\$ (225,955)	\$ (140,198)	\$ (85,757)
School support services	229,697	277,680	(47,983)	(219,284)	(15,310)	(203,974)
Elementary and secondary regular instruction	804,841	489,355	315,486	(485,381)	(140,841)	(344,540)
Special education instruction	362,273	147,872	214,401	19,097	(1,158)	20,255
Instructional support services	52,766	254,622	(201,856)	(52,766)	(254,622)	201,856
Pupil support services	244,466	202,748	41,718	(244,466)	(202,748)	(41,718)
Sites and buildings	183,480	168,502	14,978	(80,922)	(87,803)	6,881
Fiscal and other fixed cost programs	12,632	9,631	3,001	(12,632)	(9,631)	(3,001)
Food service	74,014	62,196	11,818	(7,801)	(20,288)	12,487
Total	\$ 2,190,124	\$ 1,752,804	\$ 437,320	\$ (1,310,110)	\$ (872,599)	\$ (437,511)

In 2016-2017, the School enrolled 11 students in kindergarten and 65 students in grades 1-5.

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 5, including pupil transportation activities and capital outlay projects.

**Table A-5
General Fund Revenues**

	Year Ended June 30,		Change
	2017	2016	
Other local revenues	\$ 162,492	\$ 242,839	\$ (80,347)
State sources	1,344,635	955,805	388,830
Federal sources	137,935	429,483	(291,548)
Interest earnings	49	58	(9)
Total general fund revenue	\$ 1,645,111	\$ 1,628,185	\$ 16,926

Other revenue consists of private grant funding which is expenditure driven.

**Bdote Learning Center
Charter School No. 4226
Management's Discussion and Analysis**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund expenditures. Of the total expenditures, about 40% were purchased services to continue developing the educational program, provide facility and administrative services and direct services to students. Another 53% of total expenditures were personnel salaries and benefits.

**Table A-6
General Fund Expenditures**

	Year Ended June 30,		Change
	2017	2016	
Salaries	\$ 729,005	\$ 550,146	\$ 178,859
Employee benefits	209,589	176,677	32,912
Purchased services	712,307	739,373	(27,066)
Supplies and materials	81,786	82,766	(980)
Capital expenditures	22,443	37,838	(15,395)
Debt service	4,062	1,857	2,205
Other expenditures	11,877	13,526	(1,649)
Total expenditures	<u>\$ 1,771,069</u>	<u>\$ 1,602,183</u>	<u>\$ 168,886</u>

In 2016-2017, General Fund expenditures and other financing uses exceeded revenues and other financing sources by \$153,632, decreasing the fund balance to a negative \$131,436.

GENERAL FUND BUDGETARY HIGHLIGHTS

Following approval of the budget, the School can revise the annual operating budget in mid-year. These budget amendments fall into two categories:

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

**Bdote Learning Center
Charter School No. 4226
Management's Discussion and Analysis**

GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

Capital Assets

By the end of 2017, the School had invested \$142,544 in capital assets, including computers, equipment, and furniture (See Table A-7). More detailed information about capital assets can be found in Note 4 to the financial statements. Total accumulated depreciation for the year was \$56,458.

**Table A-7
Capital Assets**

	<u>2017</u>	<u>2016</u>
Equipment	\$ 142,544	\$ 127,276
Less accumulated depreciation	<u>(56,458)</u>	<u>(29,573)</u>
Total	<u><u>\$ 86,086</u></u>	<u><u>\$ 97,703</u></u>

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The School will strive to meet 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 our constituents, state oversight agencies, lenders, customers, legislative leaders, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Bdote Learning Center, 3216 East 29th Street, Minneapolis, Minnesota 55406.

BASIC FINANCIAL STATEMENTS

**Bdote Learning Center
Charter School No. 4226
Statement of Net Position
June 30, 2017**

	Governmental Activities
Assets	
Cash	\$ 7,144
Accounts Receivable	7,040
Due from Department of Education	287,491
Due from other governmental units	3,692
Due from Federal Government through Department of Education	6,189
Prepaid items	12,483
Capital assets	
Furniture and equipment	86,086
Total assets	410,125
 Deferred Outflows of Resources	
Deferred outflows related to pensions	1,394,372
Total assets and deferred outflows of resources	\$ 1,804,497
 Liabilities	
Accounts payable	\$ 290,511
Salaries and benefits payable	9,964
Line of credit payable	155,000
Net pension liability	1,841,695
Total liabilities	2,297,170
 Deferred Inflows of Resources	
Deferred inflows related to pensions	19,658
 Net Position	
Net investment in capital assets	86,086
Unrestricted	(598,417)
Total net position	(512,331)
Total liabilities, deferred inflows of resources, and net position	\$ 1,804,497

