

**ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135**

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

For The Year Ended June 30, 2017

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ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135
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INTRODUCTORY SECTION

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BOARD OF DIRECTORS

<u>Name</u>	<u>Board Position</u> <u>During 2016 - 2017</u>
Ali Jaras	Board Chair
Jeff Lampo	Vice Chair
Deq Ahmed	Secretary
Ahmed Elmi	Treasurer
Mahamoud Hassan	Member

ADMINISTRATION

Abdulkadir Abdalla	School Director
Dieci School Finance, LLC	Business Manager

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rochester Math & Science Academy
Charter School No. 4135
Rochester, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Rochester Math & Science Academy, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Rochester Math & Science Academy's 2016 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated October 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rochester Math & Science Academy's basic financial statements. The introductory section and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Uniform

Financial Accounting and Reporting Standards Compliance Table is presented as supplemental information as required by the Minnesota Department of Education and is also not part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2017, on our consideration of Rochester Math & Science Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rochester Math & Science Academy's internal control over financial reporting and compliance.

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

November 6, 2017

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MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

This section of Rochester Math & Science Academy’s (the School) annual financial report presents our discussion and analysis of the School’s financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the School’s financial statements, which immediately follow this section.

Financial Highlights

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

- The School’s net position was (\$44,624) and \$426,674 at June 30, 2017 and 2016, respectively.
- Revenues for the School’s governmental activities were \$5,325,776 and \$4,751,752 for 2017 and 2016, respectively, while total expenses were \$5,797,074 and \$4,470,569 for 2017 and 2016, respectively.

Overview of the Financial Statements

The financial section of the annual report consists of five parts – Independent Auditor’s Report, required supplementary information which includes the MD&A (this section), the budgetary comparison schedules, the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are school-wide financial statements that provide both short-term and long-term information about the School’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School’s operations in more detail than the school-wide statements. These 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.

School-Wide Statements

The school-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School’s assets 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.

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

The two school-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.

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

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

Fund Financial Statements

The fund financial statements provide more detailed information about the School’s funds – focusing on its most significant or “major” funds – not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law or other regulations. The School may establish other funds to control and manage money for a specific purpose.

The School has the following fund type:

- Governmental funds – the School’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School’s programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information at the bottom of the governmental funds statements to explain the relationship (or differences) between them.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's net position was (\$44,624) and \$426,674 at June 30, 2017 and 2016, respectively.

	As of June 30,	
	2017	2016
Current assets	\$2,166,233	\$1,765,475
Capital assets - net	569,752	605,967
Deferred outflows of resources	3,954,472	499,935
Total assets and deferred outflows	<u>6,690,457</u>	<u>2,871,377</u>
Current liabilities	340,133	267,211
Noncurrent liabilities	6,246,203	1,959,727
Deferred inflows of resources	148,745	217,765
Total liabilities and deferred inflows	<u>6,735,081</u>	<u>2,444,703</u>
Net position:		
Net investment in capital assets	569,752	605,967
Unrestricted	<u>(614,376)</u>	<u>(179,293)</u>
Total net position	<u>(\$44,624)</u>	<u>\$426,674</u>

The School participates in cost-sharing multiple-employer defined benefit pension plans administered by the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA). Governmental accounting standards require that the School's share of each plan's net pension liability be recorded on the Statement of Net Position. The portion attributable to the School is based on its contributions to each plan in comparison to contributions made by all plan participants.

The School's net pension liability, combined with pension related deferred outflows and inflows of resources, negatively impacted unrestricted net position by \$2,440,476 and \$1,677,557 as of June 30, 2017 and 2016, respectively. The increased deficit was primarily due to changes in actuarial assumptions used to calculate the net pension liability, as well as lower than expected investment earnings by each plan.

The School continues to make its required contributions to each plan. Additional information can be found in Note 5 to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

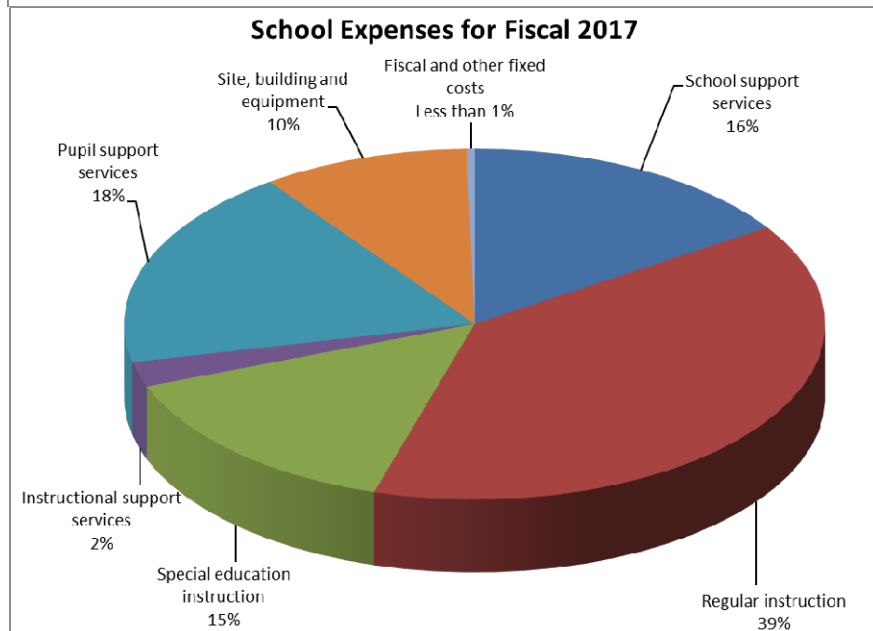
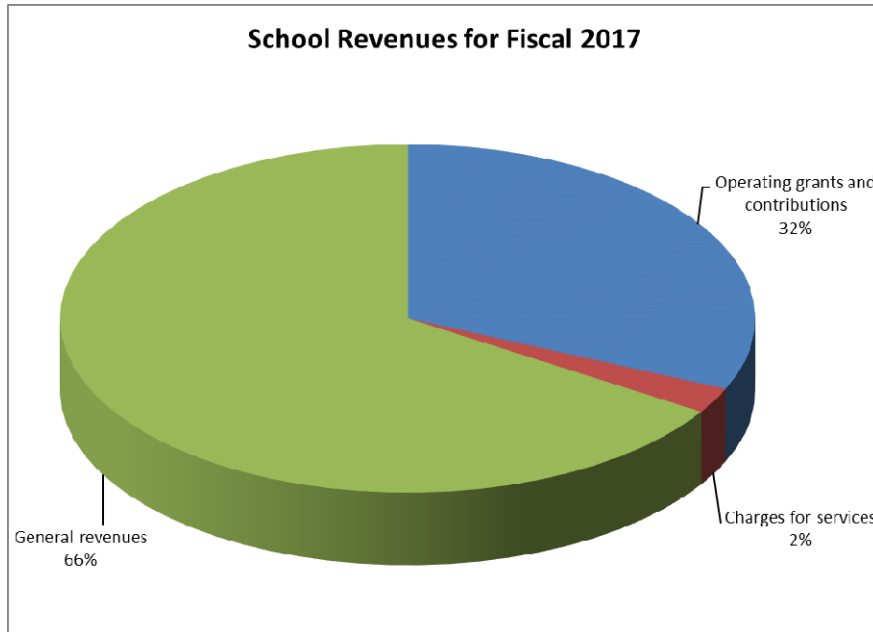
Changes in Net Position

