

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2019**

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2019**

**INTRODUCTORY SECTION**

SCHOOL BOARD, BUILDING COMPANY BOARD, AND ADMINISTRATION	1
--	---

**FINANCIAL SECTION**

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

REQUIRED SUPPLEMENTARY INFORMATION

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION	15
---------------------------	----

STATEMENT OF ACTIVITIES	16
-------------------------	----

BALANCE SHEET – GOVERNMENTAL FUNDS	17
------------------------------------	----

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	18
--	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS	19
---	----

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES	20
---	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	21
---	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FOOD SERVICE FUND	22
---	----

STATEMENT OF FIDUCIARY NET POSITION	23
-------------------------------------	----

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	23
--	----

NOTES TO BASIC FINANCIAL STATEMENTS	24
-------------------------------------	----

**REQUIRED SUPPLEMENTARY INFORMATION**

TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	53
--	----

TRA SCHEDULE OF SCHOOL CONTRIBUTIONS	54
--------------------------------------	----

GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	55
---	----

GERF SCHEDULE OF SCHOOL CONTRIBUTIONS	56
---------------------------------------	----

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	57
---	----

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
TABLE OF CONTENTS (CONTINUED)  
YEAR ENDED JUNE 30, 2019**

**SUPPLEMENTARY INFORMATION**

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	59
--	----

**OTHER REQUIRED REPORTS**

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	60
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	62

## **INTRODUCTORY SECTION**

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 41604160  
SCHOOL BOARD, BUILDING COMPANY BOARD, AND ADMINISTRATION  
JUNE 30, 2019**

**SCHOOL BOARD**

<b><u>NAME</u></b>	<b><u>TERM EXPIRES</u></b>	<b><u>BOARD POSITION</u></b>
Dave Lucas	June 30, 2022	Chair
Tom Sagstetter	June 30, 2021	Vice Chair
Kathy Reed	June 30, 2020	Treasurer
Jessica Kemnitz	June 30, 2020	Secretary
Rob Bergfalk	June 30, 2020	Director
Bert Sepulveda	June 30, 2021	Director

**BUILDING COMPANY BOARD**

Dave Lucas	Chair
Tony Brunt	Secretary
Tom Sagstetter	Treasurer
Scott Gangl	Director
Rick Peterson	Director

**ADMINISTRATION**

Dan DeBruyn	Executive Director
Mark Leland	High School Principal
Greg Heinecke	Middle School Principal

## **FINANCIAL SECTION**



## INDEPENDENT AUDITORS' REPORT

Members of the Board of Education  
Charter School No. 4160  
Spectrum High School  
Elk River, Minnesota

### **Report on the Financial Statements**

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

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

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Spectrum High School as of June 30, 2019, and the respective changes in financial position and respective budgetary comparison for the General Fund and Food Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Report on Summarized Prior Year Information***

We have previously audited Spectrum High School's 2018 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information and we expressed an unmodified opinion on those audited financial statements in our report dated November 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

#### ***Supplementary Information***

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

Members of the Board of Education  
Charter School No. 4160  
Spectrum High School

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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2019, on our consideration of Spectrum High School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spectrum High School's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 11, 2019

## **REQUIRED SUPPLEMENTARY INFORMATION**

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

This section of Spectrum High School – Charter School No. 4160's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the School's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

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

- § General Fund revenues were \$8,826,243 as compared to expenditures of \$8,925,797. After a transfer to the Food Service Fund of \$30,487 as well as an insurance recovery other financing source of \$2,770, this resulted in a General Fund deficit of \$127,271 for the fiscal 2019 year.
- § The fund balance of the General Fund decreased from \$2,260,891 to \$2,133,620.
- § The School grew to a total of 716 ADMs (students), an increase of 42 ADMs from the prior year.
- § Building Company revenues were \$1,323,098 as compared to expenditures of \$2,651,914. The net result was a deficit of \$1,329,616 for the year and an ending fund balance in the Building Company Fund of \$2,266,970 at June 30, 2019.

**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 government-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 government-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.
- § *Fiduciary funds statements* provide information about the financial relationships in which the School acts solely as a trustee or agent for the benefit of others to whom the resources belong.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

**Government-Wide Statements**

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

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

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

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

- § *Governmental Activities* – Basic services are included here, such as regular and special education and administration. State aids finance most of these activities.

**Fund Financial Statements**

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

- § Some funds are required by State law and by debt covenants.
- § The School may establish other funds to control and manage money for specific purposes.

The School has the following fund type:

- § *Governmental Funds* – Basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in separate reconciliations to explain the relationship (or differences) between them.
- § *Fiduciary Funds* – The School is the trustee, or fiduciary, for assets that belong to others. The School is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the School's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial and governmental fund statements because the School cannot use these assets to finance its operations.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

**FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE**

**Net Position**

The School's combined net position was a deficit of \$4,575,667 on June 30, 2019 compared to combined net deficit of \$5,907,630 at June 30, 2018 (see Table A-1).

