

BLUESKY CHARTER SCHOOL, INC.
WEST ST. PAUL, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
June 30, 2017

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BLUESKY CHARTER SCHOOL, INC.

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INTRODUCTORY SECTION

BLUESKY CHARTER SCHOOL, INC.

Board and Administration
Year Ended June 30, 2017

BOARD

| | |
|-----------------|------------|
| Jim Stocco | Chair |
| Paula Forbes | Vice Chair |
| Judy Pekarek | Treasurer |
| Julie Johnson | Secretary |
| Heidi Kelbel | Director |
| Matthew Schempp | Director |
| Jami St. Marie | Director |

ADMINISTRATION

| | |
|----------------|---------------------------|
| Amy Larsen | Executive Director |
| Renee Parcheta | Student Services Director |
| Daniel Ondich | Assistant Director |

FINANCIAL SECTION

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PRINCIPALS

Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA

INDEPENDENT AUDITOR'S REPORT

To the Board and Management of
BlueSky Charter School, Inc.
West St. Paul, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of the governmental activities and the major fund of BlueSky Charter School, Inc. (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the School as of June 30, 2017, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the School.

The UFARS 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.

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

Prior Year Comparative Information

We have previously audited the School's 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities and the major fund in our report dated December 13, 2016. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

(continued)

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
December 12, 2017

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BLUESKY CHARTER SCHOOL, INC.

Management's Discussion and Analysis Fiscal Year Ended June 30, 2017

This section of BlueSky Charter School, Inc.'s (the School) financial statements presents management's discussion and analysis of the School's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the other components of the School's financial statements.

FINANCIAL HIGHLIGHTS

- The School's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2017 by \$2,994,781 (deficit net position). The School's total net position decreased \$1,589,846 from operations during the fiscal year ended June 30, 2017.
- At June 30, 2017, the School's General Fund reported a total fund balance of \$1,798,485, an increase of \$169,214 from the prior year. The unassigned portion of the year-end fund balance was \$1,649,932. The remaining fund balance was a nonspendable fund balance of \$148,553 for prepaid items.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of the following parts:

- Independent Auditor's Report;
- Management's discussion and analysis;
- Basic financial statements, including the entity-wide financial statements, fund financial statements, and the notes to basic financial statements; and
- Required supplementary information.

The following explains the two types of statements included in the basic financial statements:

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide financial statements (Statement of Net Position and Statement of Activities) 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 entity-wide financial statements report the School's net position and how it has changed. Net position—the difference between the School's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the School's financial health or position. Over time, increases or decreases in the School's net position are indicators of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the School requires consideration of additional nonfinancial factors, such as changes in the School's student population and the condition of the School's buildings and other facilities.

In the entity-wide financial statements, the School's activities are all shown in one category titled "governmental activities." These activities, providing regular and special education instruction services to students of the School, are primarily financed with state aids.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the School's *funds*, focusing on its most significant or "major" funds, rather than 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. Minnesota charter schools must establish funds within the guidelines of the state's Uniform Financial Accounting and Reporting Standards.

The School maintains the following type of fund:

Governmental Funds – The School's basic services are included in a governmental fund, which generally focuses 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 fund financial statements provide a detailed *short-term* view that helps to determine whether there are more or less 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 entity-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental fund financial statements that explain the relationship (or differences) between these two types of financial statement presentations.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Table 1 is a summarized view of the School's Statement of Net Position:

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------|-----------------------|
| Assets | | |
| Current and other assets | \$ 2,305,820 | \$ 2,031,526 |
| Capital assets, net of depreciation | <u>54,985</u> | <u>38,171</u> |
| Total assets | <u>\$ 2,360,805</u> | <u>\$ 2,069,697</u> |
| Deferred outflow of resources | | |
| Pension plan deferments | <u>\$ 8,428,921</u> | <u>\$ 858,786</u> |
| Liabilities | | |
| Current and other liabilities | \$ 507,335 | \$ 402,255 |
| Long-term liabilities, including due within one year | <u>13,238,260</u> | <u>3,640,747</u> |
| Total liabilities | <u>\$ 13,745,595</u> | <u>\$ 4,043,002</u> |
| Deferred inflows of resources | | |
| Pension plan deferments | <u>\$ 38,912</u> | <u>\$ 290,416</u> |
| Net position | | |
| Net investment in capital assets | \$ 54,985 | \$ 38,171 |
| Unrestricted | <u>(3,049,766)</u> | <u>(1,443,106)</u> |
| Total net position | <u>\$ (2,994,781)</u> | <u>\$ (1,404,935)</u> |

The School's financial position is the product of many factors. For example, the determination of the School's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, may produce a significant difference in the calculated amounts. Unrestricted net position includes the School's liabilities for severance and pensions, which are not fully funded.

The School's total net position at June 30, 2017 was \$1,589,846 lower than the prior year. Total assets and deferred outflows of resources increased \$7,861,243, while total liabilities and deferred inflows of resources increased \$9,451,089. The majority of the changes in long-term liabilities, deferred outflows and inflows of resources, and unrestricted net position were due to increases in the School's proportionate share of two state-wide pension plans reported on the entity-wide financial statements.

Table 2 presents a condensed version of the Change in Net Position of the School:

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------|-----------------------|
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 2,632 | \$ 4,255 |
| Operating grants and contributions | 833,589 | 819,241 |
| General revenues | | |
| General grants and aids | 4,409,558 | 4,189,344 |
| Other general revenues | 18,495 | 26,418 |
| Investment earnings | 519 | 422 |
| Total revenues | <u>5,264,793</u> | <u>5,039,680</u> |
| Expenses | | |
| Administration | 328,772 | 153,152 |
| District support services | 504,928 | 390,475 |
| Elementary and secondary regular instruction | 2,416,821 | 1,495,240 |
| Vocational education instruction | 7,856 | 8,376 |
| Special education instruction | 1,055,395 | 705,242 |
| Instructional support services | 727,552 | 620,238 |
| Pupil support services | 1,527,650 | 1,010,821 |
| Sites and buildings | 264,053 | 307,004 |
| Fiscal and other fixed cost programs | 21,612 | 27,745 |
| Total expenses | <u>6,854,639</u> | <u>4,718,293</u> |
| Change in net position | (1,589,846) | 321,387 |
| Net position – beginning | <u>(1,404,935)</u> | <u>(1,726,322)</u> |
| Net position – ending | <u>\$ (2,994,781)</u> | <u>\$ (1,404,935)</u> |