The School's total revenues were \$5,325,776 and \$4,751,752 for the years ended June 30, 2017 and 2016, respectively. Program revenues accounted for 34% and 31% of total revenues for these years, respectively. The cost of all governmental activities for 2017 was \$5,797,074.

	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Operating grants and contributions	\$1,684,811	\$1,336,854
Charges for services	126,904	113,066
General revenues	<u>3,514,061</u>	<u>3,301,832</u>
Total revenues	<u>5,325,776</u>	<u>4,751,752</u>
Expenses:		
School support services	911,300	647,160
Regular instruction	2,255,180	1,639,239
Special education instruction	845,143	575,265
Instructional support services	132,388	178,786
Pupil support services	1,075,894	892,643
Site, building and equipment	555,479	517,569
Fiscal and other fixed costs	<u>21,690</u>	<u>19,907</u>
Total expenses	<u>5,797,074</u>	<u>4,470,569</u>
Change in net position	(471,298)	281,183
Net position - beginning	<u>426,674</u>	<u>145,491</u>
Net position - ending	<u><u>(\$44,624)</u></u>	<u><u>\$426,674</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The Federal Government and private grant funds subsidized specific programs such as Title Programs, Federal Special Education, and Coordinated Early Intervening Services. However, the majority of revenues (66%) came from the State of Minnesota general revenue funding formulas.



MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

All governmental funds include not only funds received for the general operation of the School, which are used for classroom instruction, but also include resources from the entrepreneurial-type fund of Food Service. Funding for the general operation of the School is controlled by the State and the School does not have the latitude to allocate money received in Food Service to enhance classroom instruction resources. The School cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction.

FINANCIAL ANALYSIS OF THE SCHOOL’S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds as well. Revenues for the School’s governmental funds were \$5,252,323 and \$4,729,528 while total expenditures were \$4,924,487 and \$4,558,902 for 2017 and 2016, respectively.

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 8 including pupil transportation activities and capital outlay not provided for by Federal Grants.

The following schedule presents a summary of General Fund revenues:

General Fund	Year Ended June 30,	
	2017	2016
Local sources	\$127,314	\$113,431
State sources	4,568,119	4,131,098
Federal sources	230,524	194,908
Total general fund revenue	<u>\$4,925,957</u>	<u>\$4,439,437</u>

Total General Fund revenue was \$4,925,957 and consists primarily of various State aids as well as other federal aid programs. The basic general education revenue was determined by multiple complex state formulas, largely enrollment driven, and consists of a specified minimum amount with variables such as socioeconomic indicators driving additional funding. For Minnesota charter schools the majority of all funding consists of general education aid, special education aid and charter school lease aid. Other revenue consists of federal and private grant funding that is often expenditure driven.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Total General Fund expenditures were \$4,487,193 and \$4,151,622, for 2017 and 2016, respectively, as shown below:

General Fund	Year Ended June 30,	
	2017	2016
Salaries and wages	\$2,503,951	\$2,182,869
Employee benefits	608,390	551,157
Purchased services	979,921	944,233
Supplies and materials	80,509	77,904
Other expenditures	143,441	128,175
Capital outlay	170,981	267,284
Total expenditures	<u>\$4,487,193</u>	<u>\$4,151,622</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

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

Projected revenues were at \$4,832,238 and were revised to \$5,141,509 after reviewing state and federal expenditures and actual enrollment of the school. Some of these programs are based on student services provided or actual expenditures which are calculated on a reimbursement basis. By the end of the fiscal year, the actual amount was at \$4,925,957 which was under the budget by \$215,552.

Overall, actual revenues exceeded expenditures for fiscal year 2017 by \$9,961 less than budgeted.

OTHER MAJOR FUNDS

From the standpoint of maintaining current operational expenditures within the range of annual revenue and with regard to maintaining a sound fund balance, the Food Service fund operated in a deficit during the 2017 fiscal year. It is not uncommon for a charter school to operate a subsidized food service program in which a portion of the general education funds are utilized to ensure that all students have access to a nutritious meal as part of a healthy learning environment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

CAPITAL ASSETS

The School's capital assets consist mainly of computer equipment, furniture and equipment, vehicles and leasehold improvements. During 2017, there were equipment and vehicle additions totaling \$93,375.

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.

