# SPERO ACADEMY
# CHARTER SCHOOL NO. 4113

## FINANCIAL STATEMENTS AND
## SUPPLEMENTARY INFORMATION

## YEAR ENDED JUNE 30, 2018

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**CHARTER SCHOOL NO. 4113**
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# INTRODUCTORY SECTION

**SPERO ACADEMY**
**CHARTER SCHOOL NO. 4113**
**SCHOOL BOARD AND ADMINISTRATION**
**JUNE 30, 2018**

## SCHOOL BOARD

| NAME | | BOARD POSITION |
|---|---|---|
| Donna Piazza | | Chair |
| Joanna Hicks | | Vice Chairperson |
| Karen Marshal | | Treasurer |
| Taryn McGovern | | Secretary |
| Katie Rose Kammerude | | Member |
| Shannan Paul | | Member |
| Crystal Totten* | | Member |

* Resigned June 26, 2018

## BUILDING COMPANY BOARD

| | |
|---|---|
| Chris Bentley | Chair |
| Kirk Wahlstrom | Secretary |
| Chandra Stone | Treasurer |

## ADMINISTRATION

| | |
|---|---|
| Chipp Windham | Director of Academy |

# FINANCIAL SECTION

# INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
Spero Academy
Charter School No. 4113
Minneapolis, Minnesota

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Spero Academy, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Spero Academy's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Spero Academy as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the General Fund and Major Food Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Report on Summarized Prior Year Information*

We have previously audited Spero Academy's 2017 financial statements of the governmental activities and each major fund, and we expressed an unmodified opinion on those audited financial statements in our report dated December 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## Other Matters

*Required Supplementary Information*

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

*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 Uniform Financial Accounting and Reporting Standards Compliance Table is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Members of the Board of Education
Spero Academy
Charter School No. 4113

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of Spero Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Spero Academy's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spero Academy's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota
December 10, 2018

# REQUIRED SUPPLEMENTARY INFORMATION

**SPERO ACADEMY**
**CHARTER SCHOOL NO. 4113**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**YEAR ENDED JUNE 30, 2018**

This section of Spero Academy – Charter School No. 4113's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the School's financial statements, which immediately follows this section.

## FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-2018 fiscal year include the following:

- Total General Fund revenues were $5,158,666 as compared to $5,117,292 of expenditures. The General Fund also recorded $38,344 in other financing sources related to the issuance of two capital leases and $6,635 in other financing uses related to a transfer to the Food Service fund.
- Total fund balance of the General Fund increased by $73,083.
- The Food Service Fund revenues and other financing sources totaled $47,422, which was equal to the Food Service Fund's total expenditures.
- As of June 30, 2018, the Food Service Fund had a fund balance of $-0-.
- Average number of students increased by 18, or about 20%, from the prior year.
- Building Company revenues were $92,961 as compared to expenditures of $11,541,401. The Building Company also had other Financing Sources totaling $17,945,000 related to the issuance of the 2017 lease revenue bonds. These bonds were issued to be used to finance the purchase and construction of the School's future land and building. This resulted in a Building Company surplus of $6,496,560 for the year and an ending fund balance in the Building Company Fund of $6,496,560 at June 30, 2018.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

### School-Wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the School's assets, pension deferred outflows, liabilities, and pension deferred inflows. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two School-wide statements report the School's *net position* and how they have changed. Net position – the difference between the School's assets, pension-deferred outflows, liabilities, and pension-deferred outflows – is one way to measure the School's financial health or *position*.

- Over time, increases or decreases in the School's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional nonfinancial factors such as changes in the condition of the School building and other facilities.

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

- *Governmental Activities* – All of the School's services are included here, including regular and special education, administration, food service and community education. State and federal aids finance most of these activities.

### Fund Financial Statements

The fund financial statements provide more detailed information about the School's *funds* – focusing on its most significant or "major" funds – not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by debt covenants.
- The School establishes other accounts and funds to control and manage money for particular purposes (e.g., repaying its long-term debts).

The School has one fund type:

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

## FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

### Net Position

The School's combined net position was a deficit of $3,647,664 on June 30, 2018 (see Table A-1).

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

| | Governmental Activities as of June 30, 2018 | Governmental Activities as of June 30, 2017 | Percentage Change |
|---|---|---|---|
| Current and Other Assets | $ 10,847,277 | $ 1,072,123 | 911.76 % |
| Capital Assets | 10,500,038 | 97,096 | 10714.08 |
| Total Assets | 21,347,315 | 1,169,219 | 1725.78 |
| Deferred Outflows of Resources | 4,020,671 | 3,365,904 | 19.45 |
| Current Liabilities | 3,948,505 | 173,106 | 2180.98 |
| Net Pension Liability | 6,039,135 | 5,287,573 | 14.21 |
| Long-Term Liabilities | 18,034,760 | 74,488 | 24111.63 |
| Total Liabilities | 28,022,400 | 5,535,167 | 406.26 |
| Deferred Inflows of Resources | 993,250 | 82,805 | 1099.50 |
| Net Position: | | | |
| Net Investment in Capital Assets | 87,971 | 50,988 | 72.53 |
| Restricted | 2,901,127 | 118,892 | 2340.14 |
| Unrestricted | (6,636,762) | (1,252,729) | 429.78 |
| Total Net Position | $ (3,647,664) | $ (1,082,849) | 236.86 |

The School's deficit unrestricted net position relates primarily to the net effect of School's proportionate share of the net pension liabilities, deferred inflows of resources, and deferred outflows of resources of the unfunded liabilities for the two statewide pension plans in which it participates (TRA and PERA).

### Changes in Net Position

The School's total revenues were $5,302,037 for the year ended June 30, 2018. While 15.4% of revenue was from unrestricted state aid, program related charges and operating grants accounted for 82.4% of the revenue for the 2017-2018 school year (see Figure A-1).

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

| | Governmental Activities for the Fiscal Year Ended June 30, 2018 | 2017 | Percentage Change |
|---|---|---|---|
| **Revenues** | | | |
| Program Revenues | | | |
| Charges for Services | $ 187,702 | $ 148,287 | 26.58 % |
| Operating Grants and Contributions | 4,179,594 | 3,641,302 | 14.78 |
| General Revenues | | | |
| Unrestricted State Aid | 815,457 | 690,854 | 18.04 |
| Investment Earnings | 94,104 | 498 | 18796.39 |
| Other | 25,180 | 16,500 | 52.61 |
| Total Revenues | 5,302,037 | 4,497,441 | 17.89 |
| **Expenses** | | | |
| Administration | 200,652 | 169,727 | 18.22 |
| District Support Services | 507,163 | 106,645 | 375.56 |
| Regular Instruction | 158,695 | 127,051 | 24.91 |
| Special Education Instruction | 4,525,721 | 3,706,106 | 22.12 |
| Instructional Support Services | 9,359 | 6,611 | 41.57 |
| Pupil Support Services | 620,280 | 522,616 | 18.69 |
| Sites and Buildings | 388,398 | 353,089 | 10.00 |
| Fiscal and Other Fixed Cost Programs | 365,658 | 6,440 | 5577.92 |
| Food Service | 48,860 | 49,775 | (1.84) |
| Interest and Fiscal Charges on Long-Term Liabilities | 1,042,066 | - | N/A |
| Total Expenses | 7,866,852 | 5,048,060 | 55.84 |
| **Change in Net Position** | (2,564,815) | (550,619) | |
| Beginning Net Position | (1,082,849) | (532,230) | |
| **Ending Net Position** | $ (3,647,664) | $ (1,082,849) | |

The total cost of all programs and services was $7,866,852. Expenses exceeded revenues, decreasing net position by $2,564,815 from the prior year. The majority of the net deficit ending net position was related to the School's proportionate share of the net pension liabilities, deferred inflows of resources, and deferred outflows of resources of the unfunded liabilities for the two statewide pension plans in which it participates (TRA and PERA) that are recorded in accordance with GASB Statement No. 68. Most of the remainder was related to financing costs incurred for the 2017 G.O. Lease Revenue Bonds issued in fiscal year 2018.

The cost of all governmental activities this year was $7,866,852.

- A large part School's costs were paid for through unrestricted State aid (15%).
- Most of the School's costs were paid for through operating grants and contributions (79%).
- Charges for services and other revenues paid for 4% of the School's costs.

