Bdote Learning Center
Charter School No. 4226
Minneapolis, Minnesota

Communications Letter

June 30, 2018

bergan KDV
CPAS | ADVISORS

Bdote Learning Center
Charter School No. 4226
Table of Contents

Report on Matters Identified as a Result of the Audit of the Financial Statements

Board of Directors and Management
Bdote Learning Center
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bdote Learning Center, Minneapolis, Minnesota, as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the School's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls.

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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows: reasonably possible – the change of the future event or events occurring is more than remote but less than likely; probable – the future event or events are likely to occur. We did not identify any deficiencies in internal control what we would consider to be material weaknesses.

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.

BerganKDV, Ltd.
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This communication is intended solely for the information and use of the School Board and others within the School and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

BerganKDV Ltd.

Minneapolis, Minnesota
September 11, 2018

Bdote Learning Center
Charter School No. 4226
Required Communication

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bdote Learning Center, as of and for the year ended June 30, 2018. Professional standards require that we advise you of the following matters related to our audit.

OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

As part of our audit, we considered the internal control of the School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School's compliance with certain provisions of laws, regulations, contracts, and grant agreements. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplement(s) the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

PLANNED SCOPE AND TIMING OF THE AUDIT (CONTINUED)

Our audit included obtaining an understanding of the School and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the School or to acts by management or employees acting on behalf of the School.

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the School is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during the year ended June 30, 2018. We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation – The School is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

Net Pension Liability, Deferred Outflows of Resources Related to Pensions, and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

UNCORRECTED AND CORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. We identified the following uncorrected misstatement of the financial statements. Management has determined its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Understatement of pension expense and revenue related to direct aid contributions

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the School's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

REPRESENTATIONS REQUESTED FROM MANAGEMENT

We requested certain written representations from management, which are included in the management representation letter.

MANAGEMENT'S CONSULTATIONS WITH OTHER ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Bdote Learning Center
Charter School No. 4226
Required Communication

OTHER SIGNIFICANT MATTERS, FINDINGS OR ISSUES

In the normal course of our professional association with the School, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the School, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the School's auditors.

OTHER MATTERS

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Bdote Learning Center
Charter School No. 4226
Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the School for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance. We suggest you view each graph and document if our analysis is consistent with yours.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

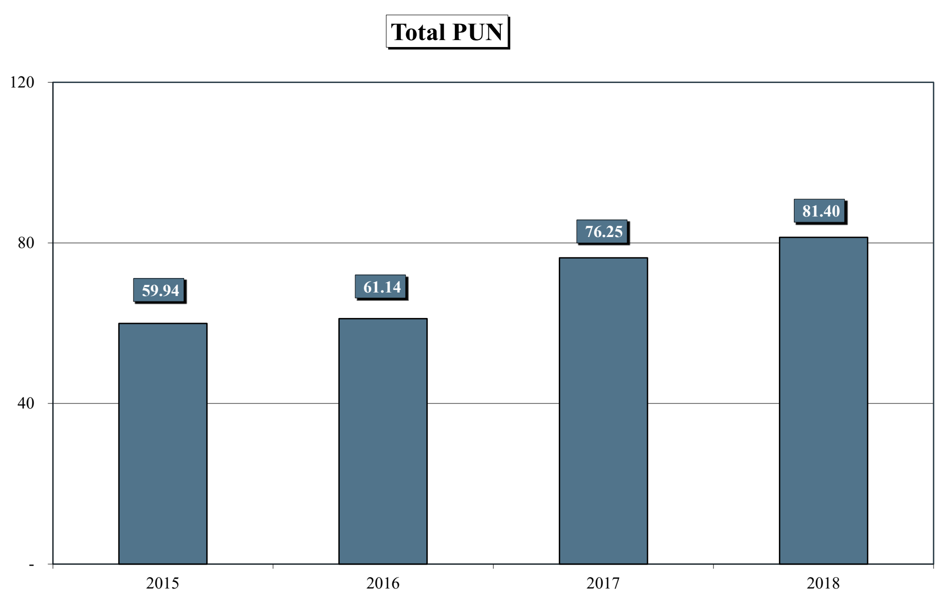
For 2018, total ADM served increased by 5.15 ADM. The following summarizes ADM served for the School over the past three years ended June 30:

ADM	2015	2016	2017	2018
Total ADM Served	59.94	61.14	76.25	81.40
Total ADM Served	**59.94**	**61.14**	**76.25**	**81.40**

To calculate a majority of the School's education aids, the ADM amounts were converted into pupil units by weighting, based on the student's grade level. The weighting factor for students are presented in the table below.