**Bdote Learning Center
Charter School No. 4226
Balance Sheet - Governmental Funds
June 30, 2017**

	<u>General</u>	<u>Food Service</u>	<u>Total Governmental Funds</u>
Assets			
Cash	\$ 2,096	\$ 5,048	\$ 7,144
Accounts Receivable	7,040	-	7,040
Due from Department of Education	287,412	79	287,491
Due from Federal Government through Department of Education	-	6,189	6,189
Due from other governmental units	3,692	-	3,692
Prepaid items	12,483	-	12,483
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 312,723</u>	<u>\$ 11,316</u>	<u>\$ 324,039</u>
Liabilities			
Accounts payable	\$ 279,195	\$ 11,316	290,511
Salaries and benefits payable	9,964	-	9,964
Line of credit payable	155,000	-	155,000
Total liabilities	<u>444,159</u>	<u>11,316</u>	<u>455,475</u>
Fund Balances			
Nonspendable	12,483	-	12,483
Unassigned	(143,919)	-	(143,919)
Total fund balances	<u>(131,436)</u>	<u>-</u>	<u>(131,436)</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 312,723</u>	<u>\$ 11,316</u>	<u>\$ 324,039</u>

**Bdote Learning Center
Charter School No. 4226
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2017**

Total fund balances - governmental funds	\$ (131,436)
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	142,544
Less accumulated depreciation	(56,458)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Net pension liability	(1,841,695)
Deferred outflows related to pensions	1,394,372
Deferred inflows related to pensions	<u>(19,658)</u>

Total net position - governmental activities	<u><u>\$ (512,331)</u></u>
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**Bdote Learning Center
Charter School No. 4226
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2017**

	General	Food Service	Total Governmental Funds
Revenues			
Other local revenues	\$ 162,492	\$ -	\$ 162,492
Revenue from state sources	1,344,635	1,421	1,346,056
Revenue from federal sources	137,935	63,906	201,841
Sales and other conversion of assets	-	886	886
Interest earnings	49	-	49
Total revenues	1,645,111	66,213	1,711,324
Expenditures			
Current			
Administration	170,061	-	170,061
School support services	211,607	-	211,607
Elementary and secondary regular instruction	575,305	-	575,305
Special education instruction	306,797	-	306,797
Instructional support services	46,053	-	46,053
Pupil support services	243,923	-	243,923
Sites and buildings	182,248	-	182,248
Fiscal and other fixed cost programs	12,632	-	12,632
Food service	-	73,824	73,824
Capital outlay			
School support services	4,473	-	4,473
Elementary and secondary regular instruction	17,970	-	17,970
Total expenditures	1,771,069	73,824	1,844,893
Excess of revenues under expenditures	(125,958)	(7,611)	(133,569)
Other Financing Sources (Uses)			
Transfers in	-	27,674	27,674
Transfers out	(27,674)	-	(27,674)
Total other financing sources (uses)	(27,674)	27,674	-
Net change in fund balances	(153,632)	20,063	(133,569)
Fund Balances			
Beginning of year	22,196	(20,063)	2,133
End of year	\$ (131,436)	\$ -	\$ (131,436)

See notes to financial statements.

**Bdote Learning Center
Charter School No. 4226
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
to the Statement of Activities - Governmental Funds
Year Ended June 30, 2017**

Net change in fund balances - total governmental funds \$ (133,569)

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

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

Capital outlays	15,268
Depreciation expense	(26,885)

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

(312,990)

Change in net position - governmental activities \$ (458,176)