**Figure A-1**
**Sources of School's Revenues for Fiscal 2018**

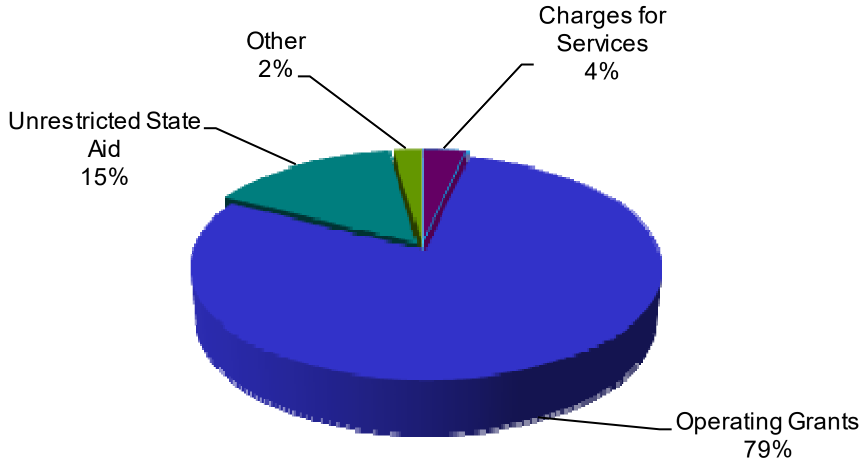



**Figure A-2**
**School Expenses for Fiscal 2018**

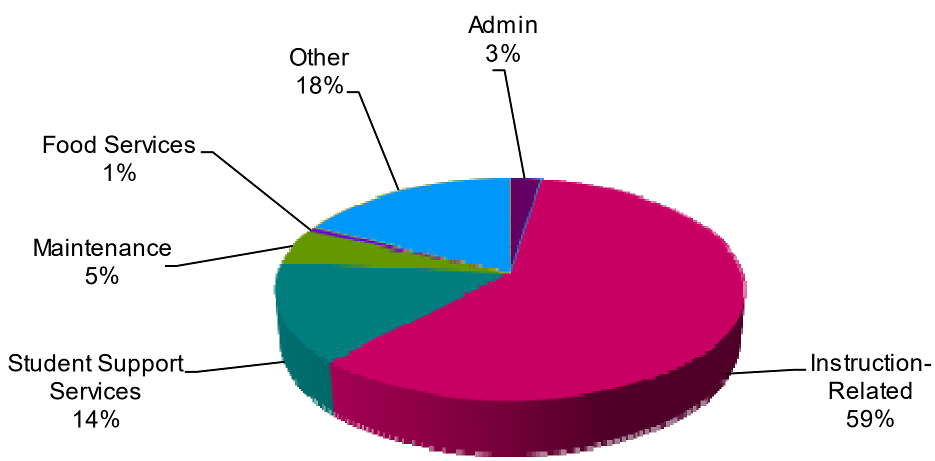


**Table A-3**
**Program Expenses and Net Cost of Services**

| | Total Cost of Services | | Percentage | Net Cost of Services | | Percentage |
|---|---|---|---|---|---|---|
| | 2018 | 2017 | Change | 2018 | 2017 | Change |
| Administration | $ 200,652 | $ 169,727 | 18.22 % | $ 200,033 | $ 165,216 | 21.07 % |
| District Support Services | 507,163 | 106,645 | 375.56 | 507,122 | 106,324 | 376.96 |
| Regular Instruction | 158,695 | 127,051 | 24.91 | 155,897 | 122,244 | 27.53 |
| Special Education Instruction | 4,525,721 | 3,706,106 | 22.12 | 356,074 | 83,239 | 327.77 |
| Instructional Support Services | 9,359 | 6,611 | 41.57 | 9,359 | 6,611 | 41.57 |
| Pupil Support Services | 620,280 | 522,616 | 18.69 | 620,270 | 522,524 | 18.71 |
| Sites and Buildings | 388,398 | 353,089 | 10.00 | 235,004 | 231,420 | 1.55 |
| Fiscal and Other Fixed Cost Programs | 365,658 | 6,440 | 5577.92 | 365,658 | 6,440 | 5577.92 |
| Food Service | 48,860 | 49,775 | (0.02) | 8,073 | 14,453 | (0.44) |
| Interest and Fiscal Charges on Long-Term Liabilities | 1,042,066 | - | N/A | 1,042,066 | - | N/A |
| Total | $ 7,866,852 | $ 5,048,060 | 55.84 | $ 3,499,556 | $ 1,258,471 | 178.08 |

## GENERAL FUND

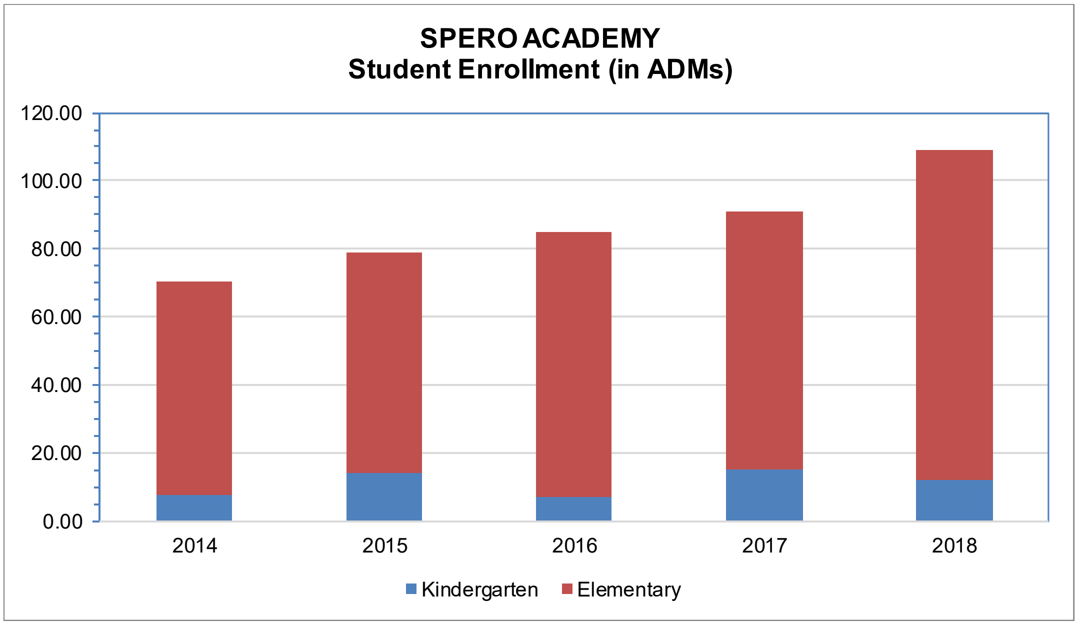
The General Fund includes the primary operations of the School in providing educational services to students from Kindergarten through Grade 6, including transportation, capital outlay projects and facility maintenance and leases. Starting in fiscal year 2018, the School amended its charter to add a 6$^{th}$ grade.

General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This revenue source includes general education aid of 16%, facility lease aid of 3%, and special education aid of 80%.

## ENROLLMENT

Enrollment is a critical factor in determining revenue. The following chart shows that the number of students increased over the past five years. The School's ADM is expected to continue to grow and increase its maximum capacity to 168 students in the next 5 years.

**Table A-4**
**Average Daily Membership (ADM)**




The past three years have reflected an increase in enrollment for Spero Academy as follows: 84.90 in 2015-2016 (kindergarten through grade 5), 90.77 in 2016-2017 (kindergarten through grade 5), and 109.22 in 2017-2018 (kindergarten through grade 6).

The following schedule presents a summary of General Fund Revenues.

**Table A-5**
**General Fund Revenues**

| | Year Ended | | Change | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | Increase (Decrease) | Percent Change |
| Local Sources: | | | | |
| Earnings on Investments | $ 1,143 | $ 498 | $ 645 | 129.52 % |
| Other | 202,039 | 155,666 | 46,373 | 29.8 |
| State Sources | 4,897,570 | 4,183,854 | 713,716 | 17.1 |
| Federal Sources | 57,914 | 49,207 | 8,707 | 17.7 |
| Total General Fund Revenue | $ 5,158,666 | $ 4,389,225 | $ 769,441 | 17.5 |

Total General Fund Revenue increased by $769,441 or 17.5% from the previous year. Basic general education revenue is determined by a state formula, and is largely enrollment driven. The School's Special Education aid is based on Minnesota State Statutes Section 124E.21, which allows the School to be reimbursed for portions of its lease costs, transportation expenditures, and general education expenditures that are not covered by other State aid. The School's revenue in 2017-2018 increased from 2016-2017 due primarily to the increase in ADM served, the State's 2.0% increase in general education formula allowance aid and additional special education revenues based on meeting the need of the students.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6**
**General Fund Expenditures**

| | Year Ended | | Change | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | Increase (Decrease) | Percent Change |
| Salaries | $ 2,757,167 | $ 2,288,249 | $ 468,918 | 20.49 % |
| Employee Benefits | 769,525 | 582,069 | 187,456 | 32.2 |
| Purchased Services | 1,388,702 | 1,305,731 | 82,971 | 6.4 |
| Supplies and Materials | 94,319 | 73,846 | 20,473 | 27.7 |
| Capital Expenditures | 62,360 | 83,397 | (21,037) | (25.2) |
| Other Expenditures | 12,945 | 10,667 | 2,278 | 21.4 |
| Debt Service Expenditures | 32,274 | 19,929 | 12,345 | 61.9 |
| Total General Fund Expenditures | $ 5,117,292 | $ 4,363,888 | $ 753,404 | 17.3 |

Total General Fund expenditures increased $753,404 or 17.3% from the previous year. Nearly the entire increase in costs can be attributed to staffing costs, both salaries and benefits. This was due to the increase in ADM served and the hiring of additional employees to meet the needs of the students. Some of these staff were previously contracted. Additionally, there was an increase in purchased services which mostly related to the implementation of a new marketing campaign.