Pupil Units Weighting				
	Kindergarten	Elementary Grades 1-4	Elementary Grades 4-6	Secondary
Years 2015-2018	1.000	1.000	1.000	1.200

The pupil unit weighting (PUN) served graph above converts the ADM served into weighted or adjusted pupil unit data for the past five years, taking into consideration the above weighting factors.

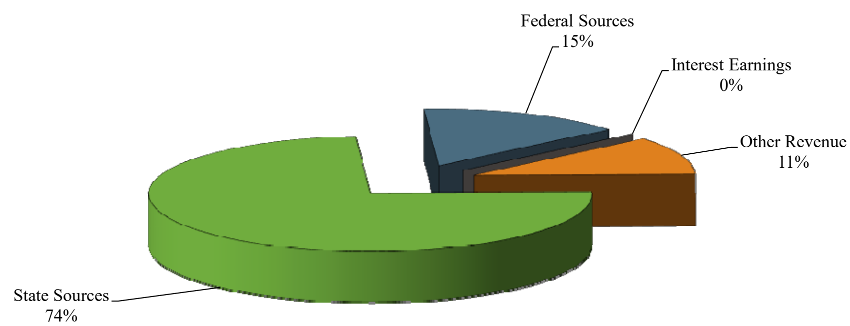


Bdote Learning Center
Charter School No. 4226
Financial Analysis

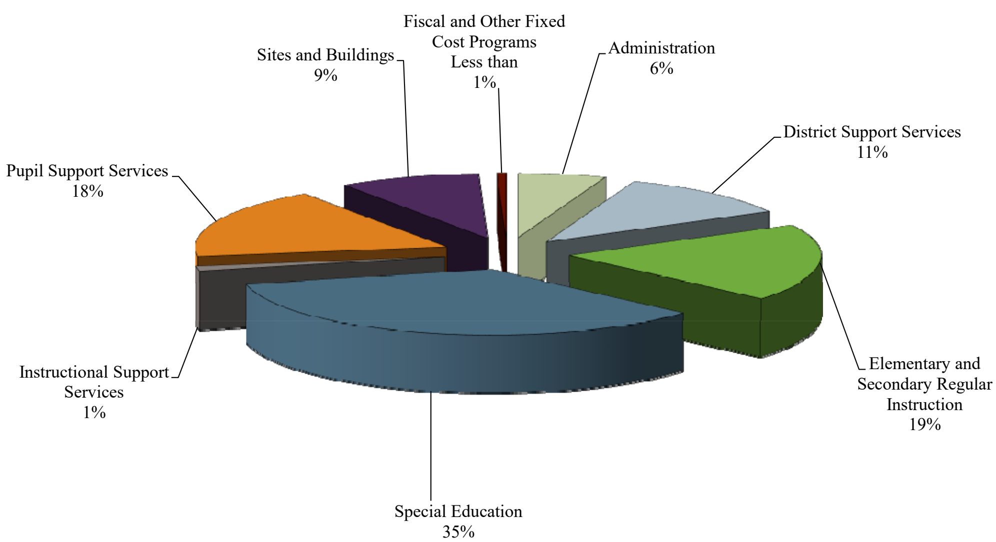
GENERAL FUND REVENUES AND EXPENDITURES

The following pie charts illustrate the breakdown of General Fund revenues and expenditures by program for the current year:

2018 General Fund Revenues



2018 General Fund Expenditures



Bdote Learning Center
Charter School No. 4226
Financial Analysis

GENERAL FUND REVENUES AND EXPENDITURES (CONTINUED)

The following table presents three years of comparative operating results for the School's General Fund.

