

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2019

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2019**

INTRODUCTORY SECTION

SCHOOL BOARD AND ADMINISTRATION	1
---------------------------------	---

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	2
------------------------------	---

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS	5
--------------------------------------	---

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION	14
---------------------------	----

STATEMENT OF ACTIVITIES	15
-------------------------	----

BALANCE SHEET – GOVERNMENTAL FUNDS	16
------------------------------------	----

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	17
--	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS	18
---	----

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES	19
---	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	20
---	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – MAJOR FOOD SERVICE FUND	21
--	----

NOTES TO BASIC FINANCIAL STATEMENTS	22
-------------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	44
--	----

TRA SCHEDULE OF SCHOOL CONTRIBUTIONS	45
--------------------------------------	----

GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	46
---	----

GERF SCHEDULE OF SCHOOL CONTRIBUTIONS	47
---------------------------------------	----

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

SUPPLEMENTARY INFORMATION

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	48
--	----

OTHER REQUIRED REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	49
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	51

INTRODUCTORY SECTION

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2019**

SCHOOL BOARD

<u>NAME</u>	<u>BOARD POSITION</u>
Lisa White	Chair
Jessica Hanson	Secretary
Jon Dettman	Treasurer
Lisa Dochniak	Member
Jackie Henschen	Member
Dan Miller	Member

ADMINISTRATION

Drew Goodson
Kyle Knudson

Director
Contracted Business Manager

School Office:

Charter School No. 4254
Marine Area Community School
14189 Ostlund Trail North
Marine on St. Croix, MN 55047
(651) 409-3122

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
Charter School No. 4254
Marine Area Community School
Marine on St. Croix, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Marine Area Community School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Marine Area Community School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 Marine Area Community School as of June 30, 2019, and the respective changes in financial position and the respective budgetary comparison for the General Fund and Food Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Prior Year Information

We have previously audited Marine Area Community School's 2018 financial statements of the governmental activities and each major fund, and we expressed an unmodified opinion on those audited financial statements in our report dated December 4, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marine Area Community School's basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Other Matters (Continued)

Supplementary Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2019, on our consideration of Marine Area Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Marine Area Community School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marine Area Community School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 20, 2019

REQUIRED SUPPLEMENTARY INFORMATION

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

This Marine Area Community School's (School) annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the School's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2018-2019 fiscal year include the following:

- § The School's net position at June 30, 2019 was a positive position of \$324,887.
- § Total General Fund revenues were \$2,327,264 as compared to \$2,241,117 of expenditures.
- § At June 30, 2019, the School's General Fund reported a positive fund balance of \$139,609.
- § Capital assets have been reported at \$116,933 with accumulated depreciation of \$32,831 for a net capital asset value of \$84,102.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

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, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two School-wide statements report the School's *net position* and how they have changed. Net position – the difference between the School's assets, deferred outflows, liabilities, and deferred inflows – are 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 nonfinancial 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* – Most of the School's basic services are included here, such as regular and special education, transportation, administration, and food services. 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 and by bond covenants.
- § The School may establish other funds to control and manage money for a blended component unit such as the Building Company.

The School has one kind of fund:

- § *Governmental Funds* – Most of 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.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's *combined* net position was a positive position of \$324,887 on June 30, 2019 (see Table A-1).

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

	Governmental Activities as of June 30,		Percentage Change
	2019	2018	
Current and Other Assets	\$ 466,763	\$ 360,584	29.45 %
Capital Assets	84,102	88,935	(5.43)
Total Assets	<u>550,865</u>	<u>449,519</u>	22.55
Deferred Outflows of Resources	1,795,660	54,011	3224.62
Current Liabilities	327,154	288,982	13.21
Net Pension Liability	675,538	-	N/A
Total Liabilities	<u>1,002,692</u>	<u>288,982</u>	246.97
Deferred Inflows of Resources	<u>1,018,946</u>	-	N/A
Net Position:			
Investment in Capital Assets	84,102	88,935	(5.43)
Unrestricted	240,785	125,613	91.69
Total Net Position	<u>\$ 324,887</u>	<u>\$ 214,548</u>	51.43

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

Changes in Net Position

The School's total revenues were \$2,325,272 for the year ended June 30, 2019. State formula aid accounted for 54% of total revenue for the year (Figure A-2). Another 41% came from program revenues and grants and the remaining 5% from other general revenues.

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

	Governmental Activities for the Period Ended June 30,		Percentage Change
	2019	2018	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 50,289	\$ 40,976	22.73 %
Operating Grants and Contributions	914,729	865,531	5.68
<u>General Revenues</u>			
Unrestricted State Aid	1,255,831	1,085,933	15.65
Other	104,423	168,258	(37.94)
Total Revenues	<u>2,325,272</u>	<u>2,160,698</u>	7.62
Expenses			
Administration	154,255	184,214	(16.26)
District Support Services	187,002	189,622	(1.38)
Regular Instruction	617,739	613,037	0.77
Special Education Instruction	576,413	338,470	70.30
Instructional Support Services	1,048	20,631	(94.92)
Pupil Support Services	230,080	211,419	8.83
Sites and Buildings	375,909	326,780	15.03
Fiscal and Other Fixed Cost Programs	12,793	9,263	38.11
Food Service	55,183	49,472	11.54
Interest and Fiscal Charges on Long-Term Liabilities	4,511	3,242	39.14
Total Expenses	<u>2,214,933</u>	<u>1,946,150</u>	13.81
Change in Net Position	110,339	214,548	
Beginning Net Position	<u>214,548</u>	<u>-</u>	
Ending Net Position	<u>\$ 324,887</u>	<u>\$ 214,548</u>	