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

	Governmental Activities as of June 30,		Percentage Change
	2019	2018	
Current and Other Assets	\$ 4,990,724	\$ 7,171,409	(30.41)%
Capital Assets	18,085,173	16,794,949	7.68
Total Assets	<u>23,075,897</u>	<u>23,966,358</u>	(3.72)
Deferred Outflows of Resources	5,951,948	7,556,754	(21.24)
Current Liabilities	1,066,718	1,872,595	(43.04)
Net Pension Liability	3,850,819	10,635,830	(63.79)
Long-Term Liabilities	22,929,092	23,219,681	(1.25)
Total Liabilities	<u>27,846,629</u>	<u>35,728,106</u>	(22.06)
Deferred Inflows of Resources	<u>5,756,883</u>	<u>1,702,636</u>	238.12
Net Position:			
Net Investment in Capital Assets	(1,487,425)	(1,631,827)	(8.85)
Restricted	-	918,659	-
Unrestricted	<u>(3,088,242)</u>	<u>(5,194,462)</u>	(40.55)
Total Net Position	<u>\$ (4,575,667)</u>	<u>\$ (5,907,630)</u>	(22.55)

The negative unrestricted net position occurred due to the School's net pension liability. This is the School's proportionate share of the net pension liabilities of the General Employee Plan of PERA and TRA.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

**Changes in Net Position**

The School's total revenues were \$8,884,714 for the year ended June 30, 2019. State formula aid accounted for 68% of total revenues for the year (see Figure A-1). Another 26% came from operating grants. The remaining 6% came from charges for services and other general revenues.

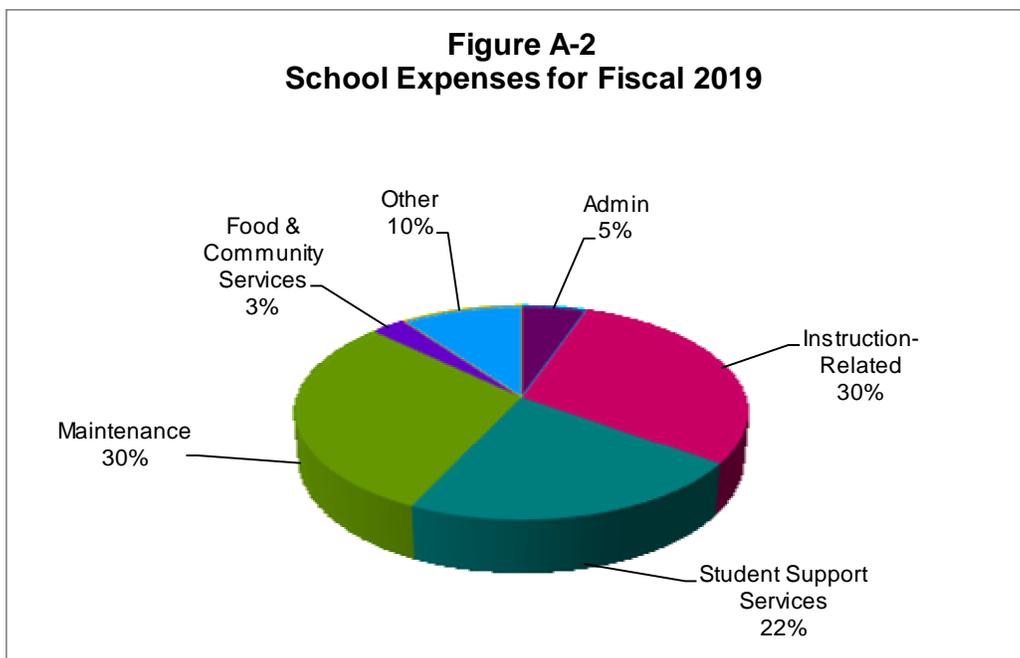
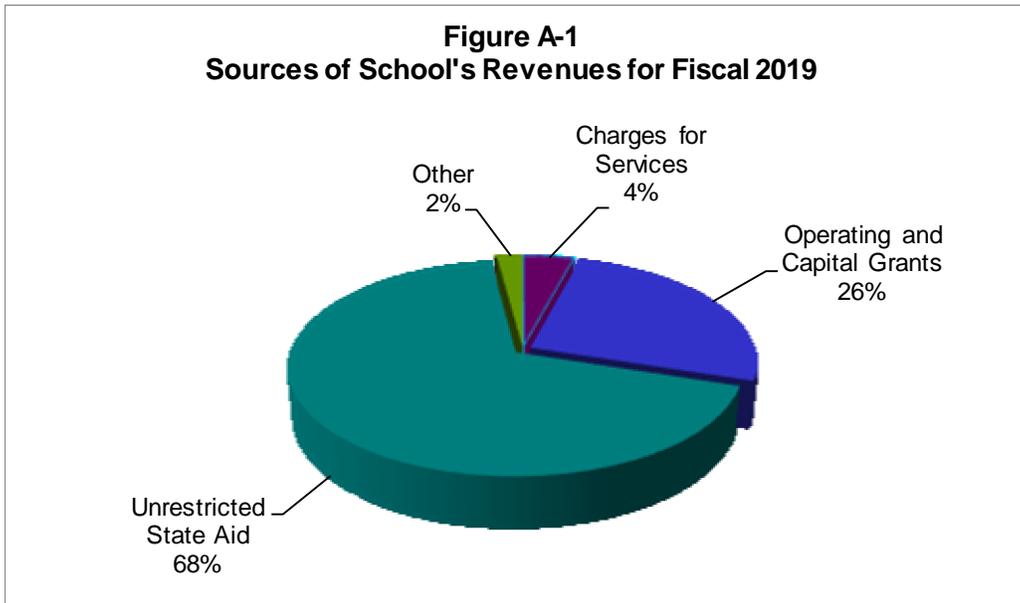
**Table A-2  
Change in Net Position**