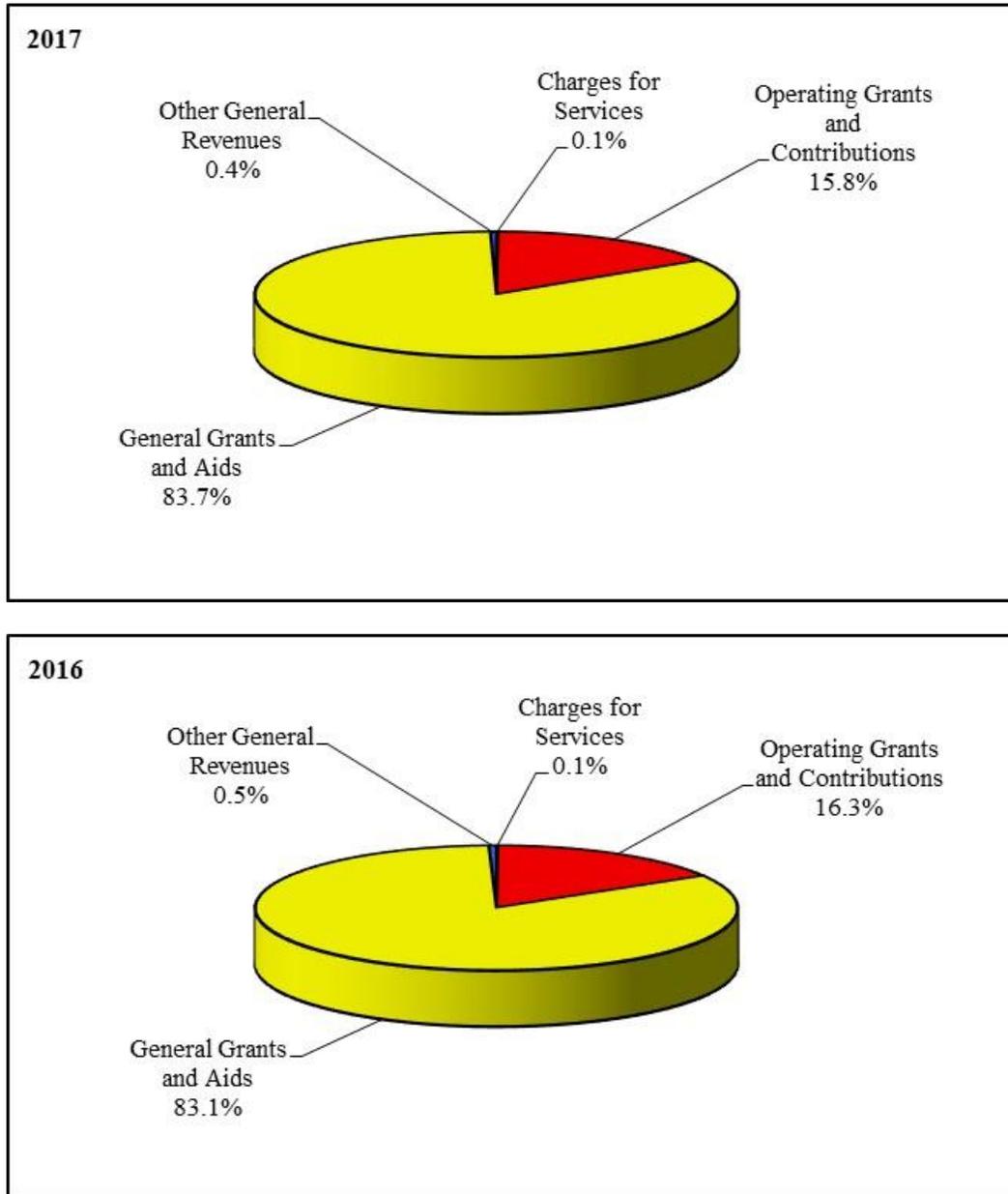
The Statement of Activities is presented on an accrual basis of accounting and includes all of the School's governmental activities. This statement includes depreciation expense, but excludes capital asset purchase costs, and the proceeds from and repayment of any debt.

The significant increase in expenses is due to higher entity-wide pension costs recognized related to the two state-wide pension plans.

While being an online provider of education allows the School to attract students from across the state and to keep operating costs controlled, it creates other challenges. These challenges include the geographical demands of complying with state testing requirements, keeping technological systems operating at optimal levels, and maintaining a consistent staff to achieve these goals.

Figures A and B show further analysis of these revenue sources and expense functions:

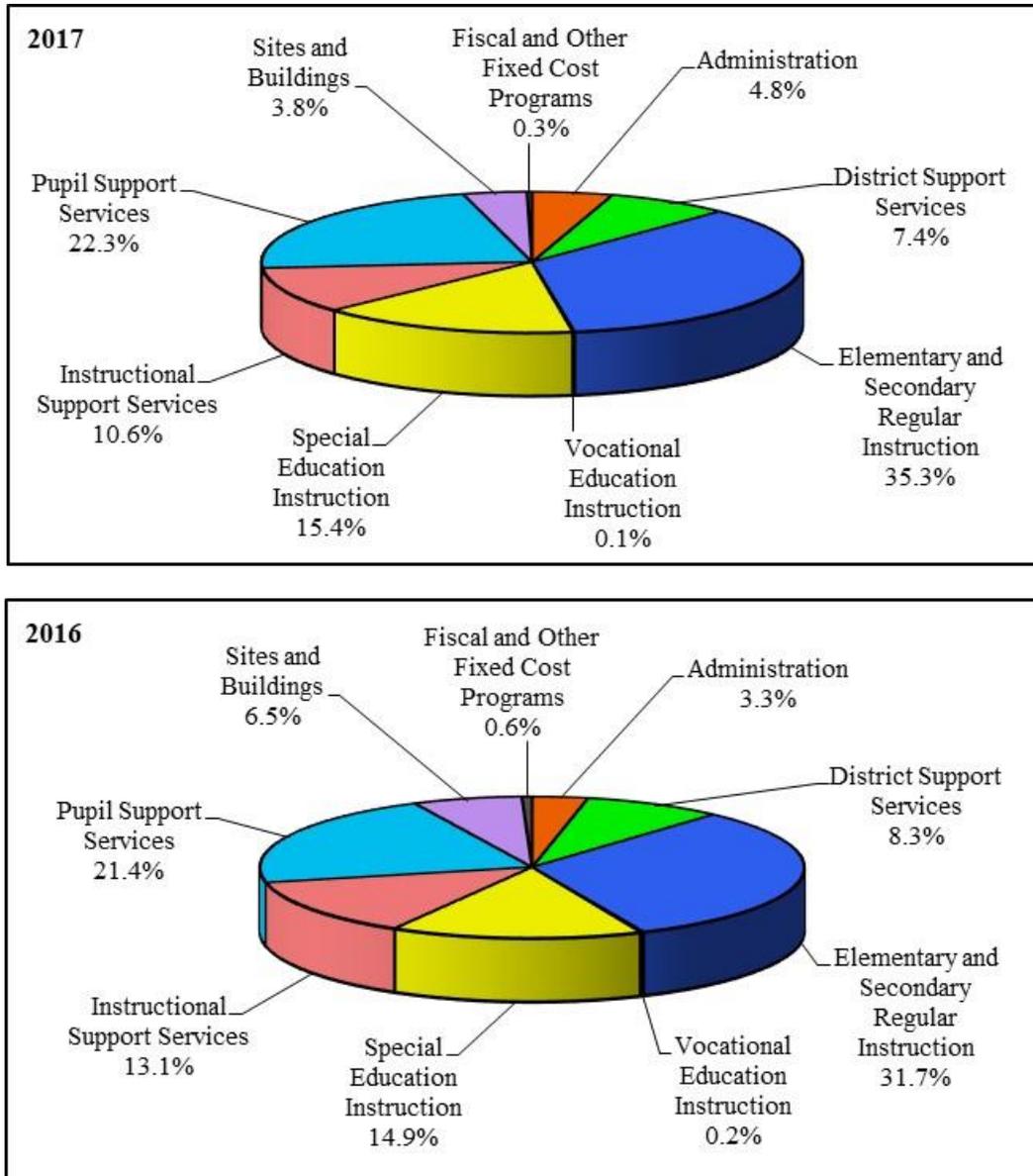
Figure A – Sources of Revenue for Fiscal Years 2017 and 2016



The largest share of the School’s revenue is received from the state, including most of the operating and general grants. This significant reliance on the state for funding has placed pressures on charter school budgets as funding increases have generally not kept pace with inflation.

Enrollment continues to be the largest influence on the School’s revenue. The School’s enrollment—an adjusted average daily memberships (ADM) of 483 for the year—was slightly below the initial budgeted projections of 485 ADM, and reflected a decrease of 2 ADM from the prior year. The School’s total governmental activity revenues were \$5,264,793 for the year ended June 30, 2017, which is an increase of \$225,113 from the prior year. General grants increased by \$220,214, primarily due to increased general education funding.