For Year End June 30	2015	2016	2017	2018
Revenues	$1,447,180	$ 1,628,185	$ 1,645,111	$ 2,311,726
Expenditures	1,421,001	1,602,183	1,771,069	2,218,595
Excess of revenues over (under) expenditures	26,179	26,002	(125,958)	93,131
Less: transfer out	-	(30,100)	(27,674)	(5,560)
Fund balance, July 1	115	26,294	22,196	(131,436)
Fund Balance, June 30	**26,294**	**22,196**	**(131,436)**	**(43,865)**

For the year ended June 30, 2018, total revenues increased by $666,615. At the same time, total expenditures increased by $447,526. The School's General Fund revenues exceeded expenditures by $93,131. Revenues increased due to the increase in enrollment, an increase in aid received for Special Education and related transportation, and receiving additional grant funding from the Administration for Native Americans. Expenditures increased primarily as a result of the increasing costs in Special Education, the hiring of more paraprofessionals, and higher transportation costs. The General Fund made a transfer to the Food Service Fund in the amount of $5,560 to eliminate a year-end fund balance deficit.

The General Fund had a negative fund balance of $43,865 at June 30, 2018. The School's unrestricted, operating fund balance is also negative, equaling 2.0% of operating expenditures.

Bdote Learning Center is actively working with the Minnesota Department of Education in regards to a Special Education adjustment that was made related to fiscal year ended June 30, 2018. While Bdote recognized the negative impact of this adjustment as required, causing Bdote not to be able to show a positive fund balance, Bdote is appealing and hopeful this revenue will be received and recognized in FY19.

Bdote Learning Center
Charter School No. 4226
Legislative Summary

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

STATE AID APPROPRIATIONS

The formula allowance for 2018 General Education Aid was increased $121 (2%) to $6,188. For 2019, the formula allowance is set at $6,312, which is also an increase of 2%.

COMPENSATORY REVENUE

The compensatory pilot grants have been added permanently to regular compensatory revenue at the 2017 level. A percentage of the total compensatory revenue (regular plus pilot grant) must be used for extended time activities. These percentages are 3.5% for 2019 and for 2020 and later it will be 3.5% plus the percentage change in the formula from 2019.

STUDENT ACHIEVEMENT LEVY

The Student Achievement Levy eliminated for 2019.

LEAD IN SCHOOL DRINKING WATER

By July 1, 2018, districts will be required to begin testing school water for lead. Testing must be completed for all schools within five years. School districts and charter schools must adopt a plan to test school water for lead at least every five years. Lead test results must be made available to the public and parents must be notified when this information is available.

The testing may be included in the ten year facilities plans and districts can use long-term facilities maintenance revenue for lead testing and remediation costs.

PAYMENTS TO NONOPERATING FUNDS

The payment schedule for nonoperating fund aids is moving to six monthly installments from July through December rather than 12 monthly installments.

SCHOOL BUILDING BOND AGRICULTURAL CREDIT

Effective for taxes payable in 2018, there will be a property tax credit on all property classified as agricultural. The credit will be equal to 40% of the tax on the property attributable to school district bonded debt levies. Total amounts available will be $34.8 million in 2019, $45.2 million in 2020, and $52.5 million in 2021.

Bdote Learning Center
Charter School No. 4226
Legislative Summary

LONG-TERM FACILITIES MAINTENANCE REVENUE

The per pupil revenue increases from $193/APU to $292 for 2018 and $380 for 2019 and later. Equalized revenue is limited to $292 for 2018 and $380 for 2019 and later. LTFM revenue may be used for remodeling and new construction for school security enhancements, and equipment and facility modifications related to violence prevention and facility security for projects in the LTFM plan approved in 2019 or 2020.

EQUITY REVENUE

Starting in 2017 through 2019, nonmetro school district are eligible for a 16% increase in the sliding portion of their equity revenue. The seven county metro area schools continue to receive a 25% increase over their initial calculation for revenue.

Beginning in 2020, all districts will receive the same 25% increase over the initial calculation for revenue.

SPECIAL EDUCATION

An adjustment to the prior year data and the fiscal year 2016 old formula revenue base used to calculate the hold harmless and growth cap will be necessary for closed or restructured programs.