	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2019	2018	
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 369,918	\$ 277,174	33.46 %
Operating Grants and Contributions	2,288,299	2,111,968	8.35
<u>General Revenues</u>			
Unrestricted State Aid	6,040,208	5,760,954	4.85
Investment Earnings	54,800	33,907	61.62
Other	131,489	168,310	(21.88)
Total Revenues	<u>8,884,714</u>	<u>8,352,313</u>	6.37
<b>Expenses</b>			
Administration	403,776	686,034	(41.14)
District Support Services	879,626	1,685,199	(47.80)
Regular Instruction	1,602,364	4,963,177	(67.71)
Special Education Instruction	634,284	812,280	(21.91)
Instructional Support Services	180,426	160,027	12.75
Pupil Support Services	603,639	622,257	(2.99)
Sites and Buildings	2,271,297	499,026	355.15
Fiscal and Other Fixed Cost Programs	54,963	47,934	14.66
Food Service	218,430	190,690	14.55
Interest and Fiscal Charges on Long-Term Liabilities	703,946	879,539	(19.96)
Total Expenses	<u>7,552,751</u>	<u>10,546,163</u>	(28.38)
<b>Change in Net Position</b>	1,331,963	(2,193,850)	
Beginning Net Position	<u>(5,907,630)</u>	<u>(3,713,780)</u>	
Ending Net Position	<u>\$ (4,575,667)</u>	<u>\$ (5,907,630)</u>	

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

The total cost of all programs and services was \$7,552,751. Total revenues surpassed expenses, increasing net position by \$1,331,963 from last year.

- § Some of the cost was paid by the users of the School's programs (\$369,918).
- § The federal and state governments subsidized certain programs with grants and contributions (\$2,288,299).
- § The unrestricted portion of the governmental activities was paid for with \$6,040,208 of state aid based on the statewide education aid formula, and the remainder with other general revenues.



**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

All governmental funds include only funds received for the general operation of the School. Funding for the general operation of the School is controlled by the state.

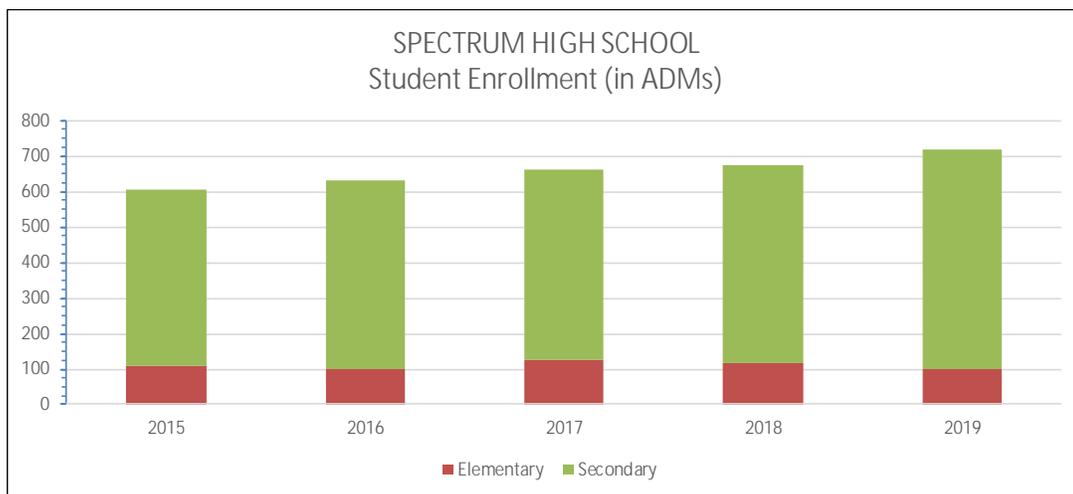
**Table A-3  
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2019	2018		2019	2018	
Administration	\$ 403,776	\$ 686,034	(41.14)%	\$ 403,776	\$ 686,034	(41.14)%
District Support Services	879,626	1,685,199	(47.80)	879,626	1,685,199	(47.80)
Regular Instruction	1,602,364	4,963,177	(67.71)	878,251	4,326,081	(79.70)
Special Education Instruction	634,284	812,280	(21.91)	3,823	271,397	(98.59)
Instructional Support Services	180,426	160,027	12.75	180,426	160,027	12.75
Pupil Support Services	603,639	622,257	(2.99)	603,639	622,257	(2.99)
Sites and Buildings	2,271,297	499,026	355.15	1,859,543	349,528	432.02
Fiscal and Other Fixed Cost Programs	54,963	47,934	14.66	54,963	47,934	14.66
Food Service	218,430	190,690	14.55	30,487	8,564	255.99
Interest and Fiscal Charges on Long-Term Liabilities	703,946	879,539	(19.96)	-	-	N/A
<b>Total</b>	<b>\$ 7,552,751</b>	<b>\$ 10,546,163</b>	<b>(28.38)</b>	<b>\$ 4,894,534</b>	<b>\$ 8,157,021</b>	<b>(40.00)</b>