Figure B – Expenses for Fiscal Years 2017 and 2016



The School’s expenses are predominately related to educating students. Programs (or functions) such as regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the School.

The School’s cost of all governmental activities for 2017 was \$6,854,639, which is an increase of \$2,136,346 (45.3 percent) from the prior year. The main increases were in elementary and secondary regular instruction, special education and pupil support services, primarily due to higher entity-wide pension costs recognized related to the two state-wide pension plans.

FINANCIAL ANALYSIS OF THE GENERAL FUND

Table 3 summarizes the amendments to the General Fund budget:

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Increase (Decrease)</u> | <u>Percent Change</u> |
|--------------|------------------------|---------------------|--------------------------------|-----------------------|
| Revenue | <u>\$ 5,168,900</u> | <u>\$ 5,168,900</u> | <u>\$ -</u> | <u>- %</u> |
| Expenditures | <u>\$ 5,122,322</u> | <u>\$ 5,122,322</u> | <u>\$ -</u> | <u>- %</u> |

The School is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. It is the School's practice to amend the General Fund budget during the year for known significant changes in circumstances such as: updated enrollment estimates, legislation changes, new or additional funding, staffing changes, employee contract settlements, adjustments to health insurance premiums, special education tuition changes, or utility rate changes. The School amended the budget during the year, but did not increase total revenues or expenditures.

Table 4 summarizes the operating results of the General Fund:

| | <u>2017 Actual</u> | <u>Over (Under) Budget</u> | | <u>Increase (Decrease) From Prior Year</u> | |
|--------------------------------|--------------------|----------------------------|----------------|--|----------------|
| | | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Revenue | \$ 5,107,654 | \$ (61,246) | (1.2%) | \$ 67,974 | 1.3% |
| Expenditures | <u>4,938,440</u> | \$ (183,882) | (3.6%) | \$ 301,516 | 6.5% |
| Net change in fund balances | <u>\$ 169,214</u> | | | | |

General Fund revenues increased, mostly due to increased general education funding. Revenues were under budget due to serving fewer students than anticipated. General Fund expenditures were higher than the prior year due to planned staffing additions. Expenditures were under budget due in part to not all budgeted positions being filled.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 5 shows the School's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2017 and 2016:

| | Table 5 Capital Assets | | |
|-------------------------------|-----------------------------------|------------------|--------------------------------|
| | <u>2017</u> | <u>2016</u> | <u>Increase (Decrease)</u> |
| Furniture and equipment | \$ 191,697 | \$ 159,096 | \$ 32,601 |
| Less accumulated depreciation | <u>(136,712)</u> | <u>(120,925)</u> | <u>(15,787)</u> |
| Total | <u>\$ 54,985</u> | <u>\$ 38,171</u> | <u>\$ 16,814</u> |
| Depreciation expense | <u>\$ 15,787</u> | <u>\$ 15,016</u> | <u>\$ 771</u> |

The School is not heavily dependent on capital assets for providing instructional services to students due to its delivery of online learning.

Long-Term Liabilities

Table 6 shows the components of the School's long-term liabilities, and the change from the prior year:

| | Table 6 Outstanding Long-Term Liabilities | | |
|------------------------------|--|---------------------|--------------------------------|
| | <u>2017</u> | <u>2016</u> | <u>Increase (Decrease)</u> |
| Compensated absences payable | \$ 54,294 | \$ 42,393 | \$ 11,901 |
| Severance benefits payable | 241,274 | 206,273 | 35,001 |
| Net pension liability | <u>12,942,692</u> | <u>3,392,081</u> | <u>9,550,611</u> |
| Total | <u>\$ 13,238,260</u> | <u>\$ 3,640,747</u> | <u>\$ 9,597,513</u> |

The increase in the School's long-term liabilities was mainly due to the change in its proportionate share of the pension liabilities from the state-wide plans administered by the Public Employees Retirement Association and the Teachers Retirement Association.

More detailed information on the School's capital assets and long-term liabilities can be found in the notes to basic financial statements.

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the state of Minnesota for much of its revenue. In recent years, legislated revenue increases have made it difficult to meet the instructional program needs and increased costs due to inflation for Minnesota charter schools.

The general education program is the method by which charter schools receive the majority of their financial support. This source of funding is primarily state aid and, as such, charter schools rely heavily on the state of Minnesota for educational resources. The Legislature has added \$121, or 2.0 percent, per pupil to the basic general education funding formula for fiscal year 2018 and an additional \$124, or 2.0 percent, per pupil to the formula for fiscal year 2019.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our citizens, sponsor, customers, investors, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact BlueSky Charter School, Inc., 33 Wentworth Avenue East, Suite 100, West St. Paul, Minnesota 55118.

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BASIC FINANCIAL STATEMENTS

BLUESKY CHARTER SCHOOL, INC.

Statement of Net Position
as of June 30, 2017
(With Partial Comparative Information as of June 30, 2016)

| | Governmental Activities | |
|---|-------------------------|--------------|
| | 2017 | 2016 |
| Assets | | |
| Cash and temporary investments | \$ 1,718,616 | \$ 1,472,472 |
| Receivables | | |
| Due from other governmental units | 438,651 | 439,680 |
| Prepaid items | 148,553 | 119,374 |
| Capital assets | | |
| Depreciated, net of accumulated depreciation | 54,985 | 38,171 |
| Total assets | 2,360,805 | 2,069,697 |
| Deferred outflows of resources | | |
| Pension plan deferments | 8,428,921 | 858,786 |
| Total assets and deferred outflows of resources | \$ 10,789,726 | \$ 2,928,483 |
| Liabilities | | |
| Salaries and benefits payable | \$ 419,583 | \$ 386,195 |
| Accounts and contracts payable | 87,752 | 16,060 |
| Long-term liabilities | | |
| Due within one year | 117,899 | 76,056 |
| Due in more than one year | 13,120,361 | 3,564,691 |
| Total long-term liabilities | 13,238,260 | 3,640,747 |
| Total liabilities | 13,745,595 | 4,043,002 |
| Deferred inflows of resources | | |
| Pension plan deferments | 38,912 | 290,416 |
| Net position | | |
| Net investment in capital assets | 54,985 | 38,171 |
| Unrestricted | (3,049,766) | (1,443,106) |
| Total net position | (2,994,781) | (1,404,935) |
| Total liabilities, deferred inflows of resources, and net position | \$ 10,789,726 | \$ 2,928,483 |

BLUESKY CHARTER SCHOOL, INC.

Statement of Activities
 Year Ended June 30, 2017
 (With Partial Comparative Information for the Year Ended June 30, 2016)

| Functions/Programs | 2017 | | | 2016 | |
|--|---------------------|-------------------------|--|--|--|
| | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | Net (Expense) Revenue and Changes in Net Position |
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Governmental Activities |
| Governmental activities | | | | | |
| Administration | \$ 328,772 | \$ - | \$ - | \$ (328,772) | \$ (153,152) |
| District support services | 504,928 | - | - | (504,928) | (390,475) |
| Elementary and secondary regular instruction | 2,416,821 | 2,632 | - | (2,414,189) | (1,490,985) |
| Vocational education instruction | 7,856 | - | - | (7,856) | (8,376) |
| Special education instruction | 1,055,395 | - | 643,059 | (412,336) | (69,961) |
| Instructional support services | 727,552 | - | - | (727,552) | (620,238) |
| Pupil support services | 1,527,650 | - | - | (1,527,650) | (1,010,821) |
| Sites and buildings | 264,053 | - | 190,530 | (73,523) | (123,044) |
| Fiscal and other fixed cost programs | 21,612 | - | - | (21,612) | (27,745) |
| Total governmental activities | <u>\$ 6,854,639</u> | <u>\$ 2,632</u> | <u>\$ 833,589</u> | (6,018,418) | (3,894,797) |
| General revenues | | | | | |
| General grants and aids | | | | 4,409,558 | 4,189,344 |
| Other general revenues | | | | 18,495 | 26,418 |
| Investment earnings | | | | 519 | 422 |
| Total general revenues | | | | <u>4,428,572</u> | <u>4,216,184</u> |
| Change in net position | | | | (1,589,846) | 321,387 |
| Net position – beginning | | | | <u>(1,404,935)</u> | <u>(1,726,322)</u> |
| Net position – ending | | | | <u>\$ (2,994,781)</u> | <u>\$ (1,404,935)</u> |

BLUESKY CHARTER SCHOOL, INC.