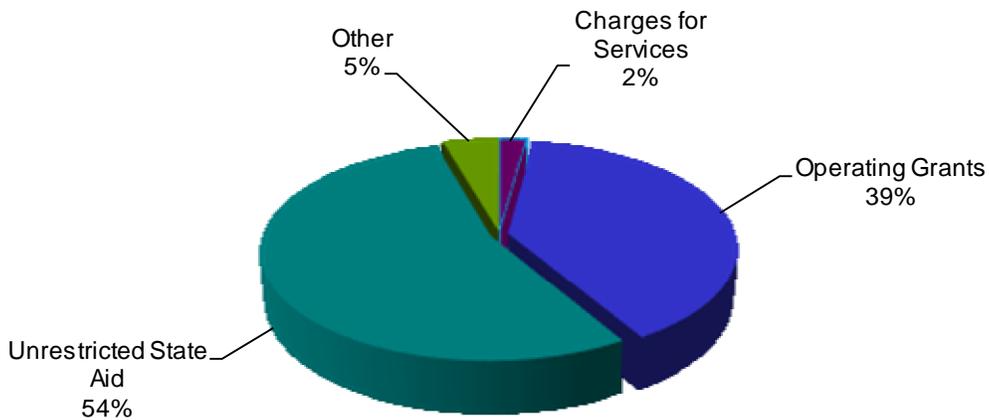
The total cost of all programs and services was \$2,214,933. Total revenues exceeded expenses, increasing net position by \$110,339.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

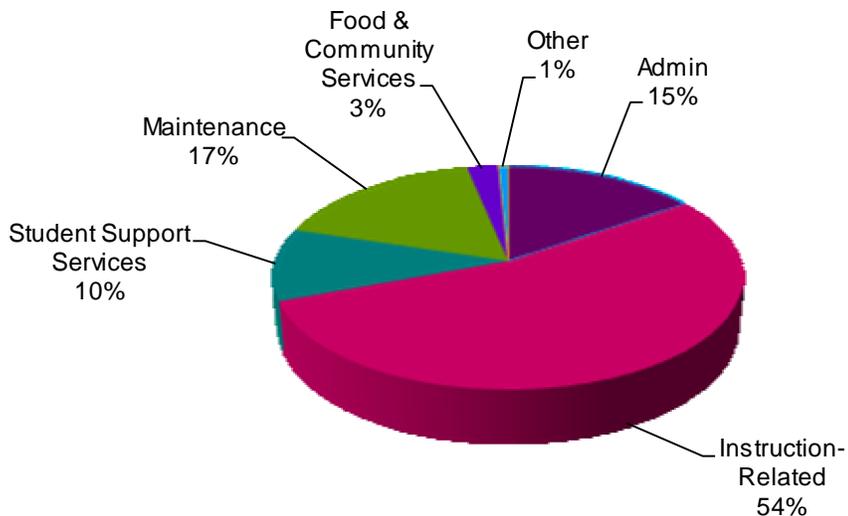
The cost of all *governmental* activities this year was \$2,214,933.

- § Some of the costs were paid by the users of the School's programs (\$50,289).
- § The federal government and private grant funds subsidized certain programs with grants and contributions (\$914,729).
- § Most of the School's remaining costs, however, were paid for by unrestricted State aid and other general revenues.

**Figure A-1
Sources of School's Revenues for Fiscal 2019**



**Figure A-2
School Expenses for Fiscal 2019**



**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

All governmental activities 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 Food Service Fund. 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 this restricted area and use the funds to hire teachers to enhance instruction.

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2019	2018		2019	2018	
Administration	\$ 154,255	\$ 184,214	(16.26)%	\$ 18,720	\$ (132,639)	(114.11)%
District Support Services	187,002	189,622	(1.38)	187,002	189,622	(1.38)
Regular Instruction	617,739	613,037	0.77	604,493	601,291	0.53
Special Education Instruction	576,413	338,470	70.30	19,022	(433)	(4493.07)
Instructional Support Services	1,048	20,631	(94.92)	1,048	20,631	(94.92)
Pupil Support Services	230,080	211,419	8.83	230,080	211,419	8.83
Sites and Buildings	375,909	326,780	15.03	154,106	127,052	21.29
Fiscal and Other Fixed Cost Programs	12,793	9,263	38.11	12,793	9,263	38.11
Food Service	55,183	49,472	11.54	18,140	10,195	77.93
Interest and Fiscal Charges on Long-Term Liabilities	4,511	3,242	39.14	4,511	3,242	39.14
Total	<u>\$ 2,214,933</u>	<u>\$ 1,946,150</u>	13.81	<u>\$ 1,249,915</u>	<u>\$ 1,039,643</u>	20.23

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds as well. As the School completed the year, its governmental funds reported a *combined* fund balance of \$139,609.

Revenues for the School's governmental funds were \$2,364,307 while total expenditures were \$2,296,300.