**ENROLLMENT**

Enrollment is a critical factor in determining revenue with a high percentage of General Fund revenue being determined by enrollment. The following charts show that the average number of students increased by 42.33 from the prior year.

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



	2015	2016	2017	2018	2019
Elementary	107.52	100.15	125.67	115.83	100.9
Secondary	497.13	532.12	536.91	558.05	615.31
<b>Total served</b>	<b>604.65</b>	<b>632.27</b>	<b>662.58</b>	<b>673.88</b>	<b>716.21</b>
	22.00%	4.57%	4.79%	1.71%	6.28%

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

**FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS**

The financial performance of the School as a whole is reflected in its governmental funds. As the School completed the year, its governmental funds reported a combined fund balance of \$4,400,590.

**GENERAL FUND**

The General Fund includes the primary operations of the School in providing educational services to students in grades 6 through 12. In 2018-2019, the School served an average of 716.21 students.

The following schedule presents a summary of General Fund revenues.

**Table A-5  
General Fund Revenues**

	Year Ended		Change	
	June 30, 2019	June 30, 2018	Increase (Decrease)	Percent Change
Local Sources:				
Earnings on Investments	\$ 4,871	\$ 4,069	\$ 802	19.71 %
Other	416,112	429,179	(13,067)	(3.04)
State Sources	8,002,998	7,330,190	672,808	9.18
Federal Sources	436,720	372,158	64,562	17.35
Total General Fund Revenue	<u>\$ 8,860,701</u>	<u>\$ 8,135,596</u>	<u>\$ 725,105</u>	8.91

Total General Fund revenues increased by \$725,105 (or 8.91%) from the prior year.

The increase in State Sources revenue was primarily due to an increase in general education revenues due to an increase in students as well as the 2% formula improvement provided by the Legislature. Part of the increase relates to increased lease aid as well.

The increase in Federal Sources revenue related primarily to an increase in funds received from Title V in the current year.

The following schedule presents a summary of General Fund expenditures.

**Table A-6  
General Fund Expenditures**

	Year Ended		Change	
	June 30, 2019	June 30, 2018	Increase (Decrease)	Percent Change
Salaries	\$ 4,206,731	\$ 3,723,196	\$ 483,535	12.99 %
Employee Benefits	1,099,984	964,982	135,002	13.99
Purchased Services	2,753,164	2,365,480	387,684	16.39
Supplies and Materials	380,468	342,519	37,949	11.08
Capital Expenditures	448,675	336,987	111,688	33.14
Other Expenditures	71,233	81,512	(10,279)	(12.61)
Total General Fund Expenditures	<u>\$ 8,960,255</u>	<u>\$ 7,814,676</u>	<u>\$ 1,145,579</u>	14.66

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

Total General Fund Expenditures increased \$1,145,579 (or 14.66%) from the previous year.

Salaries and Benefits increased by a combined amount of \$618,537 due to pay increases, increased staffing for special education needs and an increase in the benefits package.

Purchased Services increased by \$387,684 largely due to an increase in the School's PSEO program due to additional student participation.

Supplies and Materials increased by \$37,949 mainly due to additional supplies and materials needed to accommodate the increase in the ADM from the previous year.

**General Fund Budgetary Highlights**

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

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

The School revised their budget during fiscal 2019. The amendment was approved at the January board meeting.

Both General Fund revenues and expenditures were very close to budget this year with revenues being within 1.7% of budget while expenditures were within 1.2% of the final amended budget.

**OTHER MAJOR FUNDS**

In the Food Service Fund, expenditures exceeded revenues by \$30,487 for the year and the fund ended with a fund balance of \$-0- as of June 30, 2019, after a transfer from the General Fund.

In the Building Company Fund, expenditures and other financing uses exceeded revenues by \$1,329,616, thereby resulting in an ending fund balance of \$2,266,970.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of fiscal year 2019, Spectrum High School had invested \$21.3 million in capital assets (see Table A-7). Current year depreciation on these assets was \$586,284.