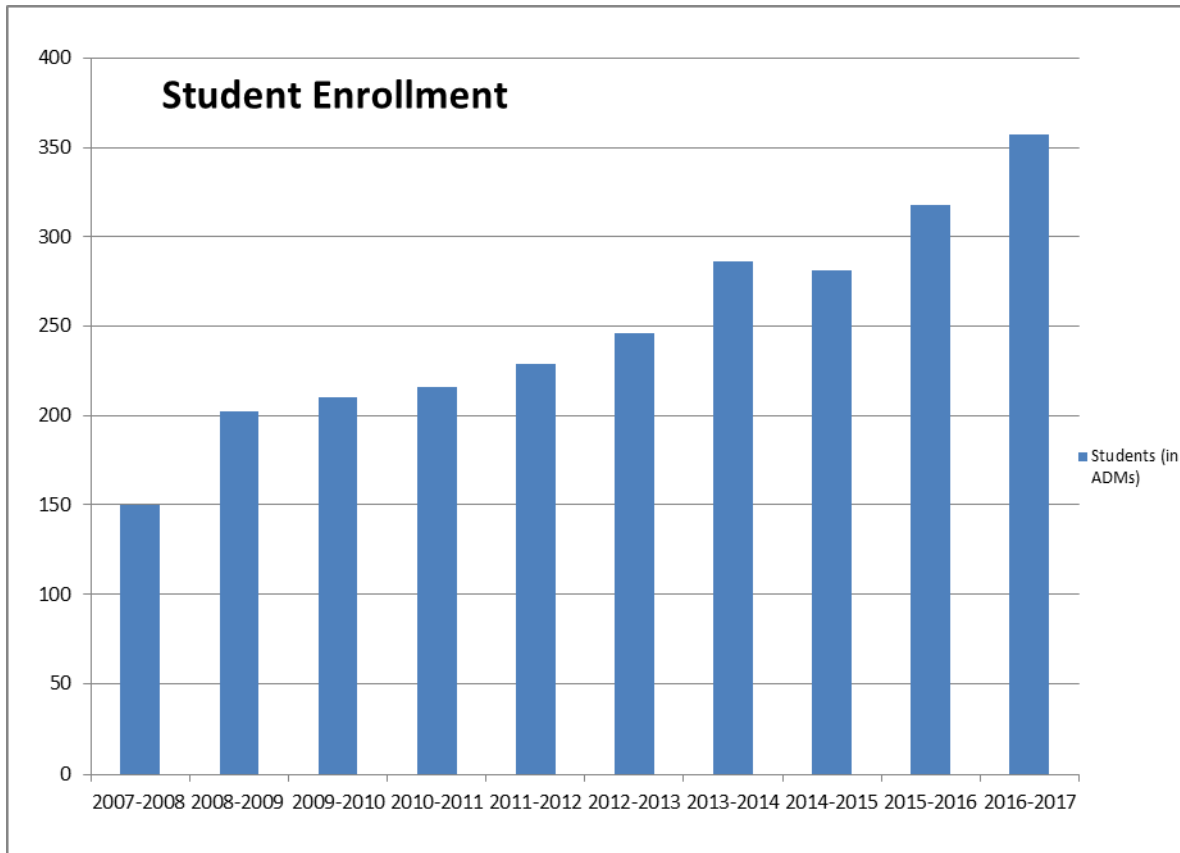
Though the State's funding increases have not kept up with inflation, through fiscal year 2016-2017, the School has created a sound financial foundation. School management expects that combining increased enrollment and financial planning should provide sufficient resources to maintain a strong fund balance for the future.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

ENROLLMENT

Enrollment is a critical factor in determining revenue. The School enrollment has grown from 150 ADM in 2007-2008 to 357 ADM in 2016-2017. School management expects enrollment for 2017-2018 to increase.



The School has developed an aggressive marketing plan to encourage parents now considering private school or other public school options to select Rochester Math & Science Academy as the option of choice.

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 any questions about this report or need additional financial information, contact Rochester Math and Science Academy by phone (507) 252-5995 or by mail at 415 16th Street SW, Rochester, MN 55902.

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BASIC FINANCIAL STATEMENTS

**ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135**

Statement 1

STATEMENT OF NET POSITION

June 30, 2017

With Comparative Amounts for June 30, 2016

	Governmental Activities	
	2017	2016
Assets:		
Cash	\$1,541,849	\$1,120,351
Due from other governments	564,224	610,132
Prepaid items	60,160	34,992
Capital assets (net of accumulated depreciation)	569,752	605,967
Total assets	<u>2,735,985</u>	<u>2,371,442</u>
Deferred outflows of resources related to pensions	<u>3,954,472</u>	<u>499,935</u>
Total assets and deferred outflows of resources	<u><u>\$6,690,457</u></u>	<u><u>\$2,871,377</u></u>
Liabilities:		
Accounts payable	\$44,050	\$20,234
Salaries and taxes payable	296,083	246,977
Net pension liability:		
Due in more than one year	<u>6,246,203</u>	<u>1,959,727</u>
Total liabilities	<u>6,586,336</u>	<u>2,226,938</u>
Deferred inflows of resources related to pensions	<u>148,745</u>	<u>217,765</u>
Net position:		
Net investment in capital assets	569,752	605,967
Unrestricted	<u>(614,376)</u>	<u>(179,293)</u>
Total net position	<u>(44,624)</u>	<u>426,674</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$6,690,457</u></u>	<u><u>\$2,871,377</u></u>

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

ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135

Statement 2

STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2017

With Comparative Totals For The Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>2017</u>	<u>2016</u>
Governmental activities:					
School support services	\$911,300	\$ -	\$ -	(\$911,300)	(\$647,160)
Regular instruction	2,255,180	-	246,109	(2,009,071)	(1,494,289)
Special education instruction	845,143	-	835,533	(9,610)	56,548
Instructional support services	132,388	-	-	(132,388)	(178,786)
Pupil support services	1,075,894	126,904	326,366	(622,624)	(489,486)
Site, building and equipment	555,479	-	276,803	(278,676)	(247,569)
Fiscal and other fixed costs	21,690	-	-	(21,690)	(19,907)
Total governmental activities	<u>\$5,797,074</u>	<u>\$126,904</u>	<u>\$1,684,811</u>	<u>(3,985,359)</u>	<u>(3,020,649)</u>
General revenues:					
Local sources				410	365
State sources				<u>3,513,651</u>	<u>3,301,467</u>
Total general revenues				<u>3,514,061</u>	<u>3,301,832</u>
Change in net position				(471,298)	281,183
Net position - beginning				<u>426,674</u>	<u>145,491</u>
Net position - ending				<u>(\$44,624)</u>	<u>\$426,674</u>

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

**ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135**

Statement 3

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017
With Comparative Totals For June 30, 2016

	General Fund	Food Service Fund	Total	
			2017	2016
Assets:				
Cash	\$1,531,972	\$9,877	\$1,541,849	\$1,120,351
Due from Minnesota Department of Education	471,479	121	471,600	538,149
Due from Federal Government through Minnesota Department of Education	87,909	4,715	92,624	71,983
Due from other funds	-	-	-	10,958
Prepaid items	60,160	-	60,160	34,992
Total assets	\$2,151,520	\$14,713	\$2,166,233	\$1,776,433
Liabilities and Fund Balance				
Liabilities:				
Accounts payable	\$29,337	\$14,713	\$44,050	\$20,234
Salaries and taxes payable	296,083	-	296,083	246,977
Due to other funds	-	-	-	10,958
Total liabilities	325,420	14,713	340,133	278,169
Fund balance:				
Nonspendable - prepaid items	60,160	-	60,160	34,992
Unassigned	1,765,940	-	1,765,940	1,463,272
Total fund balance	1,826,100	0	1,826,100	1,498,264
Total liabilities and fund balance	\$2,151,520	\$14,713	\$2,166,233	\$1,776,433