Ending unassigned fund balance of the General Fund is the single best measure of overall financial health. The unassigned fund balance of $733,315 at June 30, 2018 represents 14.3% of annual expenditures. The School continues its commitment to maintain a strong fund balance.

### General Fund Budgetary Highlights

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

- Finalized staffing requirements for the school year affecting total expenses.
- Board approved end-of-year expenditures.

The School's final budget for the General Fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by $123,592 while the actual result was a surplus of $73,083.

## OTHER MAJOR FUNDS

In the Food Service Fund, expenditures exceeded revenues by $6,635. The General Fund made a transfer of $6,635 to cover the Food Service Fund operating loss and deficit fund balance, so the fund ended with a fund balance of $-0- as of June 30, 2018.

In the Building Company Fund, revenues and other financing sources exceeded expenditures and other financing uses by $6,496,560, thereby resulting in an ending Fund Balance of $6,496,560 as of June 30, 2018.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

Investment in capital assets increased by $10,363,268 in the 2017-2018 school year to $10,589,951 before factoring accumulated depreciation. Depreciation for the 2017-2018 school year was $41,175. The issuance of the 2017 G.O. Lease Revenue bonds used to purchase the land for the School's new building and the Construction in Progress for the school accounted for the majority of the increase in capital assets for the 2017-2018 school year.

**Table A-7**
**The School's Capital Assets**

| | 2018 | 2017 | Percentage Change |
|---|---|---|---|
| **Building Company** | | | |
| Land | $ 1,460,000 | $ - | N/A |
| Construction in Progress | 8,938,002 | - | N/A |
| **Spero Academy** | | | |
| Furniture and Equipment | 191,949 | 226,683 | (15.3)% |
| Less: Accumulated Depreciation | (89,913) | (129,587) | (30.6) |
| Total District Capital Assets | $ 10,500,038 | $ 97,096 | 10714.1 |

### Long-Term Liabilities

At year-end, the School recorded a pension liability in the amount of $6 million related to the implementation of GASB Statement No. 68, representing the school proportionate share of the unfunded liabilities for the two statewide pension plans in which it participates (TRA and PERA). The School has also recorded long-term liabilities related to its PTO program and outstanding capital leases. More detailed information about long-term liabilities can be found in Note 5 and Note 6 to the financial statements.

**Table A-8**
**The School's Long-Term Liabilities**

| | 2018 | 2017 | Percentage Change |
|---|---|---|---|
| Lease Revenue Bonds | $ 17,945,000 | $ - | N/A |
| Compensated Absences | 33,978 | 28,380 | 19.7 % |
| Capital Leases Payable | 55,782 | 46,108 | N/A |
| Net Pension Liability | 6,039,135 | 5,287,573 | 14.2 |
| Total Long-Term Liabilities | $ 24,073,895 | $ 5,362,061 | 349.0 |
| | | | |
| Long-Term Liabilities: | | | |
| Due Within One Year | $ 38,013 | $ 24,839 | |
| Due in More Than One Year | 24,035,882 | 5,337,222 | |
| Total | $ 24,073,895 | $ 5,362,061 | |

## FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the state of Minnesota for its revenue authority. In the past, legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. There have been recent legislative changes to attempt to correct this in the short-term.

The stability of the state special education program is vital to the Academy's future. Currently, the Academy is largely dependent on sufficient funding of the special education program. If funding were to be decreased in the future the continuation of the Academy may be in jeopardy. The Academy has been persistent when reviewing the allocations to ensure full coverage of the special education costs.

The School will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility. It is anticipated that enrollment growth will continue to grow steadily until the School meets its maximum capacity to 168 students in the next 5 years.

## CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and 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 Spero Academy, 2701 California Street NE, Minneapolis, Minnesota 55418.

# BASIC FINANCIAL STATEMENTS

# SPERO ACADEMY
# CHARTER SCHOOL NO. 4113
# STATEMENT OF NET POSITION
# JUNE 30, 2018
# (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)

| | Governmental Activities 2018 | Governmental Activities 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and Investments | $ 888,374 | $ 487,284 |
| Cash with Fiscal Agent | 9,681,130 | - |
| Receivables: | | |
| Other Governments | 151,608 | 473,517 |
| Other | 15,665 | 50 |
| Prepaid Items | 110,500 | 111,272 |
| Capital Assets: | | |
| Land and Construction in Progress | 10,398,002 | - |
| Other Capital Assets, Net of Depreciation | 102,036 | 97,096 |
| Total Assets | 21,347,315 | 1,169,219 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred Outflows - Pensions | 4,020,671 | 3,365,904 |
| **LIABILITIES** | | |
| Salaries Payable | 82,344 | 58,938 |
| Accounts and Contracts Payable | 3,296,273 | 114,168 |
| Accrued Interest Payable | 569,888 | - |
| Long-Term Liabilities: | | |
| Net Pension Liability | 6,039,135 | 5,287,573 |
| Other Long-Term Liabilities Due Within One Year | 38,013 | 24,839 |
| Other Long-Term Liabilities Due in More Than One Year | 17,996,747 | 49,649 |
| Total Liabilities | 28,022,400 | 5,535,167 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred Inflows - Pensions | 993,250 | 82,805 |
| **NET POSITION** | | |
| Net Investment in Capital Assets | 87,971 | 50,988 |
| Restricted for: | | |
| Building Company Construction | 2,772,842 | - |
| Medical Assistance | 128,285 | 118,892 |
| Unrestricted | (6,636,762) | (1,252,729) |
| Total Net Position | $ (3,647,664) | $ (1,082,849) |

*See accompanying Notes to Basic Financial Statements.*

# SPERO ACADEMY
# CHARTER SCHOOL NO. 4113
# STATEMENT OF ACTIVITIES
# YEAR ENDED JUNE 30, 2018
# (WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2017)

| | 2018 | | | | 2017 |
|---|---|---|---|---|---|
| | | Program Revenues | | Net (Expense) Revenue and Change in Net Position | Net (Expense) Revenue and Change in Net Position |
| Functions | Expenses | Charges for Services | Operating Grants and Contributions | Total Governmental Activities | Total Governmental Activities |
| **GOVERNMENTAL ACTIVITIES** | | | | | |
| Administration | $ 200,652 | $ - | $ 619 | $ (200,033) | $ (165,216) |
| District Support Services | 507,163 | - | 41 | (507,122) | (106,324) |
| Regular Instruction | 158,695 | 672 | 2,126 | (155,897) | (122,244) |
| Special Education Instruction | 4,525,721 | 176,187 | 3,993,460 | (356,074) | (83,239) |
| Instructional Support Services | 9,359 | - | - | (9,359) | (6,611) |
| Pupil Support Services | 620,280 | - | 10 | (620,270) | (522,524) |
| Sites and Buildings | 388,398 | - | 153,394 | (235,004) | (231,420) |
| Fiscal and Other Fixed Cost Programs | 365,658 | - | - | (365,658) | (6,440) |
| Food Service | 48,860 | 10,843 | 29,944 | (8,073) | (14,453) |
| Interest and Fiscal Charges on Long-Term Liabilities | 1,042,066 | - | - | (1,042,066) | - |
| Total School District | $ 7,866,852 | $ 187,702 | $ 4,179,594 | (3,499,556) | (1,258,471) |
| | **GENERAL REVENUES** | | | | |
| | State Aid Not Restricted to Specific Purposes | | | 815,457 | 690,854 |
| | Earnings on Investments | | | 94,104 | 498 |
| | Miscellaneous | | | 25,180 | 16,500 |
| | Total General Revenues | | | 934,741 | 707,852 |
| | **CHANGE IN NET POSITION** | | | (2,564,815) | (550,619) |
| | Net Position - Beginning | | | (1,082,849) | (532,230) |
| | **NET POSITION - ENDING** | | | $ (3,647,664) | $ (1,082,849) |