General Fund
Balance Sheet
as of June 30, 2017

(With Partial Comparative Information as of June 30, 2016)

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| Assets | | |
| Cash and temporary investments | \$ 1,718,616 | \$ 1,472,472 |
| Receivables | | |
| Due from other governmental units | 438,651 | 439,680 |
| Prepaid items | <u>148,553</u> | <u>119,374</u> |
| Total assets | <u>\$ 2,305,820</u> | <u>\$ 2,031,526</u> |
| Liabilities | | |
| Salaries and benefits payable | \$ 419,583 | \$ 386,195 |
| Accounts and contracts payable | <u>87,752</u> | <u>16,060</u> |
| Total liabilities | 507,335 | 402,255 |
| Fund balances | | |
| Nonspendable for prepaid items | 148,553 | 119,374 |
| Unassigned | <u>1,649,932</u> | <u>1,509,897</u> |
| Total fund balances | <u>1,798,485</u> | <u>1,629,271</u> |
| Total liabilities and fund balances | <u>\$ 2,305,820</u> | <u>\$ 2,031,526</u> |
| Amounts recorded for governmental activities in the Statement of Net Position differ because: | | |
| Fund balances as reported above | \$ 1,798,485 | \$ 1,629,271 |
| Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources. | | |
| Cost of capital assets | 191,697 | 159,096 |
| Accumulated depreciation | (136,712) | (120,925) |
| Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. | | |
| Compensated absences payable | (54,294) | (42,393) |
| Severance benefits payable | (241,274) | (206,273) |
| Net pension liability | (12,942,692) | (3,392,081) |
| The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements. | | |
| Deferred outflows – pension plan deferments | 8,428,921 | 858,786 |
| Deferred inflows – pension plan deferments | <u>(38,912)</u> | <u>(290,416)</u> |
| Total net position – governmental activities | <u>\$ (2,994,781)</u> | <u>\$ (1,404,935)</u> |

BLUESKY CHARTER SCHOOL, INC.

General Fund
 Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2017
 (With Partial Comparative Information for the Year Ended June 30, 2016)

| | 2017 | | | Over (Under) Budget | 2016 |
|---|--------------------|-----------------|------------|------------------------|------------|
| | Original Budget | Final Budget | Actual | | Actual |
| Revenue | | | | | |
| Federal sources | \$ 69,000 | \$ 69,000 | \$ 118,732 | \$ 49,732 | \$ 103,348 |
| State sources | 5,079,100 | 5,079,100 | 4,967,276 | (111,824) | 4,905,237 |
| Local sources | | | | | |
| Investment earnings | 450 | 450 | 519 | 69 | 422 |
| Other | 20,350 | 20,350 | 21,127 | 777 | 30,673 |
| Total revenue | 5,168,900 | 5,168,900 | 5,107,654 | (61,246) | 5,039,680 |
| Expenditures | | | | | |
| Current | | | | | |
| Administration | | | | | |
| Salaries | 146,977 | 179,477 | 187,000 | 7,523 | 107,000 |
| Employee benefits | 24,393 | 29,993 | 35,209 | 5,216 | 19,601 |
| Purchased services | 4,350 | 4,350 | 4,137 | (213) | 5,267 |
| Supplies and materials | - | - | - | - | 65 |
| Other expenditures | 25,320 | 25,320 | 25,327 | 7 | 23,792 |
| Total administration | 201,040 | 239,140 | 251,673 | 12,533 | 155,725 |
| District support services | | | | | |
| Salaries | 116,978 | 149,478 | 153,278 | 3,800 | 111,539 |
| Employee benefits | 27,200 | 34,600 | 36,491 | 1,891 | 24,036 |
| Purchased services | 217,545 | 216,545 | 197,192 | (19,353) | 162,969 |
| Supplies and materials | 74,202 | 109,202 | 91,315 | (17,887) | 65,996 |
| Capital expenditures | 25,000 | 25,000 | 26,974 | 1,974 | 16,692 |
| Other expenditures | 14,191 | 14,191 | 19,779 | 5,588 | 11,474 |
| Total district support services | 475,116 | 549,016 | 525,029 | (23,987) | 392,706 |
| Elementary and secondary regular instruction | | | | | |
| Salaries | 1,919,418 | 1,293,504 | 1,237,470 | (56,034) | 1,087,027 |
| Employee benefits | 473,023 | 391,144 | 301,639 | (89,505) | 279,455 |
| Purchased services | 55,430 | 40,430 | 24,879 | (15,551) | 44,845 |
| Supplies and materials | 43,901 | 95,000 | 48,242 | (46,758) | 30,285 |
| Capital expenditures | - | 2,500 | 33,060 | 30,560 | - |
| Other expenditures | 4,154 | 4,154 | 1,639 | (2,515) | 3,230 |
| Total elementary and secondary regular instruction | 2,495,926 | 1,826,732 | 1,646,929 | (179,803) | 1,444,842 |

(continued)

BLUESKY CHARTER SCHOOL, INC.

General Fund
 Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended June 30, 2017
 (With Partial Comparative Information for the Year Ended June 30, 2016)

| | 2017 | | | Over (Under) Budget | 2016 |
|--|--------------------|-----------------|---------|------------------------|---------|
| | Original Budget | Final Budget | Actual | | Actual |
| Expenditures (continued) | | | | | |
| Current (continued) | | | | | |
| Vocational education instruction | | | | | |
| Salaries | 4,836 | 3,250 | 2,600 | (650) | 1,200 |
| Employee benefits | 706 | 586 | 378 | (208) | 1,595 |
| Purchased services | 1,450 | 1,450 | 927 | (523) | 588 |
| Supplies and materials | — | — | 1,790 | 1,790 | 2,937 |
| Total vocational education instruction | 6,992 | 5,286 | 5,695 | 409 | 6,320 |
| Special education instruction | | | | | |
| Salaries | 517,380 | 517,380 | 518,266 | 886 | 519,745 |
| Employee benefits | 121,428 | 121,428 | 116,211 | (5,217) | 111,920 |
| Purchased services | 129,640 | 121,240 | 76,868 | (44,372) | 60,107 |
| Supplies and materials | — | 8,150 | 5,590 | (2,560) | 7,755 |
| Other expenditures | — | 250 | 831 | 581 | — |
| Total special education instruction | 768,448 | 768,448 | 717,766 | (50,682) | 699,527 |
| Instructional support services | | | | | |
| Salaries | 180,345 | 332,297 | 340,062 | 7,765 | 431,520 |
| Employee benefits | 43,353 | 65,410 | 78,849 | 13,439 | 106,797 |
| Purchased services | 53,250 | 65,750 | 67,504 | 1,754 | 56,518 |
| Supplies and materials | 53,040 | 29,440 | 14,909 | (14,531) | 9,306 |
| Other expenditures | 3,000 | 3,000 | 11,017 | 8,017 | 7,518 |
| Total instructional support services | 332,988 | 495,897 | 512,341 | 16,444 | 611,659 |
| Pupil support services | | | | | |
| Salaries | 415,903 | 771,451 | 803,564 | 32,113 | 790,246 |
| Employee benefits | 101,690 | 148,633 | 189,280 | 40,647 | 198,717 |
| Purchased services | 500 | 500 | — | (500) | — |
| Other expenditures | — | — | 70 | 70 | — |
| Total pupil support services | 518,093 | 920,584 | 992,914 | 72,330 | 988,963 |
| Sites and buildings | | | | | |
| Purchased services | 318,719 | 278,719 | 264,031 | (14,688) | 305,250 |
| Capital expenditures | 5,000 | 5,000 | 450 | (4,550) | 4,187 |
| Total sites and buildings | 323,719 | 283,719 | 264,481 | (19,238) | 309,437 |

(continued)

BLUESKY CHARTER SCHOOL, INC.