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students in kindergarten through grade 6 including capital outlay projects and facility maintenance and leases.

Approximately 90% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This revenue source includes general education aid, facility lease aid, special education aid, federal aid and other state appropriations and grants.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

ENROLLMENT

Enrollment is a critical factor in determining revenue with approximately 90% of General Fund revenue being determined by enrollment. Enrollment increased during the 2018-2019 school year from 160 to 185 in the School's second year serving students.

GENERAL FUND HIGHLIGHTS

The following schedule presents a summary of General Fund Revenues.

**Table A-4
General Fund Revenues**

	Period Ended		Change	
	June 30, 2019	June 30, 2018	Increase (Decrease)	Percent Change
Local Sources:				
Other	\$ 117,669	\$ 180,004	\$ (62,335)	(34.63)%
State Sources	2,043,078	1,593,260	449,818	28.23
Federal Sources	166,517	348,157	(181,640)	(52.17)
Total General Fund Revenue	<u>\$ 2,327,264</u>	<u>\$ 2,121,421</u>	<u>\$ 205,843</u>	9.70

Total General Fund Revenue was \$2,327,264 for the year which was an increase of \$205,843 or 9.70%. Basic general education revenue is 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 is made up 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.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

The following schedule presents a summary of General Fund Expenditures.

**Table A-5
General Fund Expenditures**

	Period Ended		Change	
	June 30, 2019	June 30, 2018	Increase (Decrease)	Percent Change
Salaries	\$ 1,064,959	\$ 731,685	\$ 333,274	45.55 %
Employee Benefits	229,832	163,281	66,551	40.76
Purchased Services	763,677	848,848	(85,171)	(10.03)
Supplies and Materials	136,590	143,747	(7,157)	(4.98)
Capital Expenditures	31,011	147,242	(116,231)	(78.94)
Other Expenditures	15,048	4,306	10,742	249.47
Total General Fund Expenditures	\$ 2,241,117	\$ 2,039,109	\$ 202,008	9.91

Total General Fund expenditures were \$2,241,117 for the year which was an increase of \$202,008 or 9.91%

GENERAL FUND BUDGETARY HIGHLIGHTS

Following approval of the budget prior to the beginning of the fiscal year, the School revises the annual operating budget in mid-year. These budget amendments typically fall into two categories:

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

Actual revenues were \$109,291 (4.5%) less than budgeted. The actual expenditures were \$67,255 under budget for a 2.9% variance.

OTHER MAJOR FUNDS

Expenditures exceeded revenues by \$18,140 in the Food Service Fund. The deficit was eliminated through a transfer of \$18,140 from the General Fund leaving a fund balance of \$0 at June 30, 2019.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CAPITAL ASSETS

By the end of 2019, the School had invested \$116,933 in capital equipment and leasehold improvements (see Table A-6). (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total accumulated depreciation of \$32,831 resulted in a combined net capital asset value of \$84,102.

**Table A-6
The School's Capital Assets**

	2019	2018	Percentage Change
Charter School			
Leasehold Improvements	\$ 42,704	\$ 26,523	62.11 %
Furniture and Equipment	74,229	72,294	97.39
Less: Accumulated Depreciation	(32,831)	(9,882)	30.10
Total School Capital Assets	\$ 84,102	\$ 88,935	105.75

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. In addition, enrollment levels have not reached expectations for the School making it difficult, but not impossible, to balance educational program needs against revenue resources.

The School will strive to maintain its commitment to academic excellence and educational opportunity for students. It is anticipated that enrollment will continue to grow and meet the capacity of the new facility and a middle school site in the near future. While state funding formulas may not be sufficient to meet instructional programming needs, the increase in planned enrollment is expected to provide the resources to balance future budgets and build a sufficient fund balance.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our constituents, state oversight agencies, lenders, customers, legislative leaders, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Drew Goodson, Director, Marine Area Community School, Charter School 4254, 14189 Ostlund Trail North, Marine on St. Croix, MN 55047.

BASIC FINANCIAL STATEMENTS

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
STATEMENT OF NET POSITION
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Governmental Activities	
	2019	2018
ASSETS		
Cash and Investments	\$ 153,423	\$ 80,787
Receivables:		
Other Governments	291,632	268,677
Other	2,144	8,120
Prepaid Items	19,564	3,000
Capital Assets:		
Other Capital Assets, Net of Depreciation	84,102	88,935
Total Assets	550,865	449,519
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pensions	1,795,660	54,011
 LIABILITIES		
Short-Term Borrowing	175,000	122,500
Salaries Payable	136,681	104,186
Accounts and Contracts Payable	13,514	62,296
Unearned Revenue	1,959	-
Long-Term Liabilities:		
Net Pension Liability	675,538	-
Total Liabilities	1,002,692	288,982
 DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Pensions	1,018,946	-
 NET POSITION		
Net Investment in Capital Assets	84,102	88,935
Unrestricted	240,785	125,613
Total Net Position	\$ 324,887	\$ 214,548

See accompanying Notes to Basic Financial Statements.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