**Bdote Learning Center
Charter School No. 4226
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
Revenues				
Other local revenues	\$ 194,115	\$ 256,645	\$ 162,492	\$ (94,153)
Revenue from state sources	1,317,724	1,308,292	1,344,635	36,343
Revenue from federal sources	113,428	145,258	137,935	(7,323)
Interest earnings	165	165	49	(116)
Total revenues	<u>1,625,432</u>	<u>1,710,360</u>	<u>1,645,111</u>	<u>(65,249)</u>
Expenditures				
Current				
Administration	158,543	174,625	170,061	(4,564)
School support services	197,690	258,154	211,607	(46,547)
Elementary and secondary regular instruction	596,005	591,330	575,305	(16,025)
Special education instruction	173,050	172,172	306,797	134,625
Instructional support services	76,644	13,915	46,053	32,138
Pupil support services	194,362	254,362	243,923	(10,439)
Sites and buildings	160,460	165,110	182,248	17,138
Fiscal and other fixed cost programs	15,000	15,000	12,632	(2,368)
Capital outlay				
School support services	2,207	2,207	4,473	2,266
Elementary and secondary regular instruction	9,211	9,211	17,970	8,759
Total expenditures	<u>1,583,172</u>	<u>1,656,086</u>	<u>1,771,069</u>	<u>114,983</u>
Excess of revenues over (under) expenditures	42,260	54,274	(125,958)	(180,232)
Other Financing Uses				
Transfers out	(8,000)	(28,000)	(27,674)	326
Net change in fund balance	<u>\$ 34,260</u>	<u>\$ 26,274</u>	(153,632)	<u>\$ (179,906)</u>
Fund Balance				
Beginning of year			<u>22,196</u>	
End of year			<u>\$ (131,436)</u>	

**Bdote Learning Center
Charter School No. 4226
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final		
Revenues				
Revenue from state sources	\$ 3,248	\$ 3,248	\$ 1,421	\$ (1,827)
Revenue from federal sources	42,300	42,300	63,906	21,606
Sales and other conversion of assets	500	500	886	386
Total revenues	<u>46,048</u>	<u>46,048</u>	<u>66,213</u>	<u>20,165</u>
Expenditures				
Current				
Food service	54,048	54,048	73,824	19,776
Total expenditures	<u>54,048</u>	<u>54,048</u>	<u>73,824</u>	<u>19,776</u>
Excess of revenues under expenditures	(8,000)	(8,000)	(7,611)	389
Other Financing Sources				
Transfers in	<u>8,000</u>	<u>28,000</u>	<u>27,674</u>	<u>(326)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 20,000</u>	20,063	<u>\$ 63</u>
Fund Balance				
Beginning of year			<u>(20,063)</u>	
End of year			<u>\$ -</u>	

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**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The School is a nonprofit corporation that was formed in July 2010 in accordance with *Minnesota Statutes* 317A and began educating students during the 2014-2015 school year. The School is authorized by Innovative Quality Schools. The mission of the School is to develop culturally aware, successful, high performing students by providing them with an academically rigorous education that is place-based, and rooted in Native language and culture of indigenous peoples. The governing body consists of a Board of Officers composed of a Chairperson, Vice Chairperson, Treasurer, Secretary, and other members.

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

A. Reporting Entity

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

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

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

Any student activities the School may have are accounted for in the General Fund.

B. Basic Financial Statement Information

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

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

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

2. Recording of Expenditures

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

The School applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted net position is available. Further, the School applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. The effect of interfund activity has been removed from these statements.

Description of Funds:

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

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds: (Continued)

Major Funds:

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

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

D. Deposits and Investments

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

E. Prepaid Items

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

F. Capital Assets

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

Capital assets are defined by the School as assets with an initial individual cost of more than \$1,000. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method using actual month convention and depreciated down to the asset's salvage value.

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Compensated Absences

Certain School employees earn personal leave. School employees may cash in up to ten days of personal leave per contract period. At June 30, 2017, there was no liability exists for amounts employees have requested as payment.

H. Deferred Outflows/Inflows of Resources

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

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

I. Pensions

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

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

J. 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; natural disasters; and injuries to employees for which the School carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions or other significant changes in the School's insurance coverage during the year ended June 30, 2017.

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Fund Equity

1. Classification

In the fund financial statements, the governmental fund report fund classifications that comprise a hierarchy based primarily on the extent to which the School is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. Nonspendable fund balances include amounts that cannot be spent because they are not in spendable form. Amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments or b) imposed by law through enabling legislation are classified as restricted fund balances. Amounts that can only be used for specific purposes pursuant to constraints imposed by the Board of Directors (highest level of decision making authority) through resolution are classified as committed fund balances.

Amounts that are constrained by the School's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.

2. Minimum Fund Balance

At June 30, 2017, the School's policy is to maintain a minimum unassigned general fund balance of 15-20% of budgeted expenditures.

L. Net Position

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

M. Use of Estimates

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

N. Tax Status

The School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The School is also exempt from Minnesota Franchise or income tax.