General Fund
 Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended June 30, 2017
 (With Partial Comparative Information for the Year Ended June 30, 2016)

| | 2017 | | | 2016 |
|--|--------------------|------------------|----------------------|------------------------|
| | Original Budget | Final Budget | Actual | Over (Under) Budget |
| | | | | Actual |
| Expenditures (continued) | | | | |
| Current (continued) | | | | |
| Fiscal and other fixed cost programs | | | | |
| Purchased services | – | 33,500 | 21,612 | (11,888) |
| Total expenditures | <u>5,122,322</u> | <u>5,122,322</u> | <u>4,938,440</u> | <u>(183,882)</u> |
| Net change in fund balance | <u>\$ 46,578</u> | <u>\$ 46,578</u> | 169,214 | <u>\$ 122,636</u> |
| Fund balances | | | | |
| Beginning of year | | | <u>1,629,271</u> | <u>1,226,515</u> |
| End of year | | | <u>\$ 1,798,485</u> | <u>\$ 1,629,271</u> |
| Amounts reported for governmental activities in the Statement of Activities differ because: | | | | |
| Net change in fund balances reported above | | | \$ 169,214 | \$ 402,756 |
| Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase. | | | | |
| Capital outlays | | | 32,601 | 13,340 |
| Depreciation expense | | | (15,787) | (15,016) |
| Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances. | | | | |
| Compensated absences payable | | | (11,901) | 4,383 |
| Severance benefits payable | | | (35,001) | (24,901) |
| Net pension liability | | | (9,550,611) | (793,876) |
| The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements. | | | | |
| Deferred outflows – pension plan deferments | | | 7,570,135 | 217,402 |
| Deferred inflows – pension plan deferments | | | <u>251,504</u> | <u>517,299</u> |
| Change in net position of governmental activities | | | <u>\$(1,589,846)</u> | <u>\$ 321,387</u> |

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BLUESKY CHARTER SCHOOL, INC.

Notes to Basic Financial Statements
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

BlueSky Charter School, Inc. (the School) is an outcome-based charter school established March 9, 2000 in accordance with Minnesota Statutes § 124D.10. The School is required to operate under a charter agreement with an entity that has been approved by the Minnesota Department of Education (MDE) to be a charter school “authorizer.” The authorizer monitors and evaluates the School’s performance, and periodically determines whether to renew the School’s charter. The School’s authorizer is Novation Education Opportunities (NEO), a nonprofit organization. Aside from its responsibilities as authorizer, NEO has no authority or control over the School, and is not financially accountable for it. Therefore, the School is not considered to be a component unit of NEO.

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

Component units are legally separate entities for which the School (primary government) 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 includes 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 organizations considered to be component units of the School.

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, the School’s Board can elect to either control or not control student activities. The School’s Board has elected to control student activities; therefore, any such activities are accounted for in the General Fund.

B. Basis of Statement Presentation

As required by state law, 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, which mandates the use of a governmental fund accounting structure.

C. Entity-Wide Financial Statement Presentation

The entity-wide financial statements (Statement of Net Position and 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 segment 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 internally directed revenues are reported instead as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The entity-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.

Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The existence of the various school funds has been established by the MDE. Each fund is accounted for as an independent entity. The School maintains a single General Fund to account for all of its activity. 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. For this purpose, the School generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes.
- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for compensated absences, severance benefits, and pensions, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

E. Budgeting

The School’s Board adopts an annual budget for the General Fund, which is prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end.

F. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts and disclosure at the date of the financial statements and during the reporting period. Actual results could differ from those estimates.

G. Income Taxes

The School is exempt from income taxes under Internal Revenue Code (IRC) § 501(c)(3). The School is subject to tax on income from any unrelated business.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The School follows the recognition requirements for uncertain income tax positions as required by the Financial Accounting Standards Board Accounting Standards Codification 740-10. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The School has analyzed tax positions taken for filing with the Internal Revenue Service and state jurisdiction where it operates. The School believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on its respective financial condition, results of operations, or cash flows. Accordingly, the School has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at year-end.

The School is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

H. Receivables

When necessary, the School utilizes an allowance for uncollectible accounts to value its receivables. However, the School considers all of its current receivables to be collectible.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenses/expenditures when consumed.

J. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The School defines capital assets as those with an initial, individual cost of \$500 or more, which benefit more than one fiscal year. 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 entity-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives for furniture and equipment are 3–10 years.

K. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, a statement of financial position will sometimes report separate sections for deferred outflows/inflows of resources. These separate financial statement elements represent a consumption/acquisition of net position that applies to a future period, which will not be recognized as an outflow of resources (expense/expenditure) or inflow of resources (revenue) until then. The School has one type of item that qualifies for reporting in these categories, deferred outflows/inflows of resources related to pensions, which are reported in the entity-wide Statement of Net Position. These deferred outflows/inflows result from differences between expected and actual experience, changes of assumptions, the difference between projected and actual earnings on pension plan investments, changes in proportion, and contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Compensated Absences

Substantially all school employees are entitled to personal and sick leave at various rates, portions of which may be carried over to future years. Compensated absences are accrued in the governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end. Employees are reimbursed for unused personal leave upon termination, which is accrued in the entity-wide financial statements as it is earned.

M. Severance Benefits

After four years of service, certain employees are eligible to be compensated for 50 percent of unused sick leave, up to a maximum of 400 hours, upon termination of employment.

Severance benefits are recorded as a liability in the governmental fund financial statements as they mature due to termination. Severance benefits based on convertible sick leave are recorded as a liability in the entity-wide financial statements as they are earned and it becomes probable they will vest at some point in the future.

N. State-Wide Pension Plans

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the 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.

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association in 2015.

The PERA has a special funding situation created by a direct aid contribution made by the state of Minnesota. The direct aid is a result of the merger of the Minneapolis Employees Retirement Fund into the PERA on January 1, 2015.

O. 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; and natural disasters. The School carries commercial insurance purchased from independent third parties to cover these risks. Settled claims have not exceeded coverage in any of the past three fiscal years. There were no significant reductions in insurance coverage in fiscal year 2017.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the School for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself.
- **Unassigned** – The residual classification for the General Fund.

When both restricted and unrestricted resources are available for use, the School uses restricted resources first, and then uses unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, the School uses resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

Q. Net Position

In the entity-wide financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by outstanding debt, if any, attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The School applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the prior year, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

In accordance with applicable Minnesota Statutes, the School maintains deposits at depository banks authorized by the Board. The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit 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. The School's deposit policies do not further limit depository choices.