*See accompanying Notes to Basic Financial Statements.*

# SPERO ACADEMY
# CHARTER SCHOOL NO. 4113
# BALANCE SHEET
# GOVERNMENTAL FUNDS
# JUNE 30, 2018
# (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)

| | Major Funds | | | Total Governmental Funds | |
|---|---|---|---|---|---|
| | General | Food Service | Building Company | 2018 | 2017 |
| **ASSETS** | | | | | |
| Cash and Investments | $ 888,374 | $ - | $ - | $ 888,374 | $ 487,284 |
| Cash with Fiscal Agent | - | - | 9,681,130 | 9,681,130 | - |
| Receivables: | | | | | |
| Due from Minnesota Department of Education | 69,553 | 944 | - | 70,497 | 434,208 |
| Due from Federal through Minnesota Department of Education | 9,563 | 7,675 | - | 17,238 | 12,333 |
| Due from Other Governmental Units | 63,873 | - | - | 63,873 | 26,976 |
| Due from Other Funds | 14,948 | - | - | 14,948 | 46,284 |
| Other Receivables | 14,528 | 1,137 | - | 15,665 | 50 |
| Prepaids | 110,500 | - | - | 110,500 | 111,272 |
| Total Assets | $ 1,171,339 | $ 9,756 | $ 9,681,130 | $ 10,862,225 | $ 1,118,407 |
| **LIABILITIES AND FUND BALANCE** | | | | | |
| Liabilities: | | | | | |
| Salaries Payable | $ 62,731 | $ 288 | $ - | $ 63,019 | $ 37,054 |
| Payroll Deductions and Employer Contributions Payable | 19,280 | 45 | - | 19,325 | 21,884 |
| Accounts and Contracts Payable | 117,228 | 1,750 | 3,177,295 | 3,296,273 | 114,168 |
| Due to Other Funds | - | 7,673 | 7,275 | 14,948 | 46,284 |
| Total Liabilities | 199,239 | 9,756 | 3,184,570 | 3,393,565 | 219,390 |
| Fund Balance: | | | | | |
| Nonspendable: | | | | | |
| Prepaids | 110,500 | - | - | 110,500 | 111,272 |
| Restricted for: | | | | | |
| Medical Assistance | 128,285 | - | - | 128,285 | 118,892 |
| Building Company Debt Service | - | - | 1,724,161 | 1,724,161 | - |
| Building Company Construction | - | - | 4,772,399 | 4,772,399 | - |
| Unassigned | 733,315 | - | - | 733,315 | 668,853 |
| Total Fund Balance | 972,100 | - | 6,496,560 | 7,468,660 | 899,017 |
| Total Liabilities and Fund Balance | $ 1,171,339 | $ 9,756 | $ 9,681,130 | $ 10,862,225 | $ 1,118,407 |

*See accompanying Notes to Basic Financial Statements.*

**SPERO ACADEMY**
**CHARTER SCHOOL NO. 4113**
**RECONCILIATION OF THE BALANCE SHEET**
**TO THE STATEMENT OF NET POSITION**
**GOVERNMENTAL FUNDS**
**JUNE 30, 2018**
**(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

| | 2018 | 2017 |
|---|---|---|
| **Total Fund Balance for Governmental Funds** | $ 7,468,660 | $ 899,017 |
| Total net position reported for governmental activities in the statement of net position is different because: | | |
| Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of: | | |
| Land | 1,460,000 | - |
| Construction in Progress | 8,938,002 | - |
| Equipment, Net of Accumulated Depreciation | 102,036 | 97,096 |
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | (569,888) | - |
| The School's Net Pension Liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are: | | |
| Net Pension Liability | (6,039,135) | (5,287,573) |
| Deferred Inflows of Resources - Pensions | (993,250) | (82,805) |
| Deferred Outflows of Resources - Pensions | 4,020,671 | 3,365,904 |
| Long-term liabilities that pertain to governmental funds, including capital leases payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are: | | |
| Bonds Payable | (17,945,000) | - |
| Compensated Absences Payable | (33,978) | (28,380) |
| Obligations Under Capital Leases | (55,782) | (46,108) |
| **Total Net Position of Governmental Activities** | $ (3,647,664) | $ (1,082,849) |

*See accompanying Notes to Basic Financial Statements.*

# SPERO ACADEMY
# CHARTER SCHOOL NO. 4113
# STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
# GOVERNMENTAL FUNDS
# YEAR ENDED JUNE 30, 2018
# (WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2017)

| | Major Funds | | | Total Governmental Funds | |
|---|---|---|---|---|---|
| | General | Food Service | Building Company | 2018 | 2017 |
| **REVENUES** | | | | | |
| Local Sources: | | | | | |
| Earnings and Investments | $ 1,143 | $ - | $ 92,961 | $ 94,104 | $ 498 |
| Other | 202,039 | 10,843 | - | 212,882 | 164,787 |
| State Sources | 4,897,570 | 3,117 | - | 4,900,687 | 4,186,460 |
| Federal Sources | 57,914 | 26,827 | - | 84,741 | 72,759 |
| Total Revenues | 5,158,666 | 40,787 | 92,961 | 5,292,414 | 4,424,504 |
| **EXPENDITURES** | | | | | |
| Current: | | | | | |
| Administration | 141,220 | - | 305,623 | 446,843 | 127,700 |
| District Support Services | 196,535 | - | - | 196,535 | 102,350 |
| Elementary and Secondary Regular Instruction | 95,651 | - | - | 95,651 | 86,369 |
| Special Education Instruction | 3,582,960 | - | - | 3,582,960 | 3,061,563 |
| Instructional Support Services | 9,359 | - | - | 9,359 | 6,611 |
| Pupil Support Services | 618,571 | - | - | 618,571 | 521,581 |
| Sites and Buildings | 371,922 | - | 10,407,986 | 10,779,908 | 347,948 |
| Fiscal and Other Fixed Cost Programs | 6,440 | - | 359,218 | 365,658 | 6,440 |
| Food Service | - | 47,422 | - | 47,422 | 49,072 |
| Capital Outlay | 62,360 | - | - | 62,360 | 83,397 |
| Debt Service: | | | | | |
| Principal | 32,274 | - | - | 32,274 | 19,929 |
| Interest and Fiscal Charges | - | - | 468,574 | 468,574 | - |
| Total Expenditures | 5,117,292 | 47,422 | 11,541,401 | 16,706,115 | 4,412,960 |
| **EXCESS (DEFICIENCY) OF REVENUE (OVER) UNDER EXPENDITURES** | 41,374 | (6,635) | (11,448,440) | (11,413,701) | 11,544 |
| **OTHER FINANCING SOURCES (USES)** | | | | | |
| Sale of Bonds | - | - | 17,945,000 | 17,945,000 | - |
| Capital Leases | 38,344 | - | - | 38,344 | 66,037 |
| Transfers In | - | 6,635 | - | 6,635 | 13,793 |
| Transfers Out | (6,635) | - | - | (6,635) | (13,793) |
| Total Other Financing Sources (Uses) | 31,709 | 6,635 | 17,945,000 | 17,983,344 | 66,037 |
| **NET CHANGE IN FUND BALANCE** | 73,083 | - | 6,496,560 | 6,569,643 | 77,581 |
| **FUND BALANCES** | | | | | |
| Beginning of Year | 899,017 | - | - | 899,017 | 821,436 |
| End of Year | $ 972,100 | $ - | $ 6,496,560 | $ 7,468,660 | $ 899,017 |

*See accompanying Notes to Basic Financial Statements.*

# SPERO ACADEMY
# CHARTER SCHOOL NO. 4113
# RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
## YEAR ENDED JUNE 30, 2018
## (WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2017)

| | 2018 | 2017 |
|---|---|---|
| **Net Change in Fund Balance - Total Governmental Funds** | $ 6,569,643 | $ 77,581 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation in the current period is: | | |
| Capital Outlays | 10,444,309 | 74,708 |
| Gain (Loss) on Disposal of Capital Assets | (192) | - |
| Depreciation Expense | (41,175) | (30,276) |
| Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position. | | |
| Other Financing Sources - Capital Leases | (38,344) | (66,037) |
| Principal Payments - Capital Leases | 28,670 | 19,929 |
| Pension expenditures in the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources. | (1,007,240) | (625,662) |
| Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the statement of activities. | (5,598) | (862) |
| The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows: | | |
| General Obligation Lease Revenue Bond Proceeds | (17,945,000) | - |
| Change in Accrued Interest - General Obligation Bonds | (569,888) | - |
| Total | $ (2,564,815) | $ (550,619) |