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

Fund balance reported above	\$1,826,100	\$1,498,264
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds	569,752	605,967
Deferred outflows of resources related to pensions	3,954,472	499,935
Net pension liability is not due and payable in the current period, and therefore, is not reported in the funds	(6,246,203)	(1,959,727)
Deferred inflows of resources related to pensions	(148,745)	(217,765)
Net position of governmental activities (Statement 1)	(\$44,624)	\$426,674

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

**ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135**

Statement 4

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2017
With Comparative Totals For The Year Ended June 30, 2016

	General Fund	Food Service Fund	Total	
			2017	2016
Revenues:				
Local sources	\$127,314	\$ -	\$127,314	\$113,431
State sources	4,568,119	7,574	4,575,693	4,138,225
Federal sources	230,524	318,792	549,316	477,872
Total revenues	<u>4,925,957</u>	<u>326,366</u>	<u>5,252,323</u>	<u>4,729,528</u>
Expenditures:				
Current:				
School support services	717,560	-	717,560	639,340
Regular instruction	1,707,321	-	1,707,321	1,606,068
Special education instruction	729,635	-	729,635	551,387
Instructional support services	96,647	-	96,647	175,853
Pupil support services	541,191	437,294	978,485	822,684
Site, building and equipment	502,168	-	502,168	472,229
Fiscal and other fixed costs	21,690	-	21,690	19,907
Capital outlay	170,981	-	170,981	271,434
Total expenditures	<u>4,487,193</u>	<u>437,294</u>	<u>4,924,487</u>	<u>4,558,902</u>
Revenues over (under) expenditures	<u>438,764</u>	<u>(110,928)</u>	<u>327,836</u>	<u>170,626</u>
Other financing sources (uses):				
Transfers in	-	110,928	110,928	117,189
Transfers out	(110,928)	-	(110,928)	(117,189)
Total other financing sources (uses)	<u>(110,928)</u>	<u>110,928</u>	<u>0</u>	<u>0</u>
Net change in fund balance	327,836	0	327,836	170,626
Fund balance - beginning	<u>1,498,264</u>	<u>-</u>	<u>1,498,264</u>	<u>1,327,638</u>
Fund balance - ending	<u>\$1,826,100</u>	<u>\$0</u>	<u>\$1,826,100</u>	<u>\$1,498,264</u>

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

Revenues over expenditures reported above	\$327,836	\$170,626
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Depreciation	(129,590)	(109,444)
Capital outlay - capitalized	93,375	260,242
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities	(762,919)	(40,241)
Change in net position of governmental activities (Statement 2)	<u>(\$471,298)</u>	<u>\$281,183</u>

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

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Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rochester Math & Science Academy (the School) is a results-orientated charter school with a vision to meet the distinct needs of Rochester's diverse, newly arrived student population. The School creates a supportive family teaching community that utilizes shared ideas, goals and experiences as a major tool for fostering a comprehensive and challenging education.

The School uses projects and mentorships to integrate learning, encourage daily reading and writing, and motivate academic achievement. The School places the student at the center of a diverse and mutually respectful educational community of teachers, parents, inter-generational community volunteers, and experienced teachers who will all act as guidance counselors and student advocates.

The School encourages and assists parents and other adults to reinforce student academic performance through extensive student writing and reading. The School works to foster character, initiative, leadership, problem solving, critical thinking, teamwork, and communication as well as academic skills in math/science/technology, the humanities and communication.

The School's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant accounting policies.

A. FINANCIAL REPORTING ENTITY

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

The financial statements of the reporting entity include those of the School (the primary government) and its component units. Generally, component units are legally separate organizations for which the primary government is financially accountable. The School does not have any component units.

The School is required to operate under a charter agreement with an entity that has been approved by the Minnesota Department of Education (MDE) to be a charter school "authorizer." The authorizer monitors and evaluates the School's performance, and periodically determines whether to renew the School's charter. The School's authorizer is Pillsbury United Communities. Aside from its responsibilities as authorizer, Pillsbury United Communities has no authority or control over the School, and is not financially accountable for it. Therefore, the School is not considered a component unit of Pillsbury United Communities.

B. SCHOOL-WIDE FINANCIAL STATEMENTS

The school-wide financial statements (the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School. Amounts 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 activities* generally are financed through intergovernmental revenues, and other non-exchange transactions. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

As a general rule the effect of interfund activity has been eliminated from the school-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services, are similarly treated when they involve other funds of the School. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

C. FUND FINANCIAL STATEMENTS

Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, as applicable, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The emphasis of fund financial statements is on major funds, each displayed in a separate column. The School reports the following major funds:

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

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

D. INCOME TAXES

The School is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and comparable sections of the Minnesota income tax statutes.

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

E. BUDGETS

The School's Board adopts an annual budget for each fund prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted amounts are as originally adopted or as amended by the Board. Budgeted expenditure appropriations lapse at year end. Encumbrance accounting is not used.

Expenditures of the Food Service Special Revenue Fund exceeded budgeted appropriations by \$2,408 during the year ended June 30, 2017.

F. STUDENT ACTIVITIES

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, school boards can elect to either control or not control extracurricular activities. The School's Board has elected to control extracurricular activities. Therefore, the extracurricular student activity accounts are included in the School's General Fund.

G. CASH AND INVESTMENTS

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

H. RECEIVABLES

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

I. PREPAID ITEMS

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

J. CAPITAL ASSETS

Capital assets, which include property, plant and equipment are reported in the school-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Furniture and office equipment	5-20 years
Computer equipment	5 years
Vehicles	10 years
Leasehold improvements	5-10 years

K. ACCRUED EMPLOYEE BENEFITS

Since vacation benefits do not carryover at year end, no long-term liability for unused vacation has been recorded. Substantially all employees are entitled to sick leave at rates specified in their contracts. Employees are not compensated for unused sick leave upon termination of employment; therefore, no long-term liability for unused sick leave has been recorded.