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

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Budgetary Information

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

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

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balance and Statutory Operating Debt

The General Fund had a negative fund balance of \$131,436 at June 30, 2017. The School's unrestricted, operating fund balance is also negative, which exceeds 2.5% of operating expenditures. The School is required to submit a special operating plan to improve the fund balance position to the Commissioner of the Department of Education.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the School maintains deposits at depository banks authorized by the School's Board of Directors.

Custodial Credit Risk – Deposits: This is the risk that, in the event of the failure of a depository financial institution, the School will not be able to recover deposits or collateral securities that are in the possession of an outside party. *Minnesota Statutes* requires all deposits be protected by federal depository insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

The School did not have formal policies in place as of June 30, 2017, to address custodial credit risk for deposits. The School also does not have a policy in place to address credit risk, or concentration of credit risk, custodial credit risk or interest rate risk for investments.

Deposits are presented as cash in the Statement of Net Position at June 30, 2017 in the amount of \$7,144.

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated				
Furniture and equipment	\$ 127,276	\$ 15,268	\$ -	\$ 142,544
Less accumulated depreciation for				
Furniture and equipment	<u>29,573</u>	<u>26,885</u>	<u>-</u>	<u>56,458</u>
Governmental activities, capital assets, net	<u>\$ 97,703</u>	<u>\$ (26,885)</u>	<u>\$ -</u>	<u>\$ 86,086</u>

Depreciation expense of \$26,885 for the year ended June 30, 2017, was charged to the following governmental functions:

School support services	\$ 8,121
Elementary and secondary regular instruction	17,342
Food service	190
Sites, buildings, and equipment	<u>1,232</u>
Total depreciation expense	<u>\$ 26,885</u>

NOTE 5 – INTERFUND ACTIVITY

Transfers

The General Fund made a transfer to the Food Service Fund in the amount of \$27,674 to eliminate a year-end fund balance deficit as required by *Minnesota Statute* 124D.111.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The School participates in various pension plans, total pension expense for the year ended June 30, 2017, was \$390,576. The components of pension expense are noted in the following plan summaries.

Teachers' Retirement Association

A. Plan Description

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

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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

B. Benefits Provided

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

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

Tier 1 Benefits

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

With these provisions:

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

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits

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

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

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

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

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2015, June 30, 2016, and June 30, 2017, were:

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

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 354,961,140
Deduct Employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	<u>(442,978)</u>
Total employer contributions	354,544,518
Total non-employer contributions	<u>35,587,410</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 390,131,928</u></u>

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

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the single equivalent interest rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50-9.50%
Cost of living adjustment	2.00%

Mortality Assumption

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

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

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

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

E. Discount Rate

The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at the prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2017, the School reported a liability of \$1,598,110 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. School proportionate share was 0.0067% at the end of the measurement period and 0.0066% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 1,598,110
State's proportionate share of the net pension liability associated with the District	161,007

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 remain level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.

For the year ended June 30, 2017, the School recognized pension expense of \$340,689. It recognized \$22,482 as an increase to this pension expense for the support provided by direct aid.

On June 30, 2017, the School had deferred resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,908	\$ 45
Net difference between projected and actual earnings on plan investments	112,136	-
Changes of assumptions	910,930	-
Changes in proportion	194,435	-
Contributions to TRA subsequent to the measurement date	<u>32,394</u>	<u>-</u>
Total	<u>\$ 1,251,803</u>	<u>\$ 45</u>

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

\$32,394 reported as deferred outflows of resources related to pensions resulting from School contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

2018		\$ 278,425
2019		278,424
2020		279,383
2021		204,875
2022		<u>178,257</u>
Total		<u><u>\$ 1,219,364</u></u>

G. Pension Liability Sensitivity

The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using 1 percent lower and 1 percent higher.