*See accompanying Notes to Basic Financial Statements.*

**SPERO ACADEMY**
**CHARTER SCHOOL NO. 4113**
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**
**BUDGET TO ACTUAL**
**GENERAL FUND**
**YEAR ENDED JUNE 30, 2018**

| | Budgeted Amounts | | Actual | Over (Under) |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **REVENUES** | | | | |
| Local Sources: | | | | |
| Earnings and Investments | $ 225 | $ 140 | $ 1,143 | $ 1,003 |
| Other | 213,540 | 177,860 | 202,039 | 24,179 |
| State Sources | 5,457,538 | 5,334,223 | 4,897,570 | (436,653) |
| Federal Sources | 65,010 | 50,897 | 57,914 | 7,017 |
| Total Revenues | 5,736,313 | 5,563,120 | 5,158,666 | (404,454) |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| Administration | 136,947 | 137,524 | 141,220 | 3,696 |
| District Support Services | 237,278 | 232,197 | 196,535 | (35,662) |
| Elementary and Secondary Regular Instruction | 88,100 | 102,406 | 95,651 | (6,755) |
| Special Education Instruction | 3,574,107 | 3,706,938 | 3,582,960 | (123,978) |
| Instructional Support Services | 14,266 | 18,013 | 9,359 | (8,654) |
| Pupil Support Services | 679,547 | 651,095 | 618,571 | (32,524) |
| Sites and Buildings | 361,647 | 392,094 | 371,922 | (20,172) |
| Fiscal and Other Fixed Cost Programs | 7,888 | 8,253 | 6,440 | (1,813) |
| Capital Outlay | 415,405 | 114,423 | 62,360 | (52,063) |
| Debt Service: | | | | |
| Principal | 31,124 | 74,949 | 32,274 | (42,675) |
| Total Expenditures | 5,546,309 | 5,437,892 | 5,117,292 | (320,600) |
| **EXCESS OF REVENUE OVER EXPENDITURES** | 190,004 | 125,228 | 41,374 | (83,854) |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Proceeds from Capital Leases | - | - | 38,344 | 38,344 |
| Transfers Out | (16,010) | (1,636) | (6,635) | (4,999) |
| Total Other Financing Sources (Uses) | (16,010) | (1,636) | 31,709 | 33,345 |
| **NET CHANGE IN FUND BALANCE** | $ 173,994 | $ 123,592 | 73,083 | $ (50,509) |
| **FUND BALANCE** | | | | |
| Beginning of Year | | | 899,017 | |
| End of Year | | | $ 972,100 | |

*See accompanying Notes to Basic Financial Statements.*

**SPERO ACADEMY**
**CHARTER SCHOOL NO. 4113**
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE**
**BUDGET TO ACTUAL**
**MAJOR FOOD SERVICE FUND**
**YEAR ENDED JUNE 30, 2018**

| | Budgeted Amounts | | Actual | Over (Under) |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **REVENUES** | | | | |
| Local Sources: | | | | |
| Other - Primarily Meal Sales | $ 24,912 | $ 15,071 | $ 10,843 | $ (4,228) |
| State Sources | 2,999 | 2,500 | 3,117 | 617 |
| Federal Sources | 19,500 | 23,625 | 26,827 | 3,202 |
| Total Revenues | 47,411 | 41,196 | 40,787 | (409) |
| **EXPENDITURES** | | | | |
| Current: | | | | |
| Food Service | 63,421 | 42,832 | 47,422 | 4,590 |
| **DEFICIENCY OF REVENUE UNDER EXPENDITURES** | (16,010) | (1,636) | (6,635) | (4,999) |
| **OTHER FINANCING SOURCES** | | | | |
| Transfers In | 16,010 | 1,636 | 6,635 | 4,999 |
| **NET CHANGE IN FUND BALANCE** | $ - | $ - | - | $ - |
| **FUND BALANCE** | | | | |
| Beginning of Year | | | - | |
| End of Year | | | $ - | |

*See accompanying Notes to Basic Financial Statements.*

# NOTES TO BASIC FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Spero Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

Spero Academy (the School) is a charter school that was formed and began operating on October 3, 2003 in accordance with Minnesota Statute §124D.10 as Fraser Academy. The School changed its name to Spero Academy during the 2014-2015 fiscal year. The Board is responsible for legislative and fiscal control of the School. A Director is appointed by the Board and is responsible for administrative control of the School. The School is authorized by the University of St. Thomas (the Authorizer), a Minnesota nonprofit corporation, and operates under a charter agreement extending through June 30, 2018. As of July 1, 2018, the School extended its authorizer agreement with the University of St. Thomas through June 30, 2023.

The mission of the School is to provide a personalized and adaptive education to help each student grow academically, emotionally, and socially. The School’s programing and instruction is designed to support students with various disabilities.

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

Component units are legally separate entities for which the School (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 include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there is one organization that is considered to be a component unit of the School. Friends of Spero Academy (the Building Company) is a Minnesota nonprofit corporation holding IRS classification as a 501(c)(3) tax exempt organization which owns the real estate and building that is leased by the School for its operations. The Building Company is governed by a separate board appointed by the Board of the School. Although it is legally separate from the School, the Building Company is reported as if it were part of the School (as a blended component unit) because its sole purpose is to acquire, construct, and own the educational site. No separate financial statements of the Building Company are issued.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

Aside from its authorizer role, the University of St. Thomas has no authority, control, power, or administrative responsibilities over Spero Academy. Therefore, the School is not considered a component unit of the University of St. Thomas.

Spero Academy does not have any student activity accounts.

C. Basic Financial Statement Presentation

The School-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the School.

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

The School applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt, if any, is considered an indirect expense and is reported separately on the statement of activities.

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

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The School-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.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

**1. Revenue Recognition**

Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and GAAP. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other miscellaneous revenue, including food service sales, (except Investment Earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

**2. Recording of Expenditures**

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

Description of Funds

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

A description of the funds included in this report is as follows:

*Major Governmental Funds*

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

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

Building Company Special Revenue Fund
This Special Revenue Fund will account for all activities of the Friends of Spero Academy Building Company including the proceeds and uses of resources received to own an educational site for the School. Primary sources of revenue in the building company will be from rent received and interest earnings.

E. Income Taxes

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

F. 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 of assets and liabilities and disclosures of contingent amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each May, the School Board adopts an annual budget for the following fiscal year for the General Fund and the Food Service Special Revenue Fund. A budget for the Friends of Spero Academy Building Company was not adopted for fiscal year 2018. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

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

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

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

| | Original Budget | Amendments | Amended Budget |
|---|---|---|---|
| Revenues | | | |
| General Fund | $ 5,736,313 | $ (173,193) | $ 5,563,120 |
| Special Revenue Funds: | | | |
| Food Service Fund | 47,411 | (6,215) | 41,196 |
| Expenditures | | | |
| General Fund | $ 5,546,309 | $ (108,417) | $ 5,437,892 |
| Special Revenue Funds: | | | |
| Food Service Fund | 63,421 | (20,589) | 42,832 |

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash and Investments

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

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Building Company fund, the bond escrow account held by trustee can only be used for capital purposes related to the construction of the school building, for the repair and replacement needs of the educational site or to make payments on the outstanding bonds. Interest earned on these investments is allocated directly to the escrow account.

I. Accounts Receivable

Accounts receivable represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the School. No substantial losses are anticipated from present receivable balances. Therefore, no allowance for uncollectible accounts is deemed necessary.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. These expenses are allocated over the periods benefitted.

K. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School has one item that qualifies for reporting in this category related to pensions.

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets

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

Capital assets are recorded in the School-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the half-year convention straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 5 years for equipment.

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

M. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Premiums and discounts are capitalized and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Pensions

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Accrued Employee Benefits

Substantially all School employees are entitled to personal time off at various rates. Unused balances earned during the year are paid out up to a maximum of three days per employee at 60% of a predetermined daily rate. There is a liability for unused compensated absences at year-end.

P. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance related to prepaids, inventories, and long-term receivables. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the School Board. The School Board has authorized the Executive Director and the Chair of the Budget and Finance Committee to jointly assign fund balances and its intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the School's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the School's policy to use committed first, then assigned, and finally unassigned amounts.

Q. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School purchases commercial insurance coverage for such risks.