At year-end, the carrying amount and bank balance of the School's deposits was \$1,718,616, while the balance on the bank records was \$1,744,026. At year-end, all deposits were fully covered by federal depository insurance or pledged collateral held by the School's agent in the School's name.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year is as follows:

| | Balance – Beginning of Year | Additions | Deletions | Balance – End of Year |
|---|-----------------------------------|------------------|-------------|--------------------------|
| Furniture and equipment | \$ 159,096 | \$ 32,601 | \$ – | \$ 191,697 |
| Less accumulated depreciation | <u>(120,925)</u> | <u>(15,787)</u> | <u>–</u> | <u>(136,712)</u> |
| Capital assets, net of accumulated depreciation | <u>\$ 38,171</u> | <u>\$ 16,814</u> | <u>\$ –</u> | <u>\$ 54,985</u> |

Depreciation expense was charged to the following governmental functions:

| | |
|--|------------------|
| District support services | \$ 10,512 |
| Elementary and secondary regular instruction | 3,689 |
| Vocational instruction | 1,404 |
| Instructional support services | 160 |
| Sites and buildings | <u>22</u> |
| Total depreciation expense | <u>\$ 15,787</u> |

NOTE 4 – LONG-TERM LIABILITIES

Long-term liabilities consist of compensated absences payable, severance benefits payable, and net pension liabilities. School employees participate in two state-wide, cost-sharing, multi-employer plans administered by the PERA and the TRA. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans as of and for the year ended June 30, 2017:

| Pension Plans | Net Pension Liabilities | Deferred Outflows of Resources | Deferred Inflows of Resources | Pension Expense |
|---------------|----------------------------|-----------------------------------|----------------------------------|---------------------|
| PERA | \$ 324,780 | \$ 129,587 | \$ 38,560 | \$ 36,992 |
| TRA | <u>12,617,912</u> | <u>8,299,334</u> | <u>352</u> | <u>2,112,018</u> |
| Total | <u>\$ 12,942,692</u> | <u>\$ 8,428,921</u> | <u>\$ 38,912</u> | <u>\$ 2,149,010</u> |

Changes in the long-term liabilities for the year are as follows:

| | Balance – Beginning of Year | Additions | Retirements | Balance – End of Year | Due Within One Year |
|------------------------------|-----------------------------------|---------------------|-------------------|--------------------------|------------------------|
| Compensated absences payable | \$ 42,393 | \$ 17,273 | \$ 5,372 | \$ 54,294 | \$ 54,294 |
| Severance benefits payable | 206,273 | 89,379 | 54,378 | 241,274 | 63,605 |
| Net pension liability | <u>3,392,081</u> | <u>9,806,544</u> | <u>255,933</u> | <u>12,942,692</u> | <u>–</u> |
| | <u>\$ 3,640,747</u> | <u>\$ 9,913,196</u> | <u>\$ 315,683</u> | <u>\$ 13,238,260</u> | <u>\$ 117,899</u> |

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

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

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

- **PERA** – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.
- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually.

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

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

1. GERF Benefits

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 the PERA’s Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at age 66.

2. TRA Benefits

The 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 Statutes and vest after three years of service credit. The defined retirement benefits are based on a member’s highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for the 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 I Benefits

| Step-Rate Formula | Percentage per Year |
|---|------------------------|
| Basic Plan | |
| First 10 years of service | 2.2 % |
| All years after | 2.7 % |
| Coordinated Plan | |
| First 10 years if service years are up to July 1, 2006 | 1.2 % |
| First 10 years if service years are July 1, 2006 or after | 1.4 % |
| All other years of service if service years are up to July 1, 2006 | 1.7 % |
| All other years of service if service years are up to July 1, 2006 or after | 1.9 % |

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) Three percent 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).

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Tier II Benefits

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

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

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

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2017; the School was required to contribute 7.5 percent for Coordinated Plan members. The School’s contributions to the GERF for the year ended June 30, 2017 were \$22,401. The School’s contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

Minnesota Statutes, Chapter 354 sets the rates for employer and employee contributions. Rates for each fiscal year were:

| | Year Ended June 30, | | | |
|-------------------------|---------------------|----------|----------|----------|
| | 2016 | | 2017 | |
| | Employee | Employer | Employee | Employer |
| Basic Plan | 11.0 % | 11.5 % | 11.0 % | 11.5 % |
| Coordinated Plan | 7.5 % | 7.5 % | 7.5 % | 7.5 % |

The School’s contributions to the TRA for the plan’s fiscal year ended June 30, 2017, were \$219,243. The School’s contributions were equal to the required contributions for each year as set by state statutes.

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

The following is a reconciliation of employer contributions in the TRA’s Comprehensive Annual Financial Report (CAFR) Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Nonemployer Pension Allocations:

| | |
|---|-----------------------|
| Employer contributions reported in the TRA’s CAFR Statement of Changes in Fiduciary Net Position | \$ 354,961,140 |
| Add employer contributions not related to future contribution efforts | 26,356 |
| Deduct the TRA’s contributions not included in allocation | <u>(442,978)</u> |
| Total employer contributions | 354,544,518 |
| Total nonemployer contributions | <u>35,587,410</u> |
| Total contributions reported in Schedule of Employer and Nonemployer Pension Allocations | <u>\$ 390,131,928</u> |

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

D. Pension Costs

1. GERS Pension Costs

At June 30, 2017, the School reported a liability of \$324,780 for its proportionate share of the GERS’s net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School’s proportion of the net pension liability was based on the School’s contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of the PERA’s participating employers. The School’s proportionate share was 0.0040 percent at the end of the measurement period and 0.0041 percent for the beginning of the period.

The School’s net pension liability reflected a reduction due to the state of Minnesota’s contribution of \$6 million to the fund in 2017. The state of Minnesota is considered a nonemployer contributing entity and the state’s contribution meets the definition of a special funding situation. 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:

| | |
|--|------------|
| School’s proportionate share of net pension liability | \$ 324,780 |
| State’s proportionate share of the net pension liability associated with the School | \$ 4,187 |

For the year ended June 30, 2017, the School recognized pension expense of \$35,712 for its proportionate share of the GERS’s pension expense. In addition, the School recognized an additional \$1,280 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota’s contribution of \$6 million to the GERS.

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

At June 30, 2017, the School reported its proportionate share of the GERF’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:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 985 | \$ 26,557 |
| Changes in actuarial assumptions | 70,208 | – |
| Difference between projected and actual investment earnings | 35,993 | – |
| Changes in proportion | – | 12,003 |
| School’s contributions to the GERF subsequent to the measurement date | <u>22,401</u> | <u>–</u> |
| Total | <u>\$ 129,587</u> | <u>\$ 38,560</u> |

A total of \$22,401 reported as deferred outflows of resources related to pensions resulting from school contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

| Year Ending June 30, | Pension Expense Amount |
|-------------------------|------------------------------|
| 2018 | \$ 17,153 |
| 2019 | \$ 9,551 |
| 2020 | \$ 30,190 |
| 2021 | \$ 11,732 |

2. TRA Pension Costs

At June 30, 2017, the School reported a liability of \$12,617,912 for its proportionate share of the TRA’s net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School’s proportion of the net pension liability was based on the School’s contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The School’s proportionate share was 0.0529 percent at the end of the measurement period and 0.0514 percent for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to the 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:

| | |
|---|---------------|
| School’s proportionate share of net pension liability | \$ 12,617,912 |
| State’s proportionate share of the net pension liability associated with the School | \$ 1,266,296 |

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

For the year ended June 30, 2017, the School recognized pension expense of \$1,935,201. It also recognized \$176,817 as an increase to pension expense for the support provided by direct aid.