School proportionate share of NPL		
1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
\$ 2,058,765	\$ 1,598,110	\$ 1,222,921

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

H. Pension Plan Fiduciary Net Position

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

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association

A. Plan Description

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

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

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

B. Benefits Provided

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

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

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

General Employees Plan Benefits

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

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions

Minnesota Statutes Chapter 353 set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2017. The School was required to contribute 7.5% for Coordinated Plan members in fiscal year 2017. The School's contributions to the General Employees Fund for the year ended June 30, 2017, were \$21,774. The School's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2017, the School reported a liability of \$243,585 for its proportionate share of the General Employees Fund's net pension liability. The School's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the School totaled \$3,140. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the School's proportion was 0.0030%, which was an increase of 0.0001% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School recognized pension expense of \$49,887 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the School recognized \$936 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

At June 30, 2017, the School reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 385	\$ 19,613
Changes in actuarial assumptions	50,276	-
Difference between projected and actual investments earnings	35,712	-
Change in proportion	34,422	-
Contributions paid to PERA subsequent to the measurement date	<u>21,774</u>	<u>-</u>
 Total	 <u><u>\$ 142,569</u></u>	 <u><u>\$ 19,613</u></u>

\$21,774 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ 35,327
2019	32,361
2020	24,696
2021	<u>8,798</u>
 Total	 <u><u>\$ 101,182</u></u>

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

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

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

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees’ Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rates

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
School's proportionate share of the PERA net pension liability	\$ 345,963	\$ 243,585	\$ 159,254

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

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

NOTE 7 – COMMITMENTS

A. Lease Commitments and Terms

On February 5, 2013, the School (Lessee) signed a lease for educational space with The Church of St. Albert the Great of Minneapolis, and the lease was amended on July 9, 2015. The term of the lease agreement covers periods August 15, 2014, through August 14, 2017. Minimum rental payments of \$9,872 are due on a monthly basis. The School is also responsible for its proportionate share of all operating costs.

For 2017, the School qualified for state charter school lease aid which equaled the lesser of 90% of the approved lease cost or \$1,314 per pupil units served, or \$99,956.

The School's ability to make payments under the lease agreement is dependent on its revenues which are in turn, largely dependent on sufficient enrollment being served at the School and sufficient state aids per student being authorized and received from the State of Minnesota. As of June 30, 2017, the School had not yet disbursed lease payments from February 15, 2017 through year end. These amounts were recognized as a liability within accounts payable.

NOTE 8 – GOING CONCERN AND MANAGEMENT'S PLANS

Bdote Learning Center is considered to be in the development stage and is currently working toward maximizing enrollment goals to increase state funding and cover operating costs. The financial statements were prepared on a going concern basis. The going concern basis assumes that the School will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. However, as of June 30, 2017, the School had a deficit total fund balance in the governmental funds and was in Statutory Operating Debt. This and other factors raise substantial doubt about the School's ability to continue as a going concern.

The ability of the School to continue as a going concern is dependent upon its ability to sustain current 2017-2018 enrollment, raise additional funds, and continue with positive operations. This need may be adversely impacted by uncertain economic conditions and approval by regulatory bodies. The school currently has a strategic plan to sustain operations, including strict cost management, engaging in additional fundraising activity, and maximizing enrollment through recruitment efforts.

**Bdote Learning Center
Charter School No. 4226
Notes to Financial Statements**

NOTE 9 – SUBSEQUENT EVENT

On August 16, 2017, the School signed a promissory note with the Non Profits Assistance Fund in the amount of \$180,000 at an interest rate of 6.5%. Monthly payments begin on September 16, 2017, and end on August 16, 2018.

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REQUIRED SUPPLEMENTARY INFORMATION

**Bdote Learning Center
Charter School No. 4226
Schedule of School's and Non-Employer Proportionate Share
of Net Pension Liability
Last Ten Years General Employees Retirement Funds**

For Fiscal Year Ended June 30,	School's Proportion of the Net Pension Liability (Asset)	School's Proportionate Share of the Net Pension Liability (Asset)	School's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	School's Proportionate Share of the District's Share of the State of Minnesota's Share of the Net Pension of Liability	School's Covered- Employee Payroll	School's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0016%	\$ 75,160	\$ -	\$ 75,160	\$ 83,090	90.46%	78.7%
2016	0.0029%	150,293	-	150,293	164,827	91.18%	78.2%
2017	0.0030%	243,585	3,140	246,725	183,627	132.65%	68.9%

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

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

For Fiscal Year Ended June 30,	School's Proportion of the Net Pension Liability (Asset)	School's Proportionate Share of the Net Pension Liability (Asset)	School's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	School's Proportionate Share of the District's Share of the State of Minnesota's Share of the Net Pension of Liability	School's Covered- Employee Payroll	School's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0007%	\$ 32,255	\$ 2,120	\$ 34,375	\$ 29,999	107.5%	81.5%
2016	0.0066%	408,275	50,014	458,289	334,213	122.2%	76.8%
2017	0.0067%	1,598,110	161,007	1,759,117	347,240	460.2%	44.9%