Functions	2019				2018	
	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position	Net (Expense) Revenue and Change in Net Position	
		Charges for Services	Operating Grants and Contributions	Total	Total	
				Governmental Activities	Governmental Activities	
GOVERNMENTAL ACTIVITIES						
Administration	\$ 154,255	\$ -	\$ 135,535	\$ (18,720)	\$ 132,639	
District Support Services	187,002	-	-	(187,002)	(189,622)	
Regular Instruction	617,739	13,246	-	(604,493)	(601,291)	
Special Education Instruction	576,413	-	557,391	(19,022)	433	
Instructional Support Services	1,048	-	-	(1,048)	(20,631)	
Pupil Support Services	230,080	-	-	(230,080)	(211,419)	
Sites and Buildings	375,909	-	221,803	(154,106)	(127,052)	
Fiscal and Other Fixed Cost Programs	12,793	-	-	(12,793)	(9,263)	
Food Service	55,183	37,043	-	(18,140)	(10,195)	
Interest and Fiscal Charges on Long-Term Liabilities	4,511	-	-	(4,511)	(3,242)	
Total School District	<u>\$ 2,214,933</u>	<u>\$ 50,289</u>	<u>\$ 914,729</u>	(1,249,915)	(1,039,643)	
GENERAL REVENUES						
				1,255,831	1,085,933	
State Aid Not Restricted to Specific Purposes				104,423	168,258	
Miscellaneous				<u>1,360,254</u>	<u>1,254,191</u>	
Total General Revenues						
CHANGE IN NET POSITION				110,339	214,548	
Net Position - Beginning				<u>214,548</u>	<u>-</u>	
NET POSITION - ENDING				<u>\$ 324,887</u>	<u>\$ 214,548</u>	

See accompanying Notes to Basic Financial Statements.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Major Funds		Total Governmental Funds	
	General	Food Service	2019	2018
ASSETS				
Cash and Investments	\$ 151,208	\$ 2,215	\$ 153,423	\$ 80,787
Receivables:				
Due from Minnesota Department of Education	273,872	-	273,872	228,171
Due from Federal through Minnesota Department of Education	17,760	-	17,760	40,506
Due from Other Funds	2,400	-	2,400	1,650
Other Receivables	-	2,144	2,144	8,120
Prepays	19,564	-	19,564	3,000
Total Assets	\$ 464,804	\$ 4,359	\$ 469,163	\$ 362,234
LIABILITIES AND FUND BALANCE				
Liabilities:				
Short-Term Borrowing	\$ 175,000	\$ -	\$ 175,000	\$ 122,500
Salaries Payable	80,483	-	80,483	57,826
Payroll Deductions and Employer Contributions Payable	56,198	-	56,198	46,360
Accounts and Contracts Payable	13,514	-	13,514	62,296
Due to Other Funds	-	2,400	2,400	1,650
Unearned Revenue	-	1,959	1,959	-
Total Liabilities	325,195	4,359	329,554	290,632
Fund Balance:				
Nonspendable:				
Prepays	19,564	-	19,564	3,000
Unassigned:				
General Fund	120,045	-	120,045	68,602
Food Service	-	-	-	-
Total Fund Balance	139,609	-	139,609	71,602
Total Liabilities and Fund Balance	\$ 464,804	\$ 4,359	\$ 469,163	\$ 362,234

See accompanying Notes to Basic Financial Statements.

**MARINE AREA COMMUNITY SCHOOL
 CHARTER SCHOOL NO. 4254
 RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
 GOVERNMENTAL FUNDS
 JUNE 30, 2019
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
Total Fund Balance for Governmental Funds	\$ 139,609	\$ 71,602
<p>Total net position reported for governmental activities in the statement of net position is different because:</p> <p>Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:</p>		
Buildings and Improvements, Net of Accumulated Depreciation	31,762	23,871
Equipment, Net of Accumulated Depreciation	52,340	65,064
<p>The School's deferred outflows are recorded only on the statement of net position. Balances at year-end are:</p>		
Net Pension Liability	(675,538)	-
Deferred Inflows of Resources - Pensions	(1,018,946)	-
Deferred Outflows of Resources - Pensions	1,795,660	54,011
Total Net Position of Governmental Activities	\$ 324,887	\$ 214,548

See accompanying Notes to Basic Financial Statements.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

	Major Funds		Total Governmental Funds	
	General	Food Service	2019	2018
REVENUES				
Local Sources:				
Other	\$ 117,669	\$ 37,043	\$ 154,712	\$ 209,234
State Sources	2,043,078	-	2,043,078	1,594,480
Federal Sources	166,517	-	166,517	356,984
Total Revenues	<u>2,327,264</u>	<u>37,043</u>	<u>2,364,307</u>	<u>2,160,698</u>
EXPENDITURES				
Current:				
Administration	162,960	-	162,960	191,383
District Support Services	175,257	-	175,257	155,716
Elementary and Secondary Regular Instruction	673,071	-	673,071	630,580
Special Education Instruction	597,955	-	597,955	351,736
Instructional Support Services	1,048	-	1,048	21,511
Pupil Support Services	223,276	-	223,276	211,547
Sites and Buildings	359,235	-	359,235	316,889
Fiscal and Other Fixed Cost Programs	12,793	-	12,793	9,263
Food Service	-	55,183	55,183	49,987
Capital Outlay	31,011	-	31,011	147,242
Debt Service:				
Interest and Fiscal Charges	4,511	-	4,511	3,242
Total Expenditures	<u>2,241,117</u>	<u>55,183</u>	<u>2,296,300</u>	<u>2,089,096</u>
EXCESS (DEFICIENCY) OF REVENUE (OVER) UNDER EXPENDITURES	86,147	(18,140)	68,007	71,602
OTHER FINANCING SOURCES (USES)				
Transfers In	-	18,140	18,140	10,710
Transfers Out	(18,140)	-	(18,140)	(10,710)
Total Other Financing Sources (Uses)	<u>(18,140)</u>	<u>18,140</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	68,007	-	68,007	71,602
FUND BALANCE				
Beginning of Year	71,602	-	71,602	-
End of Year	<u>\$ 139,609</u>	<u>\$ -</u>	<u>\$ 139,609</u>	<u>\$ 71,602</u>