L. DEFINED BENEFIT PENSION PLANS

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA) and additions to/ deductions from the TRA's and PERA's fiduciary net position have been determined on the same basis as they are reported by TRA and PERA. Plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with 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, the City of Minneapolis, and the Minneapolis School District. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association in 2015. PERA also has a special funding situation created by direct aid contributions made by the State of Minnesota.

M. DEFERRED OUTFLOWS / INFLOWS OF RESOURCES

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

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

N. UNEARNED REVENUE

Unearned revenue represents amounts received under federal, state or private grant programs but not expended in the current year. Such amounts are unearned until subsequent periods when the funds are expended.

O. FUND BALANCE

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

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

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

Committed - consists of internally imposed constraints that are established by resolution of the School's Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned - consists of internally imposed constraints that are intended to be used by the School for specific purposes, but do not meet the criteria to be classified as restricted or committed. Assigned amounts represent intended uses established by the School's Board itself or by an official to which the governing body delegates the authority. The Board has delegated to the School Director the authority to assign fund balance for specific purposes.

Unassigned - is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the School's policy to first use restricted resources, then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the School's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

P. MINIMUM FUND BALANCE POLICY

The School's Board has formally adopted a fund balance policy for the General Fund. The policy establishes a minimum fund balance for the General Fund of 15% to 25% of current year expenditures.

At June 30, 2017, the targeted minimum fund balance for the General Fund was \$1,121,798, based on 25% of current year expenditures. Actual fund balance of the General Fund was \$1,826,100.

Q. NET POSITION

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

R. COMPARATIVE DATA

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the School's financial position and operations.

S. USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

T. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The School does not have any significant fair value measurements as of June 30, 2017.

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

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

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

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

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

At June 30, 2017, all deposit bank balances were fully insured or collateralized.

B. INVESTMENTS

Minnesota statutes outline authorized investments for charter schools. During 2017, the School did not have any such investments.

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Note 3 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, being depreciated:				
Computer equipment	\$46,709	\$5,289	\$ -	\$51,998
Furniture and office equipment	94,674	31,303	-	125,977
Vehicles	676,700	43,399	-	720,099
Leasehold improvements	375,445	13,384	-	388,829
Total capital assets, being depreciated	<u>1,193,528</u>	<u>93,375</u>	<u>0</u>	<u>1,286,903</u>
Less accumulated depreciation for:				
Computer equipment	42,044	2,029	-	44,073
Furniture and office equipment	51,889	10,445	-	62,334
Vehicles	248,437	69,840	-	318,277
Leasehold improvements	245,191	47,276	-	292,467
Total accumulated depreciation	<u>587,561</u>	<u>129,590</u>	<u>0</u>	<u>717,151</u>
Governmental activities capital assets - net	<u>\$605,967</u>	<u>(\$36,215)</u>	<u>\$0</u>	<u>\$569,752</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
School support services	\$5,285
Regular instruction	3,366
Pupil support services	70,662
Site, building and equipment	<u>50,277</u>
Total	<u>\$129,590</u>

Note 4 RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for risk of loss. The School carries self-insurance for risk of loss from exposure to unemployment claims. There were no significant reductions in insurance from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

Note 5 **DEFINED BENEFIT PENSION PLANS**

The School participates in cost-sharing multiple-employer defined benefit pension plans administered on a statewide basis by the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA). The defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code. Disclosures relating to these plans are as follows:

A. PLAN DESCRIPTIONS

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials. Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state are required to be TRA members.

PERA administers the General Employees Retirement Fund (GERF) in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the School, other than teachers, are covered by the GERF. GERF members belong to either the Basic Plan (without Social Security coverage) or the Coordinated Plan (with Social Security coverage). The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. BENEFITS PROVIDED

TRA

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

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

Tier II Benefits – for years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members is applied. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% per year for Basic Plan members is applied. 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.

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Members first employed before July 1, 1989 receive the greater of the Tier I or Tier II benefits as described. Members first employed after June 30, 1989 receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

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

PERA

PERA provides retirement, disability, and death benefits. Benefit provisions are established by Minnesota Statute and can only be modified by the state legislature. Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

GERF benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. CONTRIBUTIONS

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

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

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The School's contributions to TRA for the years ended June 30, 2017 and 2016 were \$96,314 and \$85,942, respectively. The School's contributions to PERA for the years ended June 30, 2017 and 2016 were \$90,065 and \$80,117, respectively. The School's contributions were equal to the required contributions as set by state statute.

D. NET PENSION LIABILITY AND PENSION EXPENSE

The net pension liability reported at June 30, 2017 was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the measurement date. The School's proportionate share of the net pension liability was based on contributions received by each respective plan during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total contributions to the plan, which included direct aid from the State of Minnesota, the City of Minneapolis and the Minneapolis School District. The School has no pension-related assets.

The School's net pension liability, its proportionate share of the plan's net pension liability, and pension expense as of and for the year ended June 30, 2017 are as follows:

	<u>TRA</u>	<u>PERA</u>	<u>Total</u>
Net pension liability	\$4,865,887	\$1,380,316	\$6,246,203
Proportionate share of net pension liability:			
Measurement date	0.0204%	0.0170%	
Prior measurement date	0.0166%	0.0180%	
Pension expense	\$840,932	\$181,819	\$1,022,751

The pension expense related to TRA and PERA includes recognition of \$68,053 and \$5,400, respectively, as an increase to pension expense (and grant revenue) for the support provided by direct aid.

The net pension liability related to TRA reflected a reduction due to direct aid in the amount of \$35,587,410 provided to TRA. The amount recognized by the School as its proportionate share of the net pension liability, the State's proportionate share of the net pension liability, and the total portion of the net pension liability that was associated with the School were \$4,865,887, \$487,372 and \$5,353,259, respectively.

The net pension liability related to PERA reflected a reduction due to direct aid in the amount of \$6,000,000 provided to PERA. The amount recognized by the School as its proportionate share of the net pension liability, the State's proportionate share of the net pension liability, and the total portion of the net pension liability that was associated with the School were \$1,380,316, \$18,109 and \$1,398,425, respectively.