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

**Bdote Learning Center
Charter School No. 4226
Schedule of School Contributions
General Employees Retirement Funds
Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>School's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 6,024	\$ 6,024	\$ -	\$ 83,090	7.25%
2015	12,362	12,362	-	164,827	7.50%
2016	13,772	13,772	-	183,627	7.50%
2017	21,774	21,774	-	290,320	7.50%

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

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

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>School's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 2,100	\$ 2,100	\$ -	\$ 29,999	7.00%
2015	25,066	25,066	-	334,213	7.50%
2016	26,043	26,043	-	347,240	7.50%
2017	32,394	32,394	-	431,920	7.50%

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

**Bdote Learning Center
Charter School No. 4226
Notes to the Required Supplementary Information**

TRA Retirement Fund

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

General Employees Fund

2016 Changes

Changes in Actuarial Assumptions

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

**Bdote Learning Center
Charter School No. 4226
Notes to the Required Supplementary Information**

General Employees Fund (Continued)

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

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SUPPLEMENTARY INFORMATION

**Bdote Learning Center
Charter School No. 4226
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2017**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 General Fund				06 Building Construction Fund			
Total revenue	\$ 1,645,111	\$ 1,645,110	\$ 1	Total revenue	\$ -	\$ -	\$ -
Total expenditures	1,771,069	1,771,070	(1)	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	12,483	12,483	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff development	-	-	-	407 Capital projects levy	-	-	-
406 Health and safety	-	-	-	409 Alternative facility program	-	-	-
407 Capital projects levy	-	-	-	413 building projects funded by COP/LP	-	-	-
408 Cooperative programs	-	-	-	<i>Restricted:</i>			
409 Alternative facility program	-	-	-	464 Restricted fund balance	-	-	-
413 Building Projects Funded by COP/LOP	-	-	-	<i>Unassigned:</i>			
414 Operating debt	-	-	-	463 Unassigned fund balance	-	-	-
416 Levy reduction	-	-	-				
417 Taconite building maintenance	-	-	-	07 Debt Service Fund			
424 Operating capital	-	-	-	Total revenue	\$ -	\$ -	\$ -
426 \$25 taconite	-	-	-	Total expenditures	-	-	-
427 Disabled accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and development	-	-	-	460 Nonspendable fund balance	-	-	-
434 Area learning center	-	-	-	<i>Restricted/reserved:</i>			
435 Contracted alternative programs	-	-	-	425 Bond refunding	-	-	-
436 State approved alternative program	-	-	-	451 QZAB and QCSB payments	-	-	-
438 Gifted and talented	-	-	-	<i>Restricted:</i>			
440 Teacher development and evaluation	-	-	-	464 Restricted fund balance	-	-	-
441 Basic skills programs	-	-	-	<i>Unassigned:</i>			
445 Career technical programs	-	-	-	463 Unassigned fund balance	-	-	-
446 First grade preparedness	-	-	-				
448 Achievement and integration revenue	-	-	-	08 Trust Fund			
449 Safe school crime	-	-	-	Total revenue	\$ -	\$ -	\$ -
450 Transition for pre-kindergarten	-	-	-	Total expenditures	-	-	-
451 QZAB and QCSB payments	-	-	-	<i>Unassigned:</i>			
452 OPEB liabilities not held in trust	-	-	-	422 Unassigned fund balance (net position)	-	-	-
453 Unfunded severance and retirement levy	-	-	-				
467 Long-term Facilities Maintenance	-	-	-	20 Internal Service Fund			
472 Medical Assistance	-	-	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted:</i>				Total expenditures	-	-	-
464 Restricted fund balance	-	-	-	<i>Unassigned:</i>			
<i>Committed:</i>				422 Unassigned fund balance (net position)	-	-	-
418 Committed for separation	-	-	-				
461 Committed	-	-	-	25 OPEB Revocable Trust			
<i>Assigned:</i>				Total revenue	\$ -	\$ -	\$ -
462 Assigned fund balance	-	-	-	Total expenditures	-	-	-
<i>Unassigned:</i>				<i>Unassigned:</i>			
422 Unassigned fund balance (net position)	(143,919)	(143,919)	-	422 Unassigned fund balance (net position)	-	-	-
02 Food Services Fund				45 OPEB Irrevocable Trust			
Total revenue	\$ 66,213	\$ 66,213	\$ -	Total revenue	\$ -	\$ -	\$ -
Total expenditures	73,824	73,824	-	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable fund balance	-	-	-	422 Unassigned fund balance (net position)	-	-	-
<i>Restricted/reserved:</i>							
452 OPEB liabilities not held in trust	-	-	-	47 OPEB Debt Service			
<i>Restricted:</i>				Total revenue	\$ -	\$ -	\$ -
464 Restricted fund balance	-	-	-	Total expenditures	-	-	-
<i>Unassigned:</i>				<i>Nonspendable:</i>			
463 Unassigned fund balance	-	-	-	460 Nonspendable fund balance	-	-	-
				<i>Restricted:</i>			
04 Community Service Fund				425 Bond refundings	-	-	-
Total revenue	\$ -	\$ -	\$ -	464 Restricted fund balance	-	-	-
Total expenditures	-	-	-	<i>Unassigned:</i>			
<i>Nonspendable:</i>				463 Unassigned fund balance	-	-	-
460 Nonspendable fund balance	-	-	-				
<i>Restricted/reserved:</i>							
426 \$25 Taconite	-	-	-				
431 Community Education	-	-	-				
432 ECFE	-	-	-				
440 Teacher Development And Evaluation	-	-	-				
444 School Readiness	-	-	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities Not Held In Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted fund balance	-	-	-				
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				