See accompanying Notes to Basic Financial Statements.

**MARINE AREA COMMUNITY SCHOOL
 CHARTER SCHOOL NO. 4254
 RECONCILIATION OF THE STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2019
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

	2019	2018
Net Change in Fund Balance - Total Governmental Funds	\$ 68,007	\$ 71,602

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation in the current period is:

Capital Outlays	18,116	98,817
Depreciation Expense	(22,949)	(9,882)

Pension expenditures in the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources.

	47,165	54,011
Total	\$ 110,339	\$ 214,548

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Other	\$ 21,600	\$ 118,035	\$ 117,669	\$ (366)
State Sources	2,115,601	2,058,354	2,043,078	(15,276)
Federal Sources	204,088	260,166	166,517	(93,649)
Total Revenues	<u>2,341,289</u>	<u>2,436,555</u>	<u>2,327,264</u>	<u>(109,291)</u>
EXPENDITURES				
Current:				
Administration	167,750	161,939	162,960	1,021
District Support Services	171,289	180,093	175,257	(4,836)
Elementary and Secondary Regular Instruction	699,582	708,228	673,071	(35,157)
Special Education Instruction	578,770	592,370	597,955	5,585
Instructional Support Services	-	625	1,048	423
Pupil Support Services	211,360	228,001	223,276	(4,725)
Sites and Buildings	338,707	340,470	359,235	18,765
Fiscal and Other Fixed Cost Programs	19,498	15,000	12,793	(2,207)
Capital Outlay	-	78,426	31,011	(47,415)
Debt Service:				
Interest and Fiscal Charges	6,893	3,220	4,511	1,291
Total Expenditures	<u>2,193,849</u>	<u>2,308,372</u>	<u>2,241,117</u>	<u>(67,255)</u>
EXCESS (DEFICIENCY) OF REVENUE (OVER) UNDER EXPENDITURES	147,440	128,183	86,147	(42,036)
OTHER FINANCING USES				
Transfers Out	<u>(12,860)</u>	<u>(15,523)</u>	<u>(18,140)</u>	<u>(2,617)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 134,580</u>	<u>\$ 112,660</u>	68,007	<u>\$ (44,653)</u>
FUND BALANCE				
Beginning of Year			<u>71,602</u>	
End of Year			<u>\$ 139,609</u>	

See accompanying Notes to Basic Financial Statements.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Other - Primarily Meal Sales	\$ -	\$ 37,000	\$ 37,043	\$ 43
Federal Sources	40,189	-	-	-
Total Revenues	<u>40,189</u>	<u>37,000</u>	<u>37,043</u>	<u>43</u>
EXPENDITURES				
Current:				
Food Service	<u>55,525</u>	<u>52,523</u>	<u>55,183</u>	<u>2,660</u>
DEFICIENCY OF REVENUE UNDER EXPENDITURES	(15,336)	(15,523)	(18,140)	(2,617)
OTHER FINANCING SOURCES				
Transfers In	<u>15,336</u>	<u>15,523</u>	<u>18,140</u>	<u>2,617</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	-	<u><u>\$ -</u></u>
FUND BALANCE				
Beginning of Year			<u>-</u>	
End of Year			<u><u>\$ -</u></u>	

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Charter School No. 4254 have been prepared in conformity with accounting principles generally accepted in the United States of America 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.

B. Financial Reporting Entity

Marine Area Community School (the School) is a nonprofit corporation that was formed on June 2, 2016, in accordance with Minnesota Statutes. Marine Area Community School is authorized by Minnesota Guild of Public Charter Schools and operates under an authorizer contract extending through June 30, 2022. The School is organized to operate as a K-6 charter school focused on a comprehensive liberal arts education including integrated, cross-curricular learning. The School has a community school structure, natural surroundings, and consistently small class sizes to create the ideal blend of social, developmental, and academic benefits for students. The governing body consists of a board of education composed of no less than five, and no more than eleven members elected by voters of the general membership of the School to serve either one or two-year terms.

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

Component units are legally separate entities for which the School is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no component units as of June 30, 2019.

Aside from its authorizer role, The Minnesota Guild has no authority, control, power, or administrative responsibilities over the School. Therefore, the School is not considered a component unit of Minnesota Guild.

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 Board has elected to control extracurricular activities; therefore, the extracurricular student activity accounts are included in the School's basic financial statements as part of the General Fund.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

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

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

The School applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the School-wide financial statements.