Although there was a change in Federal law removing student awaiting foster care from the definition of "homeless", these students will still be included in the special education funding calculations.

VOLUNTARY PREKINDERGARTEN (VPK)/SCHOOL READINESS PLUS

This program changes the VPK cap from a limit on the total state aid entitlement to a limit on the number of participants. The cap for VPK and school readiness plus will be 7,160 for 2019. The new school readiness plus program continues for 2019. After 2019 the school readiness plus will be eliminated and the cap for VPK will be 3,160 participants.

EMERGENCY SCHOOL FUNDING

One-time additional school aid was approved effective for 2019 only. The aid equals $57.73 per 2018 adjusted ADM for school districts and charter schools ($50 million total). The aid will be paid out with the school endowment fund payment in September 2018. Aid may be used for student and staff safety or any other school-related purpose as deemed appropriate by the school board.

Bdote Learning Center
Charter School No. 4226
Legislative Summary

STAFF DEVELOPMENT SET-ASIDE WAIVER

For 2019 only, school boards may waive the 2% staff development set aside requirement or establish a different percentage reserve by board resolution without a majority vote by the licensed teachers in the District.

COMMUNITY SERVICE FUND TRANSFER

For 2019, Districts may permanently transfer any amount approved by the Commissioner from the restricted/reserved for community education fund balance to its undesignated fund balance.

SAFE SCHOOLS REVENUE

Revenue is increased from $36 to $54/PU for 2019 and to $41.50/PU for 2020 and later with a maximum revenue of $30,000 per District for 2019 and later. Districts must annually report safe schools expenditures to MDE by area and any new staff positions hired beginning in 2019.

Q COMP

The cap on basic Q Comp aid remains at $88,118,000 but allows the commissioner to prorate aid for existing districts and schools. Due to enrollment growth, proration is projected to be 98.8%. Districts will be able to levy for the projected basic aid shortfall.

SCHOOL SAFETY GRANTS

The house and senate approved $25 million in total grants to be funded from the State General Fund in 2019. Grants will be awarded by MDE on a first-come, first-serve basis, in consultation with the Department of Public Safety's Minnesota School Safety Center. Grants maybe used to predesign, design, construct, furnish and equip school facilities including renovating and expanding existing buildings and facilities. Grant awards are limited to $500,000 for each qualifying school building. At least half of the grants must be awarded to school districts outside the 11 county metro area.

PENSION BILL

Augmentation has been eliminated for TRA members after 12/31/17, and early retirement subsidies have been phased out.

Post-retirement cost of living adjustments (COLAs) have been reduced –

1) TRA – lowers the COLA from 2% to 1% for 5 years; then the rate will increase by 0.1% each year until it reaches 1.5%

PENSION BILL (CONTINUED)

2) PERA – the increase will be 50% of the increase for Social Security announced January 1, but not less than 0.5% or more than 1.5%
3) Defers commencement of COLA for early retirees

The rate of interest paid on refunds of employee contributions to former employees has been reduced from 4% to 3%. TRA required contributions have increased to 7.75% for employees effective FY2024. Required employer contributions will increase 0.21% for FY 2019 to FY 2023 and 0.2% in FY2024 until a required contribution rate of 8.75% is reached.

Pension adjustment revenue will increase to match the required contribution increases.

CHARTER SCHOOLS

Charter schools will receive $18/PU of safe schools revenue for 2019 and $5.50/PU for all later years.

Bdote Learning Center
Charter School No. 4226
Emerging Issues

Executive Summary
The following is an executive summary of financial related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant update includes:

- **Accounting Standard Update – GASB Statement No. 84 – Fiduciary Activities** – GASB has issued GASB Statement No. 84 relating to accounting and financial reporting for fiduciary activities. This new statement establishes clarity to determines when a government has fiduciary responsibility for a certain activity.
- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss this issue with you further and their applicability to your School.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 84 – *FIDUCIARY ACTIVITIES*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

GASB Statement No. 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 84 – *FIDUCIARY ACTIVITIES* (CONTINUED)

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB Statement No. 84 is effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – *LEASES*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – *LEASES* (CONTINUED)

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Information provided above was obtained from www.gasb.org.