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E. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience:		
TRA	\$49,024	\$ -
PERA	4,086	112,131
Difference between projected and actual investment earnings:		
TRA	189,409	-
PERA	154,104	-
Changes in actuarial assumptions:		
TRA	2,792,064	-
PERA	297,700	-
Changes in proportion:		
TRA	255,870	-
PERA	25,836	36,614
Contributions paid subsequent to the measurement date:		
TRA	96,314	-
PERA	90,065	-
Total	<u>\$3,954,472</u>	<u>\$148,745</u>

Amounts reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense during the following years:

Year Ended June 30,	<u>Pension Expense</u>		
	<u>TRA</u>	<u>PERA</u>	<u>Total</u>
2018	\$663,559	\$96,776	\$760,335
2019	663,559	65,258	728,817
2020	734,948	121,089	856,037
2021	645,203	49,858	695,061
2022	579,098	-	579,098
Thereafter	-	-	-

F. ACTUARIAL ASSUMPTIONS

TRA

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

Measurement date	June 30, 2016
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	3.5%
Projected salary increase	3.5 - 9.5%
Cost of living adjustment	2.0%
Mortality Assumptions:	
Pre-retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

For TRA, 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.

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is six years. The “Difference Between Expected and Actual Economic Experience,” “Changes in Actuarial Assumptions,” and “Changes in Proportion” use the amortization period of six years in the schedule presented. The amortization period for “Difference Between Projected and Actual Investment Earnings” is over a period of five years as required by GASB 68.

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PERA

The total pension liability in the June 30, 2016 actuarial valuation was determined using 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.

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 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 and 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.

TRA and PERA

The State Board of Investment, which manages the investments of TRA and 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. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

G. DISCOUNT RATE

TRA

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 schools 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 the 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 prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

PERA

The discount rate used to measure the total pension liability in 2016 was 7.50%, 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.

H. PENSION LIABILITY SENSITIVITY

The following presents the School’s proportionate share of the net pension liability calculated using the discount rate for each plan, as well as the liability measured using one percent lower (3.66% for TRA; 6.50% for PERA) and one percent higher (5.66% for TRA; 8.50% for PERA).

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
TRA	\$6,268,478	\$4,865,887	\$3,723,522
PERA	\$1,960,457	\$1,380,316	\$902,437

I. PENSION PLAN FIDUCIARY NET POSITION

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

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

Note 6 **COMMITMENTS AND CONTINGENCIES**

A. LEASE COMMITMENTS AND TERMS

The School has a lease for office and classroom space which expires on June 30, 2018. Minimum lease payments for fiscal year 2018 are \$313,629. Rent expense for the year ended June 30, 2017 was \$307,559.

The School's ability to make payments under these lease agreements is dependent on its revenues which are in turn, largely dependent on sufficient enrollments being served at the School and on sufficient state aids per student being authorized and received from the State of Minnesota. The School believes that its enrollments and aid entitlements will be sufficient to meet the lease obligations as they become due.

B. GRANTS

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial. The federal financial assistance received may be subject to an audit pursuant to the Uniform Guidance under 2 CFR 200, or audits by the grantor agency.

C. PURCHASE COMMITMENT

On April 19, 2017, the Board approved the purchase of an additional school bus. The bus was purchased in July 2017 for approximately \$81,000.

Note 7 **INTERFUND ACTIVITY**

During 2017, the School made a routine transfer of \$110,928 from the General Fund to eliminate a deficit in the Food Service Fund.

REQUIRED SUPPLEMENTARY INFORMATION

ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 For The Year Ended June 30, 2017
 With Comparative Actual Amounts For the Year Ended June 30, 2016

	2017		Actual Amounts	Variance with Final Budget - Over (Under)	2016 Actual Amounts
	Budgeted Amounts				
	Original	Final			
Revenues:					
Local sources	\$103,400	\$125,400	\$127,314	\$1,914	\$113,431
State sources	4,519,416	4,770,326	4,568,119	(202,207)	4,131,098
Federal sources	209,422	245,783	230,524	(15,259)	194,908
Total revenues	4,832,238	5,141,509	4,925,957	(215,552)	4,439,437
Expenditures:					
School support services:					
Current:					
Salaries and wages	264,216	306,600	329,034	22,434	260,090
Employee benefits	93,245	89,348	97,139	7,791	95,982
Purchased services	221,965	211,000	229,963	18,963	222,571
Supplies and materials	34,505	43,500	36,123	(7,377)	32,371
Other expenditures	29,355	29,000	25,301	(3,699)	28,326
Capital outlay	12,360	5,000	11,387	6,387	11,648
Total school support services	655,646	684,448	728,947	44,499	650,988
Regular instruction:					
Current:					
Salaries and wages	1,220,841	1,191,104	1,187,405	(3,699)	1,101,021
Employee benefits	371,956	340,706	320,329	(20,377)	324,492
Purchased services	79,419	96,479	81,447	(15,032)	77,856
Supplies and materials	3,090	3,200	-	(3,200)	2,850
Other expenditures	109,261	147,305	118,140	(29,165)	99,849
Capital outlay	89,420	96,000	90,892	(5,108)	13,587
Total regular instruction	1,873,987	1,874,794	1,798,213	(76,581)	1,619,655
Special education instruction:					
Current:					
Salaries and wages	412,609	607,629	526,180	(81,449)	362,026
Employee benefits	93,378	133,993	126,197	(7,796)	84,572
Purchased services	92,251	74,250	76,571	2,321	101,778
Supplies and materials	3,000	-	687	687	3,011
Total special education instruction	601,238	815,872	729,635	(86,237)	551,387
Instructional support services:					
Current:					
Salaries and wages	131,318	69,700	71,571	1,871	155,372
Purchased services	25,750	31,000	25,076	(5,924)	20,481
Total instructional support services	157,068	100,700	96,647	(4,053)	175,853

ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 For The Year Ended June 30, 2017
 With Comparative Actual Amounts For the Year Ended June 30, 2016