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

	<u>2019</u>	<u>2018</u>	<u>Percentage Change</u>
<b>Building Company</b>			
Land	\$ 1,090,967	\$ 1,090,967	-
Construction in Progress	-	2,821,174	(100.0)
Buildings and Improvements	17,877,595	13,456,100	32.9
Furniture and Equipment	979,860	1,056,325	(7.2)
<b>Charter School</b>			
Buildings and Improvements	337,700	322,995	4.6
Furniture and Equipment	1,079,761	874,521	23.5
Less: Accumulated Depreciation	(3,280,710)	(2,827,133)	16.0
Total District Capital Assets	<u>\$ 18,085,173</u>	<u>\$ 16,794,949</u>	7.7

**Long-Term Liabilities**

At year-end, Spectrum Building Company, a blended component unit of the School, had \$22.9 million in charter school lease revenue bonds. The School also recorded a net pension liability in the amount of \$3.85 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). 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**

	<u>2019</u>	<u>2018</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 22,910,000	\$ 23,200,000	(1.3)%
Net Bond Premium and Discount	19,092	19,681	(3.0)
Net Pension Liability	3,850,819	10,635,830	(63.8)
Total Long-Term Liabilities	<u>\$ 26,779,911</u>	<u>\$ 33,855,511</u>	(20.9)
Long-Term Liabilities:			
Due Within One Year	\$ 340,000	\$ 290,000	
Due in More Than One Year	26,439,911	33,565,511	
Total	<u>\$ 26,779,911</u>	<u>\$ 33,855,511</u>	

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2019**

**FACTORS BEARING ON THE SCHOOL'S FUTURE**

The School is dependent on the state of Minnesota for its revenue authority. The 2019 Legislative session ended with schools receiving a 2% increase in the general education formula for both FY 2020 and FY 2021. The holdback will continue at its current level of 10%.

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.

**CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our constituents, state oversight agencies, lenders, customers, legislative leaders, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Spectrum High School, 17796 Industrial Circle NW, Elk River, Minnesota 55330.

## **BASIC FINANCIAL STATEMENTS**

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
STATEMENT OF NET POSITION  
JUNE 30, 2019  
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2018)**

	Governmental Activities	
	2019	2018
<b>ASSETS</b>		
Cash and Investments	\$ 1,783,334	\$ 1,898,032
Cash with Fiscal Agent	2,514,346	4,258,927
Receivables:		
Other Governments	605,870	859,738
Other	507	36,894
Prepaid Items	86,667	117,818
Capital Assets:		
Land and Construction in Progress	1,090,967	3,912,141
Other Capital Assets, Net of Depreciation	16,994,206	12,882,808
Total Assets	23,075,897	23,966,358
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows - Pensions	4,796,256	6,359,695
Deferred Outflows - Loss on Refunding of Debt	1,155,692	1,197,059
Total Deferred Outflows of Resources	5,951,948	7,556,754
<b>LIABILITIES</b>		
Salaries and Benefits Payable	467,529	412,505
Accounts and Contracts Payable	122,605	896,278
Accrued Interest Payable	476,584	558,663
Unearned Revenue	-	5,149
Long-Term Liabilities:		
Net Pension Liability	3,850,819	10,635,830
Other Long-Term Liabilities Due Within One Year	340,000	290,000
Other Long-Term Liabilities Due in More Than One Year	22,589,092	22,929,681
Total Liabilities	27,846,629	35,728,106
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows - Pensions	5,756,883	1,702,636
<b>NET POSITION</b>		
Net Investment in Capital Assets	(1,487,425)	(1,631,827)
Restricted for:		
Building Company Debt Service	-	918,659
Unrestricted	(3,088,242)	(5,194,462)
Total Net Position	\$ (4,575,667)	\$ (5,907,630)

See accompanying Notes to Basic Financial Statements.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019  
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2018)**

Functions	2019			2018	
	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position	Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities	Total Governmental Activities
<b>GOVERNMENTAL ACTIVITIES</b>					
Administration	\$ 403,776	\$ -	\$ -	\$ (403,776)	\$ (686,034)
District Support Services	879,626	-	-	(879,626)	(1,685,199)
Regular Instruction	1,602,364	287,393	436,720	(878,251)	(4,326,081)
Special Education Instruction	634,284	-	630,461	(3,823)	(271,397)
Instructional Support Services	180,426	-	-	(180,426)	(160,027)
Pupil Support Services	603,639	-	-	(603,639)	(622,257)
Sites and Buildings	2,271,297	-	411,754	(1,859,543)	(349,528)
Fiscal and Other Fixed Cost Programs	54,963	-	-	(54,963)	(47,934)
Food Service	218,430	82,525	105,418	(30,487)	(8,564)
Interest and Fiscal Charges on Long-Term Liabilities	703,946	-	703,946	-	-
Total School District	<u>\$ 7,552,751</u>	<u>\$ 369,918</u>	<u>\$ 2,288,299</u>	(4,894,534)	(8,157,021)
<b>GENERAL REVENUES</b>					
State Aid Not Restricted to Specific Purposes				6,040,208	5,760,954
Earnings on Investments				54,800	33,907
Miscellaneous				131,489	168,310
Total General Revenues				<u>6,226,497</u>	<u>5,963,171</u>
<b>CHANGE IN NET POSITION</b>				1,331,963	(2,193,850)
Net Position - Beginning				<u>(5,907,630)</u>	<u>(3,713,780)</u>
<b>NET POSITION - ENDING</b>				<u>\$ (4,575,667)</u>	<u>\$ (5,907,630)</u>