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

Independent Auditor's Report

To the Board of Directors
Bdote Learning Center
Minneapolis, 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 Bdote Learning Center, Minneapolis, Minnesota, as of and for the year ending June 30, 2017, and the related notes to financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 27, 2017.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

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

Schools Response to Findings

The School's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. The School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 27, 2017



Report on Legal Compliance

Independent Auditor's Report

To the Board of Directors
Bdote Learning Center
Minneapolis, 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 Bdote Learning Center, Minneapolis, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated November 27, 2017.

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 27, 2017

**Bdote Learning Center
Charter School No. 4226
Schedule of Finding and Corrective Action Plan
on Legal Compliance**

CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDING:

Prompt Payment of Bills

Minnesota Statutes 471.425, subd. 2 requires that bills are to be paid within the time period set by the terms of the contract or within the standard payment period. The standard payment period is 35 days from receipt of goods or services or invoice, whichever is later, for governing boards that meet at least once a month.

During our audit, we noted disbursements that were paid over 35 days after the invoice was received during the year ended June 30, 2017.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
Administration will look to improve operations to ensure that bills are paid in a timely manner as required by *Minnesota Statutes 471.425, subd. 2*.
3. Official Responsible for Ensuring CAP
Graham Hartley, Treasurer, is the official responsible for ensuring corrective action of the finding.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2018.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

**Bdote Learning Center
Charter School No. 4226
Schedule of Finding and Corrective Action Plan
on Legal Compliance**

PRIOR YEAR LEGAL COMPLIANCE FINDINGS:

Closed Meetings

Minnesota Statutes 124E.03 requires that all meetings be open to the public, unless the meeting is closed for an allowable exception. If a meeting is closed, the public body shall state on the record the specific grounds permitting the meeting to be closed and describe the subject to be discussed.

During 2016, the School closed a meeting in which they did not record the meeting to state the reason that the meeting was being closed on the record and describe the subject to be discussed.

CORRECTIVE ACTION TAKEN

During 2017, we noted no closed meetings that were not recorded.

Electronic Funds Transfers

Minnesota Statutes 471.38, Subd. 3 and 3a provide that the School enact the following controls relating to electronic funds transfers (EFT):

1. The School Board shall annually delegate the authority to make EFT to a designated business administrator.
2. The disbursing bank shall keep on file a certified copy of the delegation of authority.
3. The initiator of the EFT shall be identified.
4. The initiator shall document the request and obtain an approval from the designated business administrator before initiating the transfer.
5. A written confirmation of the transaction shall be made no later than one business day after the transaction and shall be used in lieu of a check, order check, or warrant required to support the transaction.
6. A list of all transactions made by EFT shall be submitted to the School Board at its next regular meeting after the transaction.

For the year ended June 30, 2016, the School did adopt controls for No. 1 and No. 6 above, but did not address the remaining controls.

CORRECTIVE ACTION TAKEN

During 2017, policies and procedures were amended to include all controls required by *Minnesota Statutes* 471.38, Subd. 3 and 3a.