	2017			Variance with Final Budget - Over (Under)	2016 Actual Amounts
	Budgeted Amounts		Actual Amounts		
	Original	Final			
Pupil support services:					
Current:					
Salaries and wages	\$324,141	\$351,260	\$350,050	(\$1,210)	\$276,616
Employee benefits	49,108	53,216	58,130	4,914	41,908
Purchased services	86,520	110,500	102,129	(8,371)	73,691
Supplies and materials	26,780	31,000	30,882	(118)	27,339
Capital outlay	83,678	85,000	43,400	(41,600)	192,534
Total pupil support services	<u>570,227</u>	<u>630,976</u>	<u>584,591</u>	<u>(46,385)</u>	<u>612,088</u>
Site, building and equipment:					
Current:					
Salaries and wages	28,325	52,700	39,711	(12,989)	27,744
Employee benefits	4,291	7,985	6,595	(1,390)	4,203
Purchased services	453,449	469,559	443,045	(26,514)	427,949
Supplies and materials	25,750	25,750	12,817	(12,933)	12,333
Capital outlay	25,750	6,000	25,302	19,302	49,515
Total site, building and equipment	<u>537,565</u>	<u>561,994</u>	<u>527,470</u>	<u>(34,524)</u>	<u>521,744</u>
Fiscal and other fixed costs:					
Current:					
Purchased services	<u>23,690</u>	<u>24,000</u>	<u>21,690</u>	<u>(2,310)</u>	<u>19,907</u>
Total expenditures	<u>4,419,421</u>	<u>4,692,784</u>	<u>4,487,193</u>	<u>(205,591)</u>	<u>4,151,622</u>
Revenues over (under) expenditures	412,817	448,725	438,764	(9,961)	287,815
Other financing sources (uses):					
Transfer to Food Service Fund	<u>(105,051)</u>	<u>(112,307)</u>	<u>(110,928)</u>	<u>1,379</u>	<u>(117,189)</u>
Net change in fund balance	<u>\$307,766</u>	<u>\$336,418</u>	327,836	<u>(\$8,582)</u>	170,626
Fund balance - beginning			<u>1,498,264</u>		<u>1,327,638</u>
Fund balance - ending			<u>\$1,826,100</u>		<u>\$1,498,264</u>

**ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135**

Statement 6

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE SPECIAL REVENUE FUND
For The Year Ended June 30, 2017
With Comparative Actual Amounts For the Year Ended June 30, 2016

	2017				2016 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Revenues:					
State sources	\$7,656	\$7,469	\$7,574	\$105	\$7,127
Federal sources	308,078	315,110	318,792	3,682	282,964
Total revenues	<u>315,734</u>	<u>322,579</u>	<u>326,366</u>	<u>3,787</u>	<u>290,091</u>
Expenditures:					
Pupil support services:					
Current:					
Purchased services	15,020	14,000	14,160	160	14,331
Supplies and materials	405,765	420,886	423,134	2,248	388,799
Capital outlay	-	-	-	-	4,150
Total expenditures	<u>420,785</u>	<u>434,886</u>	<u>437,294</u>	<u>2,408</u>	<u>407,280</u>
Revenues over (under) expenditures	(105,051)	(112,307)	(110,928)	1,379	(117,189)
Other financing sources:					
Transfer from General Fund	<u>105,051</u>	<u>112,307</u>	<u>110,928</u>	<u>(1,379)</u>	<u>117,189</u>
Net change in fund balance	<u>\$0</u>	<u>\$0</u>	<u>0</u>	<u>\$0</u>	<u>0</u>
Fund balance - beginning			<u>-</u>		<u>-</u>
Fund balance - ending			<u>\$0</u>		<u>\$0</u>

ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
 For The Year Ended June 30, 2017

<u>Measurement Date</u>	<u>Fiscal Year Ending</u>	<u>Proportion of the Net Pension Liability (Percentage)</u>	<u>Proportionate Share of the Net Pension Liability (Amount)</u>	<u>State's Proportionate Share of the Net Pension Liability Associated with the School (b)</u>	<u>Total Proportionate Share of the Net Pension Liability (a+b)</u>	<u>Covered Payroll (c)</u>	<u>School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
<u>Teacher's Retirement Association</u>								
June 30, 2014	June 30, 2015	0.0163%	\$751,902	\$52,697	\$804,599	\$750,681	107.2%	81.5%
June 30, 2015	June 30, 2016	0.0166%	1,026,874	125,712	1,152,586	863,918	133.4%	76.8%
June 30, 2016	June 30, 2017	0.0204%	4,865,887	487,372	5,353,259	1,145,893	467.2%	44.9%
<u>PERA - General Employees Retirement Fund</u>								
June 30, 2014	June 30, 2015	0.0169%	\$793,877	\$ -	\$793,877	\$900,093	88.2%	78.8%
June 30, 2015	June 30, 2016	0.0180%	932,853	-	932,853	1,062,128	87.8%	78.2%
June 30, 2016	June 30, 2017	0.0170%	1,380,316	18,109	1,398,425	1,069,184	130.8%	68.9%

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

ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS
 For The Year Ended June 30, 2017

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
<u>Teacher's Retirement Association</u>					
June 30, 2015	\$64,868	\$64,868	\$ -	\$863,918	7.5%
June 30, 2016	85,942	85,942	-	1,145,893	7.5%
June 30, 2017	96,314	96,314	-	1,283,532	7.5%
<u>PERA - General Employees Retirement Fund</u>					
June 30, 2015	\$78,386	\$78,386	\$ -	\$1,062,128	7.4%
June 30, 2016	80,117	80,117	-	1,069,184	7.5%
June 30, 2017	90,065	90,065	-	1,199,871	7.5%

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

**ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO RSI
June 30, 2017**

Note A BUDGETARY INFORMATION

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

Note B PENSION INFORMATION

2016 Changes

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

Changes of assumptions (TRA) – Post-retirement benefit adjustments used for the June 30, 2015 valuation are now assumed to be 2% annually with no increase to 2.5% projected. The previous valuation assumed a 2.5% increase commencing July 1, 2034. Also, the discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

There were no changes of benefit terms or assumptions for PERA.

2017 Changes

TRA – Teachers Retirement Association:

Changes in actuarial assumptions for the July 1, 2016 valuation include:

- The assumed investment rate of return and discount rate was reduced from 8.00% to 4.66%.
- Post-retirement benefit adjustments are now assumed to remain level at 2.0% annually. In the previous measurement, benefit adjustments increased to 2.5% in 2034.
- The price inflation assumption was reduced from 3.00% to 2.75%.
- The general wage growth and payroll growth assumptions were reduced from 3.75% to 3.50%.
- Projected salary increases of 3.5% – 12.0% were changed to 3.5% – 9.5%.
- Mortality assumptions changed as a result of using updated mortality tables.

PERA – General Employees Retirement Fund:

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, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

Additional details can be obtained from the financial reports of TRA and PERA.