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

R. Net Position

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

## NOTE 2 DEPOSITS AND INVESTMENTS

**Deposits**

The School maintains a cash and investment pool that is available for use by all funds. Each fund type’s portion of this pool is displayed on the combined balance sheet as “Cash and Investments.” In accordance with Minnesota Statutes, the School maintains deposits at financial institutions which are authorized by the School’s Board.

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

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

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

The School’s carrying and bank balances of deposits at June 30, 2018 were $888,374 and $932,437, respectively. All of the cash and investments of Friends of Spero Academy Building Company are held by an escrow agent in accordance with escrow agreements established with the sale of the 2017 Charter School Lease Revenue Bonds Mortgage. All deposits which were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

## NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

**Investments**

The School may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less
- General obligations rated “A” or better; revenue obligations rated “AA” or better
- General obligations of the Minnesota Housing Finance Agency rate “A” or better
- Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers

At June 30, 2018, the Building Company’s investment balances were as follows:

**Investments Held by Trustee**

| Type | Total | Maturity Duration in Years<br>Less Than 1 | Rating |
|---|---|---|---|
| First American Treasury Obligations<br>Money Market Fund - Class Y | $ 9,681,130 | $ 9,681,130 | Aaa-mf |

These investments are held by an escrow agent in accordance with escrow agreements established with the sale of the 2017 Charter School Lease Revenue. The interest rates on these investments range from 0% to 4.5%. The money market fund investment is invested in the First American Treasury Obligations Fund which is rated Aaa-mf by Moody’s Investors Service.

## NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

### Investments (Continued)

***Interest Rate Risk and Credit Risk***

The School does not have a formal investment policy to address these risks.

***Concentration of Credit Risk***

The School places no limit on the amount that the School may invest in any one issuer.

The deposits and investments are presented in the financial statements as follows:

| | |
|---|---|
| Cash and Investments - Statement of Net Position | $ 888,374 |
| Cash and Investments Held by Trustee - Statement of Net Position | 9,681,130 |
| Total Cash and Investments | $ 10,569,504 |

***Fair Value Measurements***

The School uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The School follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the School has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

*Level 2* – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

*Level 3* – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

## NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

### Investments (Continued)

***Fair Value Measurements (Continued)***

The School did not hold and investments measured at fair value as of June 30, 2018. The money market fund investments held by the Building Company's escrow agent are valued at amortized cost.

## NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| **Building Company** | | | | |
| Land | $ - | $ 1,460,000 | $ - | $ 1,460,000 |
| Construction in Progress | - | 8,938,002 | - | 8,938,002 |
| Total Capital Assets, Not Being Depreciated | - | 10,398,002 | - | 10,398,002 |
| Capital Assets, Being Depreciated: | | | | |
| **Charter School** | | | | |
| Furniture and Equipment | 226,683 | 46,307 | (81,041) | 191,949 |
| Accumulated Depreciation for: | | | | |
| **Charter School** | | | | |
| Furniture and Equipment | (129,587) | (41,175) | 80,849 | (89,913) |
| Total Capital Assets, Being Depreciated, Net | 97,096 | 5,132 | (192) | 102,036 |
| Governmental Activities Capital Assets, Net | $ 97,096 | $ 10,403,134 | $ (192) | $ 10,500,038 |

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

| | |
|---|---|
| **Governmental Activities** | |
| District Support Services | $ 199 |
| Regular Instruction | 30,053 |
| Special Education Instruction | 7,180 |
| Sites and Buildings | 3,743 |
| Total Depreciation Expense, Governmental Activities | $ 41,175 |

## NOTE 4 LONG-TERM DEBT

Changes in long-term liabilities are as follows:

| | June 30, 2017 | Additions | Retirements | June 30, 2018 | Principal Due Within One Year |
|---|---|---|---|---|---|
| G.O. Lease Revenue Bonds Payable | $ - | $ 17,945,000 | $ - | $ 17,945,000 | $ - |
| Compensated Absences Payable | 28,380 | 216,575 | 210,977 | 33,978 | 10,193 |
| Capital Leases Payable | 46,108 | 38,344 | 28,670 | 55,782 | 27,820 |
| Total | $ 74,488 | $ 18,199,919 | $ 239,647 | $ 18,034,760 | $ 38,013 |

The General Fund is used to liquidate compensated absences when they are due.

The School entered into a capital lease with Apple, Inc. on July 1, 2016 for the acquisition of iPads and computers. The capital lease obligation totaled $47,077 and is payable over four years. The Academy entered into a second capital lease with Apple, Inc. on July 1, 2016 for the acquisition of iPads. The capital lease obligation totaled $18,960 and is payable over three years. The total cost of these assets under capital lease and the related accumulated depreciation is $66,037 and $36,179, respectively.

The School entered into two capital leases with Apple, Inc. on July 12, 2017 for the acquisition of personal computers. The first capital lease obligation totaled $18,189 and is payable over 4 years, while the second totaled $20,155 and is payable over 3 years. The total cost of these assets under capital lease and the related accumulated depreciation is $38,344 and $11,266, respectively.

During Fiscal 2018, the Friends of Spero Academy obtained a $17,945,000 construction loan from lease revenue bond proceeds sold by the city of Minneapolis, MN to finance the acquisition, construction and equipping of the Loan are to be applied purchase of land and construct a building on purchased land located at 2701 and 2701½ California Street Northeast, and owned by the Friends of Spero Academy and leased to Spero Academy. The bond proceeds were placed in an escrow account controlled by U.S. Bank under the terms of a trust agreement between the city of Minneapolis and U.S. Bank. The resulting loan was payable in semiannual installments of interest only beginning 1/1/2018 through 7/1/2021, and principal and interest beginning 7/1/2021 through 7/1/2048. The note was based on annual interest rates of 5.50% through 7/1/2027, 6.00% through 2032, 6.25% through 2037 and 6.50% through 2048, and was secured by a mortgage agreement covering the related land, school building and building contents as well as the assignment of all lease revenue.

## NOTE 4 LONG-TERM DEBT (CONTINUED)

Following are the maturities of long-term debt for the Spero Academy for each fiscal year ending June 30:

| | Revenue Bonds Payable | | Capital Leases Payable | |
|---|---|---|---|---|
| Year Ending June 30, | Principal | Interest | Principal | Interest |
| 2019 | $ - | $ 1,139,775 | $ 27,820 | $ 4,453 |
| 2020 | - | 1,139,775 | 23,245 | 2,260 |
| 2021 | - | 1,139,775 | 4,717 | 400 |
| 2022 | 70,000 | 1,137,775 | - | - |
| 2023 | 145,000 | 1,129,800 | - | - |
| 2024-2028 | 1,610,000 | 5,385,938 | - | - |
| 2029-2033 | 2,160,000 | 4,840,150 | - | - |
| 2034-2038 | 2,940,000 | 4,064,313 | - | - |
| 2039-2043 | 4,050,000 | 2,957,500 | - | - |
| 2044-2048 | 5,610,000 | 1,401,725 | - | - |
| 2049 | 1,360,000 | 44,200 | - | - |
| Total | $ 17,945,000 | $ 24,380,725 | $ 55,782 | $ 7,113 |

## NOTE 5 DEFINED BENEFIT PENSION PLANS

Substantially all employees of the School are required by state law to belong to pension plans administered by Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a statewide basis. Disclosures relating to these plans follow.

## NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description

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

**1. General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))**

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 General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**2. Teachers Retirement Fund (TRA)**

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (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 the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

B. Benefits Provided

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

**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% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

## NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

**TRA:** Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

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.

### 1. General Employees Plan Benefit

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

### 2. TRA Benefits

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

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

*Tier 1 Benefits*

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

## NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

### 2. TRA Benefits (Continued)

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) 3.0% per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

*Tier II Benefits*

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

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

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

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

## NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions

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

**1. General Employees Fund Contributions**

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2018. In fiscal year 2018, the School was required to contribute 7.5% for Coordinated Plan members. The School's contributions to the General Employees Fund for the plan's fiscal year ended June 30, 2018 were $79,397. The School's contributions were equal to the required contributions for each year as set by state statute.

**2. TRA Contributions**

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

| | 2018 | |
|---|---|---|
| | Employee | Employer |
| Basic | 11.00 % | 11.50 % |
| Coordinate | 7.50 | 7.50 |

The School's contributions to TRA for the plan's fiscal year ended June 30, 2018 were $122,541. The School's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

**1. General Employees Fund Pension Costs**

At June 30, 2018, the School reported a liability of $849,063 for its proportionate share of the General Employees Fund's net pension liability. The School's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund during the General Employees Fund's fiscal year 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 state of Minnesota's proportionate share of the net pension liability associated with the School totaled $10,638. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. As of the June 30, 2017 measurement date, the School's proportion was .0133%, which was an increase of .0037% from its proportion measured as of June 30, 2016.

## NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

### 1. General Employees Fund Pension Costs (Continued)

For the year ended June 30, 2018, the School recognized pension expense of \$179,847 for its proportionate share of the General Employees Fund's pension expense. In addition, the School recognized an additional \$307 as pension expense (and grant revenue) for the support provided by direct aid.

At June 30, 2018, the School reported its proportionate share of the General Employees Fund's deferred outflows of resources and deferred inflows of resources from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences Between Expected and Actual Economic Experience | $ 27,983 | $ 54,622 |
| Changes in Actuarial Assumptions | 140,963 | 85,119 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | - | 36,719 |
| Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions | 185,434 | 5,534 |
| District Contributions Subsequent to the Measurement Date | 79,397 | - |
| Total | $ 433,777 | $ 181,994 |

A total of \$79,397 reported as deferred outflows of resources related to pensions resulting from School contributions to the General Employees Fund subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

## NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

### 1. General Employees Fund Pension Costs (Continued)

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

| Year Ending June 30, | Pension Expense Amount |
|---|---|
| 2019 | $ 65,275 |
| 2020 | 102,830 |
| 2021 | 40,322 |
| 2022 | (36,041) |
| 2023 | - |
| Thereafter | - |

### 2. TRA Pension Costs

At June 30, 2018, the School reported a liability of $5,190,072 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the state of Minnesota, city of Minneapolis, and Minneapolis School District. The School's proportionate share was .0260% at the end of the measurement period and .0189% for the beginning of the period.

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

| Description | Amount |
|---|---|
| School's Proportionate Share of the TRA Net Pension Liability | $ 5,190,072 |
| State's Proportionate Share of the Net Pension Liability Associated with the School | 501,473 |

## NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

### 2. TRA Pension Costs (Continued)

For the year ended June 30, 2018, the School recognized pension expense of $1,028,363. It also recognized $9,622 as pension expense for the support provided by direct aid.

At June 30, 2018, the School reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

| Description | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences Between Expected and Actual Economic Experience | $ 39,083 | $ 36,446 |
| Changes in Actuarial Assumptions | 2,822,481 | 727,047 |
| Net Difference Between Projected and Actual Earnings on Plan Investments | - | 40,670 |
| Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions | 602,789 | 7,093 |
| District Contributions Subsequent to the Measurement Date | 122,541 | - |
| Total | $ 3,586,894 | $ 811,256 |

A total of $122,541 reported as deferred outflows of resources related to pensions resulting from School contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

| Year Ending June 30, | Pension Expense Amount |
|---|---|
| 2019 | $ 670,260 |
| 2020 | 760,775 |
| 2021 | 685,983 |
| 2022 | 582,415 |
| 2023 | (46,336) |
| Thereafter | - |

## NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

The School recognized total pension expenses of $1,218,139 for all of the pension plans in which it participates. This includes $9,622 in TRA and $307 in GERF direct aid recognized as pension expense.

E. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

| Assumptions | GERF | TRA |
|---|---|---|
| Inflation | 2.50% per Year | 2.50% per Year |
| Active Member Payroll Growth | 3.25% per Year | 2.85 - 9.25% |
| Investment Rate of Return | 7.50% | 7.50% |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables, with slight adjustments to fit PERA's and TRA's experience. Cost of living benefit increases for retirees are assumed to be 1.0% per year for all future years for the General Employees Plan. Cost of living benefit increases for retirees are assumed to be 2.0% per year for all future years for the TRA.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan and TRA was completed in 2015.

The following changes in actuarial assumptions for General Employees Fund occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60.0% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.

- The assumed postretirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

The following changes in actuarial assumptions for TRA occurred in 2017:

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.

- The COLA was not assumed to increase to 2.5%, but remain at 2.0% for all future years.

## NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.

- The investment return assumption was changed from 8.00% to 7.50%.

- The price inflation assumption was lowered from 2.75% to 2.50%.

The long-term expected rate of return on pension plan investments is 7.50% for General Employees Fund and 7.50% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return 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 arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Domestic Equity | 39 % | 5.10 % |
| International Equity | 19 | 5.30 |
| Bonds | 20 | 0.75 |
| Alternative Assets | 20 | 5.90 |
| Cash | 2 | - |
| Totals | 100 % | |

F. **Discount Rate**

The discount rate used to measure the total pension liability was 7.50% for the General Employee's Fund and 5.12% for TRA. For TRA, this was an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in Minnesota Statutes.

Based on PERA's assumptions, the fiduciary net position of the General Employees Fund 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 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate (Continued)

Based on TRA's assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 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 (7.50%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.1%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

G. Pension Liability Sensitivity

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

| Description | 1% Decrease in Discount Rate | Current Discount Rate | 1% Increase in Discount Rate |
|---|---|---|---|
| GERF Discount Rate | 6.50% | 7.50% | 8.50% |
| School's Proportionate Share of the GERF Net Pension Liability | $ 1,316,960 | $ 849,063 | $ 466,005 |
| TRA Discount Rate | 4.12% | 5.12% | 6.12% |
| School's Proportionate Share of the TRA Net Pension Liability | $ 6,849,894 | $ 5,190,072 | $ 3,790,639 |

H. Pension Plan Fiduciary Net Position

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

Detailed information about TRA's fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, Minnesota, 55103-4000; or by calling (651) 296-2409 or 1-800-657-3669.

## NOTE 6 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures over Budget

| | Budget | Expenditures | Excess |
|---|---|---|---|
| Special Revenue Fund: | | | |
| Food Service Fund | $ 42,832 | $ 47,422 | $ 4,590 |

These overages are considered by School management to be the result of necessary expenditures critical to operations and were approved by the board.

## NOTE 7 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. State Revenues Pledged

The School has pledged all funds, monies, grants, or other distributions received by the School from the state of Minnesota with respect to general student funding, special education funding, Building Lease Aid, state distributions of Federal funds, or any other funding sources, net of operating expenses of the School required under state or federal laws to provide required educational program expenditures, to repay the $17.9 million 2017 lease revenue bonds issued by the Building Company in August of 2017. Proceeds from the bonds provided financing to (i) finance the acquisition of two parcels of land totaling 3.86 acres located at 2701 and 2701½ California Street Northeast in the city of Minneapolis, Minnesota and the construction and equipping of an approximately 63,600 square foot two-story school building to be owned by Friends of Spero Academy and leased to Spero Academy for use as a public charter schoolhouse for students in kindergarten through grade six; (ii) fund a deposit to the Reserve Fund for the Series 2017 Bonds; (iii) fund capitalized interest on the Series 2017 Bonds; (iv) fund a deposit to the Capital Improvements Fund; and (v) pay the costs of issuance of the Series 2017 Bonds. The bonds are payable solely from lease revenues paid by the School to the Building Company revenues and are payable through 2048. The Building Company had no net lease revenues for FY2018 during the year ended June 30, 2018, the lease payments will start in FY19 to the Building Company. The total principal and interest remaining to be paid on the bonds is $42,325,725. Principal and interest debt service expenditures paid for the current year and total customer net revenues were $468,574 and $-0-, respectively.

## NOTE 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)

C. Lease Commitments and Terms

In May 2010, the Academy signed a lease with NE Lutheran Ministry Center, Minneapolis, Minnesota, commencing July 1, 2010, and expiring on June 30, 2018. Rent on this space was $159,607 for fiscal year 2018 and paid in 12 equal installments. The lease agreement ended at the end of the year.

The School entered into a lease agreement with the Friends of Spero Academy to lease the School's new educational site at 2701 California Street NE, Minneapolis, Minnesota. The term of the 35-year period commencing August 1, 2017 through June 30, 2052. The extended lease calls for monthly payments over the 35-year period and includes ten options for the School to extend the lease, each extension option for a period of 5 years.

The net annual base rent for the term of the lease agreement is tied closely to the debt service requirements of the debt issued subsequent to year-end by the Friends of Spero Academy, including amounts held in escrow as part of the respective loan agreements. In addition, the School is responsible for all interior and exterior repair and maintenance costs as well as all utility costs. The School is funding 2% of monthly lease payments to a repair and replacement escrow account for this purpose.