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

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the eligibility requirements are met. Food service sales and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

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

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the School, as well as the capital related activities such as maintenance of facilities and equipment purchases.

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Primary revenue sources in the Food Service Fund are meal sales and state and federal aids.

E. 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.

F. Budgeting

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

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgeting (Continued)

Procedurally, in establishing the budgetary data reflected in these financial statements, the Director submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

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

Budgeted amounts include a mid-year budget amendment that changed revenue and expenditure budgets as follows:

	Original Budget	Amendments	Amended Budget
<u>Revenues</u>			
General Fund	\$ 2,341,289	\$ 95,266	\$ 2,436,555
Special Revenue Fund:			
Food Service Fund	40,189	(3,189)	37,000
<u>Expenditures</u>			
General Fund	\$ 2,193,849	\$ 114,523	\$ 2,308,372
Special Revenue Fund:			
Food Service Fund	55,525	(3,002)	52,523

At the end of each fiscal year, if the General Fund has a net unassigned deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota schools which excludes certain restricted balances specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

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.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Accounts Receivable

Accounts receivable represents amounts due from 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 prepayments. Prepaid items are expensed over the period benefitted.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School has one item that qualifies for reporting in this category related to pensions.

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The School maintains a threshold level of \$500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the School-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives are five to ten years for equipment.

Capital assets not being depreciated include land.

The School does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Pensions

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

M. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance related to prepaid expenses, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the School Board. The School Board chose not to pass a resolution authorizing anyone to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts of the General Fund.

N. 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; workers compensation and natural disasters. The School purchases commercial insurance coverage for such risks.

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

O. Net Position

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

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Summarized Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following fund at June 30, 2019.

	Budget	Expenditures	Excess
Special Revenue Fund:			
Food Service Fund	\$ 52,523	\$ 55,183	\$ 2,660

The overage was considered by School management to be the result of necessary expenditures critical to operations and was approved by the Board.

NOTE 3 DEPOSITS

The School maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "Cash and Investments." In accordance with applicable Minnesota Statutes, the School maintains deposits at depository banks authorized by the School's Board.

Custodial Credit Risk – 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 includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS (CONTINUED)

The School's carrying and bank balances of deposits at June 30, 2019 were \$153,423 and \$202,328, respectively. All deposits were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Being Depreciated:				
Leasehold Improvements	\$ 26,523	\$ 16,181	\$ -	\$ 42,704
Equipment	72,294	1,935	-	74,229
Total Capital Assets, Being Depreciated	<u>98,817</u>	<u>18,116</u>	-	116,933
Accumulated Depreciation for:				
Leasehold Improvements	(2,652)	(8,290)	-	(10,942)
Equipment	(7,230)	(14,659)	-	(21,889)
Total Accumulated Depreciation	<u>(9,882)</u>	<u>(22,949)</u>	-	<u>(32,831)</u>
Governmental Activities Capital Assets, Net	<u>\$ 88,935</u>	<u>\$ (4,833)</u>	<u>\$ -</u>	<u>\$ 84,102</u>

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

Governmental Activities	
District Support Services	\$ 10,352
Regular Instruction	2,618
Special Education Instruction	768
Total Depreciation Expense, Governmental Activities	<u>\$ 22,949</u>

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS

Substantially all employees of the School are required by State Law to belong to a pension plan administered by TRA or PERA, all of which are administered on a statewide basis. Disclosures relating to these plans are as follows:

A. Plan Description

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

1. General Employees Retirement Plan (GERF)

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

2. Teachers Retirement Fund (TRA)

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

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or University of Minnesota System).

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided

PERA and TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

1. GERF Benefits

Benefits General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. TRA Benefits

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.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

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

Tier 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years if Service Years Are Up to July 1, 2006	1.2% per Year
	First Ten Years if Service Years Are July 1, 2006 or After	1.4% per Year
	All Other Years of Service if Service Years Are Up to July 1, 2006	1.7% per Year
	All Other Years of Service if Service Years Are July 1, 2006 or After	1.9% per Year

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0% per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

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

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

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier II Benefits (Continued)

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

C. Contributions

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019 were \$23,786. The District's contributions were equal to the required contributions as set by state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for fiscal year 2019 were:

	2019	
	Employee	Employer
Basic	11.00 %	11.71 %
Coordinate	7.50	7.50

The School's contributions to TRA for the plan's fiscal year ended June 30, 2019 were \$55,945. The School's contributions were equal to the required contributions for each year as set by state statute.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. GERF Pension Costs

At June 30, 2019, the School reported a liability of \$127,595 for its proportionate share of the GERF's net pension liability. The School's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund during the General Employees Fund's fiscal year 2018. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the School's totaled \$4,229, for a total net pension liability of \$131,824 associated with the School. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the School's proportion was .0023%, which was an increase of .0023% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the School recognized pension expense of \$43,638 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$986 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2019, the School reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 3,377	\$ 3,721
Changes in Actuarial Assumptions	12,189	14,336
Net Difference Between Projected and Actual		
Earnings on Plan Investments	-	13,039
Changes in Proportion and Differences Between		
District Contributions and Proportionate		
Share of Contributions	111,097	-
District Contributions Subsequent to the		
Measurement Date	23,786	-
Total	<u>\$ 150,449</u>	<u>\$ 31,096</u>

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

A total of \$23,786 reported as deferred outflows of resources related to pensions resulting from School contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020.

Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ 41,420
2021	30,131
2022	26,679
2023	(2,663)
2024	-
Thereafter	-

2. TRA Pension Costs

At June 30, 2019, the School reported a liability of \$547,943 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the state of Minnesota, city of Minneapolis, and Minneapolis School District. The School's proportionate share was .0087% at the end of the measurement period and .0000% for the beginning of the period.

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

<u>Description</u>	<u>Amount</u>
School's Proportionate Share of the TRA Net Pension Liability	\$ 547,943
State's Proportionate Share of the Net Pension Liability Associated with the School	51,246

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

note 5 DEFINED bENEFIT PENSION plans (continued)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

For the year ended June 30, 2019, the School recognized negative pension expense of \$17,329. It also recognized \$35,930 as a decrease to pension expense and negative grant revenue for the support provided by direct aid.

At June 30, 2019, the School reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 5,844	\$ 11,047
Changes in Actuarial Assumptions	707,495	934,311
Net Difference Between Projected and Actual		
Earnings on Plan Investments	-	42,492
Changes in Proportion and Differences Between		
District Contributions and Proportionate		
Share of Contributions	875,927	-
District Contributions Subsequent to the		
Measurement Date	55,945	-
Total	\$ 1,645,211	\$ 987,850

A total of \$55,945 reported as deferred outflows of resources related to pensions resulting from School contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ 228,873
2021	207,440
2022	172,689
2023	(34,647)
2024	27,061
Thereafter	-

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.50% per Year	2.50%
Active Member Payroll Growth	11.25% after 1 year of service decreasing to 3.25% per year after 26 years	2.85 for 10 years and 3.25%, thereafter- 9.25%
Investment Rate of Return	7.50%	7.50%

PERA Salary increases were based on a service-related table. PERA mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. PERA cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

Actuarial assumptions used in the PERA June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

TRA pre-retirement mortality rates were based on the RP-2014 white-collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale. Postretirement mortality rates were based on the RP-2014 white-collar annuitant table, male rates set back 3 years, and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale. Post-disability mortality rates were based on the RP-2014 disabled retiree mortality table, without adjustment. TRA cost of living benefit increases 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

TRA assumptions are based on the full experience study dated June 2015 and the study of the economic assumptions presented to the Board in November 2017.

The following changes in actuarial assumptions for PERA occurred in 2018:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed postretirement benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions for TRA occurred in 2018:

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 5 years, (7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate was changed from 5.12% to 7.5%.

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

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36 %	5.10 %
International Stocks	17	5.30
Bonds (Fixed Income)	20	0.75
Alternative Assets (Private Markets)	25	5.90
Cash	2	-
Totals	100 %	

F. Discount Rate

The discount rate used to measure the PERA General Employees Plan liability in 2018 was 7.50%. 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 positions of the General Employees Fund were 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.

The discount rate used to measure the TRA pension liability was 7.50%. This is an increase from the discount rate at the prior measurement date of 5.12%. The projection of cash flows used to determine the discount rate assumed that employee contribution will be made at the fiscal year 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

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

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.50%	7.50%	8.50%
School's Proportionate Share of the GERF Net Pension Liability	\$ 207,358	\$ 127,595	\$ 61,753
<u>TRA Discount Rate</u>	6.50%	7.50%	8.50%
School's Proportionate Share of the TRA Net Pension Liability	\$ 869,583	\$ 547,943	\$ 282,592

H. Pension Plan Fiduciary Net Position

Detailed information about General Employees Plan's fiduciary's net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org.

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 #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-657-3669.

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 SHORT-TERM BORROWING

In April 2019, the School amended their line of credit agreement with Security State Bank of Marine to increase the maximum borrowing amount to \$275,000 and a 7% interest rate with a maturity date of November 2019. In fiscal 2019 the School used funds from the line of credit to cover some of its operating expenditures.

	June 30, 2018	Additions	Retirements	June 30, 2019
Bank of Marine Line of Credit	\$ 122,500	\$ 175,000	\$ 122,500	\$ 175,000

NOTE 7 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. 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.

B. Lease Commitments and Terms

On May 31, 2017, the School entered into a lease for an educational site located at 14189 Ostlund Trail, Marine on St. Croix, MN 55047. The term of the original lease was one year commencing on June 30, 2017 and ending June 30, 2018. The lease also provided an option to extend the lease and, effective July 1, 2018, the School extended the lease an additional 5 years through June 30, 2023. On May 1st of each year, but effective as of the July 1st commencement of each subsequent lease year, and each year of renewal term, if any, the parties adjust the base rent amount to an amount that results in the School's receipt of the maximum amount of lease aid available from the Minnesota Department of Education pursuant to applicable Minnesota Law. See the future minimum lease payments below:

Year Ending June 30,	Scheduled Amount
2020	\$ 268,640
2021	268,640
2022	268,640
2023	268,640
Total Minimum Lease Payments	\$ 1,074,560

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. 4254
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Lease Commitments and Terms (Continued)

For fiscal 2019, the School paid qualifying rent total \$268,632 under the terms of this lease. The School qualified for estimated charter school lease aid of \$241,776 based on a cap of 90% of MDE-approved costs incurred. The School's entitlement may be prorated by MDE if the statewide appropriation is insufficient to fully pay the amounts owed.