See accompanying Notes to Basic Financial Statements.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2019  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Major Funds			Total Governmental	
	General	Food Service	Building Company	2019	2018
<b>ASSETS</b>					
Cash and Investments	\$ 1,699,464	\$ 562	\$ 83,308	\$ 1,783,334	\$ 1,898,032
Cash with Fiscal Agent	-	-	2,514,346	2,514,346	4,258,927
Receivables:					
Due from Minnesota Department of Education	487,663	-	-	487,663	605,375
Due from Federal through Minnesota Department of Education	118,207	-	-	118,207	254,363
Due from Other Funds	240,600	-	-	240,600	175,309
Other Receivables	507	-	-	507	36,894
Prepays	86,667	-	-	86,667	117,818
<b>Total Assets</b>	<b>\$ 2,633,108</b>	<b>\$ 562</b>	<b>\$ 2,597,654</b>	<b>\$ 5,231,324</b>	<b>\$ 7,346,718</b>
<b>LIABILITIES AND FUND BALANCE</b>					
Liabilities:					
Salaries Payable	\$ 366,885	\$ 233	\$ -	\$ 367,118	\$ 326,156
Payroll Deductions and Employer Contributions Payable	100,082	329	-	100,411	86,349
Accounts and Contracts Payable	32,521	-	90,084	122,605	896,278
Due to Other Funds	-	-	240,600	240,600	175,309
Unearned Revenue	-	-	-	-	5,149
<b>Total Liabilities</b>	<b>499,488</b>	<b>562</b>	<b>330,684</b>	<b>830,734</b>	<b>1,489,241</b>
Fund Balance:					
Nonspendable:					
Prepays	86,667	-	-	86,667	117,818
Restricted for:					
Building Company Debt Service	-	-	2,165,260	2,165,260	2,217,586
Building Company Construction	-	-	101,710	101,710	1,379,000
Unassigned	2,046,953	-	-	2,046,953	2,143,073
<b>Total Fund Balance</b>	<b>2,133,620</b>	<b>-</b>	<b>2,266,970</b>	<b>4,400,590</b>	<b>5,857,477</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 2,633,108</b>	<b>\$ 562</b>	<b>\$ 2,597,654</b>	<b>\$ 5,231,324</b>	<b>\$ 7,346,718</b>

See accompanying Notes to Basic Financial Statements.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2019  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
<b>Total Fund Balance for Governmental Funds</b>	<b>\$ 4,400,590</b>	<b>\$ 5,857,477</b>
<p>Total net position reported for governmental activities in the statement of net position is different because:</p>		
<p>Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:</p>		
Land	1,090,967	1,090,967
Construction in Progress	-	2,821,174
Buildings and Improvements, Net of Accumulated Depreciation	15,801,836	11,752,069
Equipment, Net of Accumulated Depreciation	1,192,370	1,130,739
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p>		
	(476,584)	(558,663)
<p>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:</p>		
Net Pension Liability	(3,850,819)	(10,635,830)
Deferred Inflows of Resources - Pensions	(5,756,883)	(1,702,636)
Deferred Outflows of Resources - Pensions	4,796,256	6,359,695
<p>Long-term liabilities that pertain to governmental funds, including bonds 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:</p>		
Bonds Payable	(22,910,000)	(23,200,000)
Unamortized Premiums	(19,092)	(19,681)
Deferred Loss on Refunding	1,155,692	1,197,059
<b>Total Net Position of Governmental Activities</b>	<b>\$ (4,575,667)</b>	<b>\$ (5,907,630)</b>