Total future minimum lease payments are scheduled as follows:

| Year Ending June 30, | Scheduled Lease Payments |
|---|---|
| 2019 | $ 1,294,638 |
| 2020 | 1,294,638 |
| 2021 | 1,364,638 |
| 2022 | 1,434,563 |
| 2023 | 1,559,050 |
| 2024-2028 | 7,808,437 |
| 2029-2033 | 7,806,312 |
| 2034-2038 | 7,810,825 |
| 2039-2043 | 7,804,562 |
| 2044-2048 | 7,806,300 |
| Total | $ 45,983,963 |

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

The total amount of rent paid by the School under the terms of the lease agreements for fiscal 2018 was $159,607. The estimated charter school lease state aid entitlement for fiscal 2018 was $143,515. The School qualified for state charter school lease aid based on a statutory cap of $1,314 per pupil unit. This entitlement is subject to proration by the Minnesota Department of Education to the extent the overall funding that has been provided is insufficient to meet all amounts owed to Minnesota charter schools.

# REQUIRED SUPPLEMENTARY INFORMATION

# SPERO ACADEMY
# CHARTER SCHOOL NO. 4113
# TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
# LAST FOUR MEASUREMENT PERIODS *

**TRA Schedule of the School's Proportionate Share of the Net Pension Liability**

| | Measurement Date June 30, | | | |
|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 |
| School's Proportion of the Net Pension Liability | 0.0260% | 0.0189% | 0.0178% | 0.0171% |
| School's Proportionate Share of the Net Pension Liability | $ 5,190,072 | $ 4,508,101 | $ 1,101,106 | $ 787,956 |
| State's Proportionate Share of the Net Pension Liability Associated with School | 501,473 | 452,560 | 135,174 | 55,423 |
| Total | $ 5,691,545 | $ 4,960,661 | $ 1,236,280 | $ 843,379 |
| School's Covered Payroll | $ 1,400,613 | $ 984,733 | $ 905,933 | $ 843,379 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 370.56% | 457.80% | 121.54% | 93.43% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 51.57% | 44.88% | 76.80% | 81.50% |

* This schedule presents information for the years available, and will eventually include ten years of information.

# SPERO ACADEMY
# CHARTER SCHOOL NO. 4113
# TRA SCHEDULE OF SCHOOL CONTRIBUTIONS
# LAST FOUR FISCAL YEARS *

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

| | Fiscal Year Ended June 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 |
| Statutorily Required Contribution | $ 122,541 | $ 105,046 | $ 73,855 | $ 67,945 |
| Contributions in Relation to the Statutorily Required Contribution | (122,541) | (105,046) | (73,855) | (67,945) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - |
| School's Covered Payroll | $ 1,633,880 | $ 1,400,613 | $ 984,733 | $ 905,933 |
| Contributions as a Percentage of Covered Payroll | 7.50% | 7.50% | 7.50% | 7.50% |

* This schedule presents information for the years available, and will eventually include ten years of information.

# SPERO ACADEMY
# CHARTER SCHOOL NO. 4113
# GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
# LAST FOUR MEASUREMENT PERIODS *

| **GERF Schedule of the School's Proportionate Share of the Net Pension Liability** | Measurement Date June 30, 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| School's Proportion of the Net Pension Liability | 0.0133% | 0.0096% | 0.0098% | 0.0086% |
| School's Proportionate Share of the Net Pension Liability | $ 849,063 | $ 779,472 | $ 507,887 | $ 403,985 |
| State's Proportionate Share of the Net Pension Liability Associated with School | 10,638 | 10,154 | - | - |
| Total | $ 859,701 | $ 789,626 | $ 507,887 | $ 403,985 |
| School's Covered Payroll | $ 868,787 | $ 587,720 | $ 577,302 | $ 452,055 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 97.73% | 132.63% | 87.98% | 89.37% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 75.90% | 68.90% | 78.20% | 78.70% |

* This schedule presents information for the years available, and will eventually include ten years of information.

## SPERO ACADEMY
## CHARTER SCHOOL NO. 4113
## GERF SCHEDULE OF SCHOOL CONTRIBUTIONS
## LAST FOUR FISCAL YEARS *

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

| | Fiscal Year Ended June 30, | | | |
|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 |
| Statutorily Required Contribution | $ 79,397 | $ 65,159 | $ 44,079 | $ 42,576 |
| Contributions in Relation to the Statutorily Required Contribution | (79,397) | (65,159) | (44,079) | (42,576) |
| Contribution Deficiency (Excess) | $ - | $ - | $ - | $ - |
| School's Covered Payroll | $ 1,058,627 | $ 868,787 | $ 587,720 | $ 577,302 |
| Contributions as a Percentage of Covered Payroll | 7.50% | 7.50% | 7.50% | 7.38% |

* This schedule presents information for the years available, and will eventually include ten years of information.

# SUPPLEMENTARY INFORMATION

# SPERO ACADEMY
# CHARTER SCHOOL NO. 4113
# UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
# COMPLIANCE TABLE
# JUNE 30, 2018

| | AUDIT | UFARS | DIFFERENCE |
|---|---|---|---|
| **01 GENERAL FUND** | | | |
| Total Revenue | $ 5,158,666 | $ 5,158,667 | $ (1) |
| Total Expenditures | 5,117,292 | 5,117,292 | - |
| *Nonspendable:* | | | |
| 460 Nonspendable Fund Balance | 110,500 | 110,500 | - |
| *Restricted:* | | | |
| 403 Staff Development | - | - | - |
| 405 Deferred Maintenance | - | - | - |
| 406 Health and Safety | - | - | - |
| 407 Capital Project Levy | - | - | - |
| 408 Cooperative Programs | - | - | - |
| 413 Projects Funded by COP | - | - | - |
| 414 Operating Debt | - | - | - |
| 416 Levy Reduction | - | - | - |
| 417 Taconite Building Maintenance | - | - | - |
| 424 Operating Capital | - | - | - |
| 426 $25 Taconite | - | - | - |
| 427 Disabled Accessibility | - | - | - |
| 428 Learning and Development | - | - | - |
| 434 Area Learning Center | - | - | - |
| 435 Contracted Alternative Programs | - | - | - |
| 436 State-Approved Alternative Programs | - | - | - |
| 438 Gifted and Talented | - | - | - |
| 440 Teacher Development and Evaluations | - | - | - |
| 441 Basic Skills Programs | - | - | - |
| 445 Career and Technical Programs | - | - | - |
| 448 Achievement and Integration | - | - | - |
| 449 Sage Schools Crime Levy | - | - | - |
| 451 QZAB Payments | - | - | - |
| 452 OPEB Liability Not Held in Trust | - | - | - |
| 453 Unfunded Severance & Retirement Levy | - | - | - |
| 472 Medical Assistance | 128,285 | 128,285 | - |
| 464 Restricted Fund Balance | - | - | - |
| *Committed:* | | | |
| 418 Committed for Separation | - | - | - |
| 461 Committed Fund Balance | - | - | - |
| *Assigned:* | | | |
| 462 Assigned Fund Balance | - | - | - |
| *Unassigned:* | | | |
| 422 Unassigned Fund Balance | 733,315 | 733,316 | (1) |
| **02 FOOD SERVICE** | | | |
| Total Revenue | 40,787 | 40,786 | 1 |
| Total Expenditures | 47,422 | 47,422 | - |
| *Nonspendable:* | | | |
| 460 Nonspendable Fund Balance | - | - | - |
| *Restricted:* | | | |
| 452 OPEB Liability Not Held in Trust | - | - | - |
| 464 Restricted Fund Balance | - | - | - |
| *Unassigned:* | | | |
| 463 Unassigned Fund Balance | - | - | - |
| **04 COMMUNITY SERVICE** | | | |
| Total Revenue | - | - | - |
| Total Expenditures | - | - | - |
| *Nonspendable:* | | | |
| 460 Nonspendable Fund Balance | - | - | - |
| *Restricted:* | | | |
| 426 $25 Taconite | - | - | - |
| 431 Community Education | - | - | - |
| 432 E.C.F.E. | - | - | - |
| 440 Teacher Development and Evaluations | - | | |
| 444 School Readiness | - | - | - |
| 447 Adult Basic Education | - | - | - |
| 452 OPEB Liability Not Held in Trust | - | - | - |
| 464 Restricted Fund Balance | - | - | - |
| *Unassigned:* | | | |
| 463 Unassigned Fund Balance | - | - | - |

# OTHER REQUIRED REPORTS

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

Members of the Board of Education
Spero Academy
Charter School No. 4113
Minneapolis, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Spero Academy, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Spero Academy's basic financial statements, and have issued our report thereon dated December 10, 2018.

## Internal Control Over Financial Reporting

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota
December 10, 2018

CliftonLarsonAllen LLP
CLAconnect.com

**INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE**

Members of the Board of Education
Spero Academy
Charter School No. 4113
Minneapolis, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Spero Academy as of and for the year ended June 30, 2018, 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 10, 2018.

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

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

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

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota
December 10, 2018