At June 30, 2017, 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:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 121,122 | \$ 352 |
| Changes in actuarial assumptions | 7,180,157 | – |
| Difference between projected and actual investment earnings | 546,203 | – |
| Changes in proportion | 232,609 | – |
| School’s contributions to the TRA subsequent to the measurement date | <u>219,243</u> | <u>–</u> |
| Total | <u><u>\$ 8,299,334</u></u> | <u><u>\$ 352</u></u> |

A total of \$219,243 reported as deferred outflows of resources related to pensions resulting from school contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

| Year Ending June 30, | Pension Expense Amount |
|-------------------------|------------------------------|
| 2018 | \$ 1,636,172 |
| 2019 | \$ 1,636,172 |
| 2020 | \$ 1,806,454 |
| 2021 | \$ 1,586,180 |
| 2022 | \$ 1,414,761 |

E. Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

| Assumptions | GERF | TRA |
|---------------------------|----------------|--------------------------------------|
| Inflation | 2.50% per year | |
| Price inflation | | 2.75% |
| Wage growth rate | | 3.50% |
| Active member payroll | 3.25% per year | 3.50–9.50% based on years of service |
| Investment rate of return | 7.50% | 4.66% |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1 percent per year for all future years for the GERF and 2 percent per year for all future years for the TRA.

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

The following changes in actuarial assumptions for the GERF occurred in 2016:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter, to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

There was a change in actuarial assumptions that affected the measurement of the total liability for the TRA since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.00 percent annually, while in the previous measurement the cost of living adjustment increased to 2.50 percent in 2034.

The long-term expected rate of return on pension plan investments is 7.50 percent for the GERF and 4.66 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

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

F. Discount Rate

1. GERF

The discount rate used to measure the total pension liability in 2016 was 7.5 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2017 contribution rates. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 5 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

2. TRA

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

G. Pension Liability Sensitivity

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

| | <u>1% Decrease in Discount Rate</u> | <u>Discount Rate</u> | <u>1% Increase in Discount Rate</u> |
|---|---|--------------------------|---|
| GERF discount rate | 6.50% | 7.50% | 8.50% |
| School's proportionate share of the GERF net pension liability | \$ 461,284 | \$ 324,780 | \$ 212,338 |
| TRA discount rate | 3.66% | 4.66% | 5.66% |
| School's proportionate share of the TRA net pension liability | \$ 16,255,025 | \$ 12,617,912 | \$ 9,655,603 |

H. Pension Plan Fiduciary Net Position

Detailed information about the GERF's fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the PERA website at www.mnpera.org; by writing to the PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103; or by calling (651) 296-7460 or (800) 652-9026.

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

NOTE 6 – COMMITMENTS AND CONTINGENCIES

A. Building Lease

The School has an agreement to lease space at 33 Wentworth Avenue East, Suite 100, West St. Paul, Minnesota 55118 for a 64-month period commencing March 1, 2012. The School extended this lease for an additional five years commencing July 1, 2017. During the year ended June 30, 2017, the School made rental payments totaling \$211,699 under this agreement. Future minimum lease payments under the amended agreement are as follows:

| Year Ending June 30, | Amount |
|-------------------------|---------------------|
| 2018 | \$ 226,956 |
| 2019 | 237,739 |
| 2020 | 248,954 |
| 2021 | 260,617 |
| 2022 | 272,747 |
| | <u>\$ 1,247,013</u> |

B. Federal and State Revenues

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

NOTE 7 – SUBSEQUENT EVENTS

The School has entered into an agreement with Innovative Quality Schools (IQS) to replace NEO as the School's authorizer effective July 1, 2017. The agreement with IQS is for a five-year period ending June 30, 2022.

REQUIRED SUPPLEMENTARY INFORMATION

BLUESKY CHARTER SCHOOL, INC.

Public Employees Retirement Association Pension Benefits Plan
 Schedule of School's and Nonemployer Proportionate Share of Net Pension Liability
 Year Ended June 30, 2017

| School Fiscal Year-End Date | PERA Fiscal Year-End Date (Measurement Date) | School's Proportion of the Net Pension Liability | School's Proportionate Share of the Net Pension Liability | School's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability | Proportionate Share of the Net Pension Liability and the School's Share of the State of Minnesota's Share of the Net Pension Liability | School's Covered Payroll | School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-----------------------------|--|--|---|---|--|--------------------------|--|--|
| 06/30/2015 | 06/30/2014 | 0.0044% | \$ 206,690 | \$ - | \$ 206,690 | \$ 229,326 | 90.13% | 78.70% |
| 06/30/2016 | 06/30/2015 | 0.0041% | \$ 212,483 | \$ - | \$ 212,483 | \$ 242,854 | 87.49% | 78.20% |
| 06/30/2017 | 06/30/2016 | 0.0040% | \$ 324,780 | \$ 4,187 | \$ 328,967 | \$ 246,641 | 131.68% | 68.90% |

Public Employees Retirement Association Pension Benefits Plan
 Schedule of School Contributions
 Year Ended June 30, 2017

| School Fiscal Year-End Date | Statutorily Required Contributions | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-----------------------------|------------------------------------|---|----------------------------------|-----------------|--|
| 06/30/2015 | \$ 17,918 | \$ 17,918 | \$ - | \$ 242,854 | 7.38% |
| 06/30/2016 | \$ 18,498 | \$ 18,498 | \$ - | \$ 246,641 | 7.50% |
| 06/30/2017 | \$ 22,401 | \$ 22,401 | \$ - | \$ 298,686 | 7.50% |

Note 1: **Changes of Benefit Terms** – On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the GERF, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Note 2: **Changes in Actuarial Assumptions** – (1) 2015 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter. (2) 2016 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Note 3: The School implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

BLUESKY CHARTER SCHOOL, INC.

Teachers Retirement Association Pension Benefits Plan
 Schedule of School's and Nonemployer Proportionate Share of Net Pension Liability
 Year Ended June 30, 2017

| School Fiscal Year-End Date | TRA Fiscal Year-End Date (Measurement Date) | School's Proportion of the Net Pension Liability | School's Proportionate Share of the Net Pension Liability | Proportionate Share of the State of Minnesota's Net Pension Liability | Proportionate Share of the State of Minnesota's Net Pension Liability | School's Covered Payroll | School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-----------------------------|---|--|---|---|---|--------------------------|--|--|
| 06/30/2015 | 06/30/2014 | 0.0519% | \$ 2,391,515 | \$ 168,388 | \$ 2,559,903 | \$ 2,369,021 | 100.95% | 81.50% |
| 06/30/2016 | 06/30/2015 | 0.0514% | \$ 3,179,598 | \$ 389,976 | \$ 3,569,574 | \$ 2,608,085 | 121.91% | 76.80% |
| 06/30/2017 | 06/30/2016 | 0.0529% | \$ 12,617,912 | \$ 1,266,296 | \$ 13,884,208 | \$ 2,752,008 | 458.50% | 44.88% |

Teachers Retirement Association Pension Benefits Plan
 Schedule of School Contributions
 Year Ended June 30, 2017

| School Fiscal Year-End Date | Statutorily Required Contributions | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-----------------------------|------------------------------------|---|----------------------------------|-----------------|--|
| 06/30/2015 | \$ 195,607 | \$ 195,607 | \$ - | \$ 2,608,085 | 7.50% |
| 06/30/2016 | \$ 206,223 | \$ 206,223 | \$ - | \$ 2,752,008 | 7.49% |
| 06/30/2017 | \$ 219,243 | \$ 219,243 | \$ - | \$ 2,919,482 | 7.51% |

Note 1: **Changes of Benefit Terms** – The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

Note 2: **Changes in Actuarial Assumptions** – (1) 2015 Changes – The annual cost of living adjustment for the June 30, 2015 valuation assumed 2.00 percent. The prior year valuation used 2.00 percent with an increase to 2.50 percent commencing in 2034. The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent. (2) 2016 Changes – The discount rate used to measure the total pension liability was 4.66 percent. Details, if necessary, can be obtained from the TRA's CAFR.