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INDIVIDUAL FUND FINANCIAL STATEMENTS

**ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135**

Statement 7

BALANCE SHEET - GENERAL FUND

June 30, 2017

With Comparative Amounts For June 30, 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Cash	\$1,531,972	\$1,120,351
Due from Minnesota Department of Education	471,479	537,887
Due from Federal Government through Minnesota Department of Education	87,909	61,287
Due from other funds	-	10,958
Prepaid items	<u>60,160</u>	<u>34,992</u>
Total assets	<u><u>\$2,151,520</u></u>	<u><u>\$1,765,475</u></u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$29,337	\$20,234
Salaries and taxes payable	<u>296,083</u>	<u>246,977</u>
Total liabilities	<u><u>325,420</u></u>	<u><u>267,211</u></u>
Fund balance:		
Nonspendable - prepaid items	60,160	34,992
Unassigned	<u>1,765,940</u>	<u>1,463,272</u>
Total fund balance	<u><u>1,826,100</u></u>	<u><u>1,498,264</u></u>
Total liabilities and fund balance	<u><u>\$2,151,520</u></u>	<u><u>\$1,765,475</u></u>

ROCHESTER MATH & SCIENCE ACADEMY
CHARTER SCHOOL NO. 4135
BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND
June 30, 2017
With Comparative Amounts For June 30, 2016

Statement 8

	<u>2017</u>	<u>2016</u>
Assets:		
Cash	\$9,877	\$ -
Due from Minnesota Department of Education	121	262
Due from Federal Government through Minnesota Department of Education	<u>4,715</u>	<u>10,696</u>
Total assets	<u><u>\$14,713</u></u>	<u><u>\$10,958</u></u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$14,713	\$ -
Due to other funds	<u>-</u>	<u>10,958</u>
Total liabilities	<u><u>14,713</u></u>	<u><u>10,958</u></u>
Fund balance:		
Unassigned	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u><u>\$14,713</u></u>	<u><u>\$10,958</u></u>

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SUPPLEMENTAL INFORMATION

	Audit	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$4,925,957	\$4,925,957	\$ -	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	4,487,193	4,487,192	1	Total Expenditures	-	-	-
<i>Non-Spendable:</i>				<i>Non-Spendable:</i>			
4.60 Non Spendable Fund Balance	60,160	60,160	-	4.60 Non Spendable Fund Balance	-	-	-
<i>Restricted/Reserve:</i>				<i>Restricted/Reserve:</i>			
4.03 Staff Development	-	-	-	4.07 Capital Projects Levy	-	-	-
4.05 Deferred Maintenance	-	-	-	4.09 Alternative Fac. Program	-	-	-
4.06 Health and Safety	-	-	-	4.13 Projects Funded By COP	-	-	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Revenue	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.14 Operating Debt	-	-	-	<i>Unassigned:</i>			
4.16 Levy Reduction	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.17 Taconite Building Maint	-	-	-				
4.23 Certain Teacher Programs	-	-	-	07 DEBT SERVICE			
4.24 Operating Capital	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.26 \$25 Taconite	-	-	-	Total Expenditures	-	-	-
4.27 Disabled Accessibility	-	-	-	<i>Non-Spendable:</i>			
4.28 Learning and Development	-	-	-	4.60 Non Spendable Fund Balance	-	-	-
4.34 Area Learning Center	-	-	-	<i>Restricted/Reserve:</i>			
4.35 Contracted Alt. Programs	-	-	-	4.25 Bond Refundings	-	-	-
4.36 St. Approved Alt. Program	-	-	-	4.51 QZAB Payments	-	-	-
4.38 Gifted & Talented	-	-	-	<i>Restricted:</i>			
4.41 Basic Skills Programs	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.45 Career & Tech Programs	-	-	-	<i>Unassigned:</i>			
4.49 Safe School Crime	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.50 Pre-Kindergarten	-	-	-				
4.51 QZAB Payments	-	-	-	08 TRUST			
4.52 OPEB Liab Not In Trust	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.53 Unfunded Sev & Retirement Levy	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.64 Restricted Fund Balance	-	-	-				
<i>Committed:</i>				20 INTERNAL SERVICE			
4.18 Committed For Separation	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.61 Committed Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Assigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.62 Assigned Fund Balance	-	-	-				
<i>Unassigned:</i>				25 OPEB REVOCABLE TRUST			
4.22 Unassigned Fund Balance	1,765,940	1,765,939	1	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	-	-	-
02 FOOD SERVICE				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
Total Revenue	\$326,366	\$326,365	\$1				
Total Expenditures	437,294	437,293	1	45 OPEB IRREVOCABLE TRUST			
<i>Non-Spendable:</i>				Total Revenue	\$ -	\$ -	\$ -
4.60 Non Spendable Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Restricted/Reserve:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-				
<i>Restricted:</i>				47 OPEB DEBT SERVICE FUND			
4.64 Restricted Fund Balance	-	-	-	Total Revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	-	-	-
4.63 Unassigned Fund Balance	-	-	-	<i>Non-Spendable:</i>			
				4.60 Non Spendable Fund Balance	-	-	-
04 COMMUNITY SERVICE				<i>Restricted:</i>			
Total Revenue	\$ -	\$ -	\$ -	4.25 Bond Refundings	-	-	-
Total Expenditures	-	-	-	4.64 Restricted Fund Balance	-	-	-
<i>Restricted/Reserve:</i>				<i>Unassigned:</i>			
4.26 \$25 Taconite	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.31 Community Education	-	-	-				
4.32 E.C.F.E	-	-	-				
4.44 School Readiness	-	-	-				
4.47 Adult Basic Education	-	-	-				
4.52 OPEB Liab Not In Trust	-	-	-				
<i>Restricted:</i>							
4.64 Restricted Fund Balance	-	-	-				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	-	-	-				

OTHER REQUIRED REPORTS

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

To the Board of Directors
Rochester Math & Science Academy
Charter School No. 4135
Rochester, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Rochester Math & Science Academy, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Rochester Math & Science Academy's basic financial statements, and have issued our report thereon dated November 6, 2017.

Internal Control Over Financial Reporting

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

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

Rochester Math & Science Academy
Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters

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

Compliance and Other Matters

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

Purpose of this Report

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

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

November 6, 2017



MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Directors
Rochester Math & Science Academy
Charter School No. 4135
Rochester, 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 Rochester Math & Science Academy as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Rochester Math & Science Academy's basic financial statements, and have issued our report thereon dated November 6, 2017.

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

In connection with our audit, nothing came to our attention that caused us to believe that Rochester Math & Science Academy failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Rochester Math & Science Academy's noncompliance with the above referenced provisions.

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

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

November 6, 2017

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