See accompanying Notes to Basic Financial Statements.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2019  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Major Funds			Total Governmental Funds	
	General	Food Service	Building Company	2019	2018
<b>REVENUES</b>					
Local Sources:					
Earnings and Investments	\$ 4,871	\$ -	\$ 49,929	\$ 54,800	\$ 37,976
Other	416,112	132,163	1,273,169	1,821,444	1,722,135
State Sources	8,002,998	4,933	-	8,007,931	7,335,245
Federal Sources	436,720	50,847	-	487,567	419,893
Total Revenues	<u>8,860,701</u>	<u>187,943</u>	<u>1,323,098</u>	<u>10,371,742</u>	<u>9,515,249</u>
<b>EXPENDITURES</b>					
Current:					
Administration	541,639	-	-	541,639	444,038
District Support Services	849,847	-	17,050	866,897	1,642,784
Elementary and Secondary Regular Instruction	3,497,927	-	-	3,497,927	3,212,102
Special Education Instruction	775,690	-	-	775,690	644,925
Instructional Support Services	267,641	-	-	267,641	151,241
Pupil Support Services	668,975	-	-	668,975	549,781
Sites and Buildings	1,855,698	-	-	1,855,698	1,613,687
Fiscal and Other Fixed Cost Programs	54,163	-	-	54,163	47,934
Food Service	-	218,430	-	218,430	190,690
Capital Outlay	448,675	-	1,599,617	2,048,292	5,222,263
Debt Service:					
Interest and Fiscal Charges	-	-	1,035,247	1,035,247	356,495
Total Expenditures	<u>8,960,255</u>	<u>218,430</u>	<u>2,651,914</u>	<u>11,830,599</u>	<u>14,075,940</u>
<b>DEFICIENCY OF REVENUE UNDER EXPENDITURES</b>	(99,554)	(30,487)	(1,328,816)	(1,458,857)	(4,560,691)
<b>OTHER FINANCING SOURCES (USES)</b>					
Insurance Recovery	2,770	-	(800)	1,970	-
Issuance of Bonds	-	-	-	-	23,200,000
Bond Premium	-	-	-	-	20,015
Payment to Refunded Bond Escrow Agent	-	-	-	-	(15,969,041)
Transfers In	-	30,487	-	30,487	8,564
Transfers Out	(30,487)	-	-	(30,487)	(8,564)
Total Other Financing Sources (Uses)	<u>(27,717)</u>	<u>30,487</u>	<u>(800)</u>	<u>1,970</u>	<u>7,250,974</u>
<b>NET CHANGE IN FUND BALANCE</b>	(127,271)	-	(1,329,616)	(1,456,887)	2,690,283
<b>FUND BALANCES</b>					
Beginning of Year	2,260,891	-	3,596,586	5,857,477	3,167,194
End of Year	<u>\$ 2,133,620</u>	<u>\$ -</u>	<u>\$ 2,266,970</u>	<u>\$ 4,400,590</u>	<u>\$ 5,857,477</u>

See accompanying Notes to Basic Financial Statements.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2019  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
<b>Net Change in Fund Balance - Total Governmental Funds</b>	<b>\$ (1,456,887)</b>	<b>\$ 2,690,283</b>

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	1,896,138	5,172,794
Gain (Loss) on Disposal of Capital Assets	(19,631)	-
Depreciation Expense	(586,284)	(547,079)

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.

	1,167,326	(1,735,830)
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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 lease revenue bonds and related items is as follows:

Charter School Lease Revenue Bond Proceeds	-	(23,200,000)
Bond Premium or Discount	-	(20,015)
Repayment of Bond Principal	290,000	-
Bond Principal Refunded	-	14,600,000
Deferred Charges on Refunding Bonds	(41,367)	1,197,059
Change in Accrued Interest - General Obligation Bonds	82,079	(499,247)
Amortization of Bond Premium	589	283,204
Amortization of Bond Discount	-	(135,019)
Total	<b>\$ 1,331,963</b>	<b>\$ (2,193,850)</b>

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local Sources:				
Earnings and Investments	\$ 2,500	\$ 2,500	\$ 4,871	\$ 2,371
Other	457,312	472,662	416,112	(56,550)
State Sources	8,167,006	8,116,626	8,002,998	(113,628)
Federal Sources	140,800	423,211	436,720	13,509
Total Revenues	<u>8,767,618</u>	<u>9,014,999</u>	<u>8,860,701</u>	<u>(154,298)</u>
<b>EXPENDITURES</b>				
Current:				
Administration	656,871	547,128	541,639	(5,489)
District Support Services	879,062	844,799	849,847	5,048
Elementary and Secondary Regular Instruction	3,184,505	3,399,452	3,497,927	98,475
Special Education Instruction	735,383	841,769	775,690	(66,079)
Instructional Support Services	377,725	283,629	267,641	(15,988)
Pupil Support Services	757,201	763,909	668,975	(94,934)
Sites and Buildings	1,866,396	1,881,062	1,855,698	(25,364)
Fiscal and Other Fixed Cost Programs	51,043	50,000	54,163	4,163
Capital Outlay	176,500	460,199	448,675	(11,524)
Total Expenditures	<u>8,684,686</u>	<u>9,071,947</u>	<u>8,960,255</u>	<u>(111,692)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 84,632</u>	<u>\$ (66,698)</u>	<u>(127,271)</u>	<u>\$ (60,573)</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>2,260,891</u>	
End of Year			<u>\$ 2,133,620</u>	

See accompanying Notes to Basic Financial Statements.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
SPECIAL REVENUE FOOD SERVICE FUND  
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Sources:				
Other - Primarily Meal Sales	\$ 165,100	\$ 157,500	\$ 132,163	\$ (25,337)
State Sources	7,500	7,500	4,933	(2,567)
Federal Sources	50,000	50,000	50,847	847
Total Revenues	<u>222,600</u>	<u>215,000</u>	<u>187,943</u>	<u>(27,057)</u>
<b>EXPENDITURES</b>				
Current:				
Food Service	<u>222,600</u>	<u>225,750</u>	<u>218,430</u>	<u>(7,320)</u>
<b>DEFICIENCY OF REVENUE UNDER EXPENDITURES</b>				
	-	(10,750)	(30,487)	(19,737)
<b>OTHER FINANCING SOURCES</b>				
Transfers In	<u>-</u>	<u>10,750</u>	<u>30,487</u>	<u>19,737</u>
<b>NET CHANGE IN FUND BALANCE</b>				
	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u>-</u>	<u><u>\$ -</u></u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>-</u>	
End of Year			<u><u>\$ -</u></u>	