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

REQUIRED SUPPLEMENTARY INFORMATION

**MARINE AREA COMMUNITY SCHOOL
 CHARTER SCHOOL NO. NO. 4254
 TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 LAST ONE MEASUREMENT PERIOD***

TRA Schedule of the School's Proportionate Share of the Net Pension Liability	<u>Measurement Date June 30, 2018</u>
School's Proportion of the Net Pension Liability	0.0087%
School's Proportionate Share of the Net Pension Liability	\$ 547,943
State's Proportionate Share of the Net Pension Liability Associated with School	51,246
Total	<u>\$ 599,189</u>
School's Covered Payroll	\$ 565,787
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	96.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.07%

*The School implemented GASB Statement No. 68 in fiscal 2017, and the above table will be expanded to 10 years as information is available.

**MARINE AREA COMMUNITY SCHOOL
 CHARTER SCHOOL NO. NO. 4254
 TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 LAST TWO FISCAL YEARS***

**TRA Schedule of School Contributions
 Last Two Fiscal Years**

	Fiscal Year Ended June 30,	
	2019	2018
Statutorily Required Contribution	\$ 55,945	\$ 42,434
Contributions in Relation to the Statutorily Required Contribution	(55,945)	(42,434)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 School's Covered Payroll	 \$ 745,933	 \$ 565,787
 Contributions as a Percentage of Covered Payroll	 7.71%	 7.50%

*The School implemented GASB Statement No. 68 in fiscal 2017, and the above table will be expanded to 10 years as information is available.

**MARINE AREA COMMUNITY SCHOOL
 CHARTER SCHOOL NO. NO. 4254
 GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 LAST ONE MEASUREMENT PERIOD***

GERF Schedule of the School's Proportionate Share of the Net Pension Liability	<u>Measurement Date June 30, 2018</u>
School's Proportion of the Net Pension Liability	0.0023%
School's Proportionate Share of the Net Pension Liability	\$ 127,595
State's Proportionate Share of the Net Pension Liability Associated with School	<u>4,229</u>
Total	<u><u>\$ 131,824</u></u>
 School's Covered Payroll	 \$ 154,347
 School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	 82.67%
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 79.50%

*The School implemented GASB Statement No. 68 in fiscal 2017, and the above table will be expanded to 10 years as information is available.

**MARINE AREA COMMUNITY SCHOOL
 CHARTER SCHOOL NO. NO. 4254
 GERS SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 LAST TWO FISCAL YEARS***

**GERF Schedule of School Contributions
 Last Two Fiscal Years**

	Fiscal Year Ended June 30,	
	2019	2018
Statutorily Required Contribution	\$ 23,786	\$ 11,576
Contributions in Relation to the Statutorily Required Contribution	(23,786)	(11,576)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
 School's Covered Payroll	 \$ 317,147	 \$ 154,347
 Contributions as a Percentage of Covered Payroll	 7.50%	 7.50%

*The School implemented GASB Statement No. 68 in fiscal 2017, and the above table will be expanded to 10 years as information is available.

SUPPLEMENTARY INFORMATION

**MARINE AREA COMMUNITY SCHOOL
CHARTER SCHOOL NO. NO. 4254
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2019**

	AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND			
Total Revenue	\$ 2,327,264	\$ 2,327,266	\$ (2)
Total Expenditures	2,241,117	2,241,119	(2)
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	19,564	19,564	-
<i>Restricted:</i>			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health and Safety	-	-	-
407 Capital Project Levy	-	-	-
408 Cooperative Programs	-	-	-
413 Projects Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	-	-	-
426 \$25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State-Approved Alternative Programs	-	-	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluations	-	-	-
441 Basic Skills Programs	-	-	-
445 Career and Technical Programs	-	-	-
448 Achievement and Integration	-	-	-
449 Sage Schools Crime Levy	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-
453 Unfunded Severance & Retirement Levy	-	-	-
464 Restricted Fund Balance	-	-	-
<i>Committed:</i>			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	-	-	-
<i>Assigned:</i>			
462 Assigned Fund Balance	-	-	-
<i>Unassigned:</i>			
422 Unassigned Fund Balance	120,045	120,044	1
02 FOOD SERVICE			
Total Revenue	37,043	37,043	-
Total Expenditures	55,183	55,183	-
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>			
452 OPEB Liability Not Held in Trust	-	-	-
464 Restricted Fund Balance	-	-	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-

OTHER REQUIRED REPORTS



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

Board of Education
Charter School No. 4254
Marine Area Community School
Marine on St. Croix, 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 Marine Area Community School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Marine Area Community School's basic financial statements, and have issued our report thereon dated November 20, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 20, 2019



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Charter School No. 4254
Marine Area Community School
Marine on St. Croix, 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 Marine Area Community School as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Marine Area Community School's basic financial statements, and have issued our report thereon dated November 20, 2019.

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

In connection with our audit, nothing came to our attention that caused us to believe that Marine Area Community School failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, if we had performed additional procedures, other matters may have come to our attention regarding Marine Area Community School's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools* and the results of that testing, and not to provide an opinion on the effectiveness of Marine Area Community School's compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
November 20, 2019