Note 3: The School implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

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OTHER REQUIRED REPORTS

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

To the Board and Management of
BlueSky Charter School, Inc.
West St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of BlueSky Charter School, Inc. (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 12, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School's financial statements will not be prevented, or detected and corrected, on a timely basis. A *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.

(continued)

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 12, 2017

INDEPENDENT AUDITOR'S REPORT ON

MINNESOTA LEGAL COMPLIANCE

To the Board and Management of
BlueSky Charter School, Inc.
West St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of BlueSky Charter School, Inc. (the School) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 12, 2017.

MINNESOTA LEGAL COMPLIANCE

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

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

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 12, 2017

BLUESKY CHARTER SCHOOL, INC.

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2017

| | Audit | UFARS | Audit – UFARS |
|--|--------------|--------------|---------------|
| General Fund | | | |
| Total revenue | \$ 5,107,654 | \$ 5,107,654 | \$ – |
| Total expenditures | \$ 4,938,440 | \$ 4,938,440 | \$ – |
| Nonspendable | | | |
| 460 Nonspendable fund balance | \$ 148,553 | \$ 148,553 | \$ – |
| Restricted | | | |
| 403 Staff development | \$ – | \$ – | \$ – |
| 406 Health and safety | \$ – | \$ – | \$ – |
| 407 Capital projects levy | \$ – | \$ – | \$ – |
| 408 Cooperative revenue | \$ – | \$ – | \$ – |
| 413 Project funded by COP | \$ – | \$ – | \$ – |
| 414 Operating debt | \$ – | \$ – | \$ – |
| 416 Levy reduction | \$ – | \$ – | \$ – |
| 417 Taconite building maintenance | \$ – | \$ – | \$ – |
| 423 Certain teacher programs | \$ – | \$ – | \$ – |
| 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 program | \$ – | \$ – | \$ – |
| 438 Gifted and talented | \$ – | \$ – | \$ – |
| 440 Teacher development and evaluation | \$ – | \$ – | \$ – |
| 441 Basic skills programs | \$ – | \$ – | \$ – |
| 445 Career and technical programs | \$ – | \$ – | \$ – |
| 448 Achievement and integration | \$ – | \$ – | \$ – |
| 449 Safe schools levy | \$ – | \$ – | \$ – |
| 450 Pre-kindergarten | \$ – | \$ – | \$ – |
| 451 QZAB payments | \$ – | \$ – | \$ – |
| 452 OPEB liability not in trust | \$ – | \$ – | \$ – |
| 453 Unfunded severance and retirement levy | \$ – | \$ – | \$ – |
| 467 Long-term facilities maintenance | \$ – | \$ – | \$ – |
| 472 Medical Assistance | \$ – | \$ – | \$ – |
| 464 Restricted fund balance | \$ – | \$ – | \$ – |
| Committed | | | |
| 418 Committed for separation | \$ – | \$ – | \$ – |
| 461 Committed fund balance | \$ – | \$ – | \$ – |
| Assigned | | | |
| 462 Assigned fund balance | \$ – | \$ – | \$ – |
| Unassigned | | | |
| 422 Unassigned fund balance | \$ 1,649,932 | \$ 1,649,932 | \$ – |
| Food Service | | | |
| Total revenue | \$ – | \$ – | \$ – |
| Total expenditures | \$ – | \$ – | \$ – |
| Nonspendable | | | |
| 460 Nonspendable fund balance | \$ – | \$ – | \$ – |
| Restricted | | | |
| 452 OPEB liability not in trust | \$ – | \$ – | \$ – |
| 464 Restricted fund balance | \$ – | \$ – | \$ – |
| Unassigned | | | |
| 463 Unassigned fund balance | \$ – | \$ – | \$ – |
| Community Service | | | |
| Total revenue | \$ – | \$ – | \$ – |
| Total expenditures | \$ – | \$ – | \$ – |
| Nonspendable | | | |
| 460 Nonspendable fund balance | \$ – | \$ – | \$ – |
| Restricted | | | |
| 426 \$25 taconite | \$ – | \$ – | \$ – |
| 431 Community education | \$ – | \$ – | \$ – |
| 432 ECFE | \$ – | \$ – | \$ – |
| 440 Teacher development and evaluation | \$ – | \$ – | \$ – |
| 444 School readiness | \$ – | \$ – | \$ – |
| 447 Adult basic education | \$ – | \$ – | \$ – |
| 452 OPEB liability not in trust | \$ – | \$ – | \$ – |
| 464 Restricted fund balance | \$ – | \$ – | \$ – |
| Unassigned | | | |
| 463 Unassigned fund balance | \$ – | \$ – | \$ – |

BLUESKY CHARTER SCHOOL, INC.

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2017

| | Audit | UFARS | Audit – UFARS |
|--------------------------------------|-------|-------|---------------|
| Building Construction | | | |
| Total revenue | \$ – | \$ – | \$ – |
| Total expenditures | \$ – | \$ – | \$ – |
| Nonspendable | | | |
| 460 Nonspendable fund balance | \$ – | \$ – | \$ – |
| Restricted | | | |
| 407 Capital projects levy | \$ – | \$ – | \$ – |
| 413 Project funded by COP | \$ – | \$ – | \$ – |
| 467 Long-term facilities maintenance | \$ – | \$ – | \$ – |
| 464 Restricted fund balance | \$ – | \$ – | \$ – |
| Unassigned | | | |
| 463 Unassigned fund balance | \$ – | \$ – | \$ – |
| Debt Service | | | |
| Total revenue | \$ – | \$ – | \$ – |
| Total expenditures | \$ – | \$ – | \$ – |
| Nonspendable | | | |
| 460 Nonspendable fund balance | \$ – | \$ – | \$ – |
| Restricted | | | |
| 425 Bond refundings | \$ – | \$ – | \$ – |
| 451 QZAB payments | \$ – | \$ – | \$ – |
| 464 Restricted fund balance | \$ – | \$ – | \$ – |
| Unassigned | | | |
| 463 Unassigned fund balance | \$ – | \$ – | \$ – |
| Trust | | | |
| Total revenue | \$ – | \$ – | \$ – |
| Total expenditures | \$ – | \$ – | \$ – |
| 422 Net position | \$ – | \$ – | \$ – |
| Internal Service | | | |
| Total revenue | \$ – | \$ – | \$ – |
| Total expenditures | \$ – | \$ – | \$ – |
| 422 Net position | \$ – | \$ – | \$ – |
| OPEB Revocable Trust Fund | | | |
| Total revenue | \$ – | \$ – | \$ – |
| Total expenditures | \$ – | \$ – | \$ – |
| 422 Net position | \$ – | \$ – | \$ – |
| OPEB Irrevocable Trust Fund | | | |
| Total revenue | \$ – | \$ – | \$ – |
| Total expenditures | \$ – | \$ – | \$ – |
| 422 Net position | \$ – | \$ – | \$ – |
| OPEB Debt Service Fund | | | |
| Total revenue | \$ – | \$ – | \$ – |
| Total expenditures | \$ – | \$ – | \$ – |
| Nonspendable | | | |
| 460 Nonspendable fund balance | \$ – | \$ – | \$ – |
| Restricted | | | |
| 425 Bond refundings | \$ – | \$ – | \$ – |
| 464 Restricted fund balance | \$ – | \$ – | \$ – |
| Unassigned | | | |
| 463 Unassigned fund balance | \$ – | \$ – | \$ – |

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

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