See accompanying Notes to Basic Financial Statements.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2019**

	<u>Scholarship Private-Purpose Trust</u>
<b>ASSETS</b>	
Cash and Investments	\$ (900)
<b>LIABILITIES</b>	
Accounts and Contracts Payable	<u>-</u>
<b>NET POSITION</b>	
Held In Trust	<u><u>\$ (900)</u></u>

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2019**

	<u>Scholarship Private-Purpose Trust</u>
<b>ADDITIONS</b>	
Gifts and Contributions	\$ 7,000
<b>DEDUCTIONS</b>	
Scholarships Awarded	<u>6,318</u>
<b>CHANGE IN NET POSITION</b>	682
Net Position - Beginning of Year	<u>(1,582)</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ (900)</u></u>

See accompanying Notes to Basic Financial Statements.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of Charter School No. 41604160, also known as Spectrum High School (the School), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

**B. Financial Reporting Entity**

Spectrum High School is a nonprofit corporation that was formed, and began operating, on October 20, 2005 in accordance with Minnesota statutes. The School is authorized by Volunteers of America - Minnesota and operates under an authorizer agreement extending through June 30, 2024. The governing body consists of a board of directors composed of a Chairperson and such other officers as the board of directors shall determine from time to time.

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

Component units are legally separate entities for which the School is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there is one organization that is considered to be a component unit of the School. Spectrum Building Company (the Building Company) is a Minnesota nonprofit corporation holding IRS classification as a 501(c)(3) tax-exempt organization. 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 own an educational site which is leased to the School. No separate financial statements of the Building Company are issued.

Aside from its sponsorship, Volunteers of America - Minnesota has no authority, control, power, or administrative responsibilities over Spectrum High School. Therefore, the School is not considered a component unit of Volunteers of America - Minnesota.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

**B. Financial Reporting Entity (Continued)**

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

**C. Basic Financial Statement Presentation**

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

The School applies restricted resources first when an expense is incurred for 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 is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

**D. Measurement Focus and Basis of Accounting**

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

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

**1. Revenue Recognition**

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and 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. Food service sales and other miscellaneous revenue are recorded as revenues when received because they are generally not measurable until then. 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 is 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.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

D. Measurement Focus and Basis of Accounting (Continued)

Descriptions of the funds included in this report are as follows:

*Major Governmental Funds*

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations 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 accounts for all activities of the Spectrum Building Company; that is the proceeds and uses of resources received to own an educational site for the School. Primary sources of revenue in the Building Company are from rent received and investment earnings.

*Fiduciary Funds*

Trust Fund

The School maintains a private-Purpose Trust Fund which is used to account for money held by the School in the capacity of trustee or custodian where both the principal and interest can be spent for scholarships.

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 GAAP 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.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**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 GAAP. Each January, 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 Spectrum Building Company was not adopted for fiscal year 2019. 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 Executive Director submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

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

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

	Original Budget	Amendments	Amended Budget
<u>Revenues</u>			
General Fund	\$ 8,767,618	\$ 247,381	\$ 9,014,999
Special Revenue Fund:			
Food Service Fund	222,600	(7,600)	215,000
 <u>Expenditures</u>			
General Fund	\$ 8,684,686	\$ 387,261	\$ 9,071,947
Special Revenue Fund:			
Food Service Fund	222,600	3,150	225,750

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

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**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.

I. Accounts Receivable

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

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. The expenditures are allocated over the appropriate period of service.

K. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of net 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.

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 \$5,000 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.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

L. Capital Assets (Continued)

Capital assets are recorded in the government-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 20 years for equipment and 20 to 40 years for buildings and building improvements. Capital assets not being depreciated include land and construction in progress.

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 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.

O. Unpaid Sick and Personal Leave

Unpaid sick and personal leave has not been accrued in any funds as these benefits do not vest to employees.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

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

**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, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The Board of Education chose to delegate to the school director and chief operating officer the authority to assign fund balances for specific purposes. Unassigned fund balances are considered the remaining amounts.

Although the School Board has not adopted a spending prioritization policy for restricted fund balance, the School applies restricted resources first when an expenditure is incurred for purpose for which both restricted and unrestricted fund balance is available. The default spending priority per GASB Statement No. 54 for unrestricted fund balance is when an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, committed amounts would be reduced first, followed by assigned amounts and then 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; workers' compensation and natural disasters. The School purchases commercial insurance coverage for such risks.

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

**R. Net Position**

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

**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, 2018, from which the summarized information was derived.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 2 STEWARDSHIP AND ACCOUNTABILITY**

A. Interfund Receivables and Payables

	Due from Other Fund	Due to Other Fund
General Fund	\$ 240,600	\$ -
Special Revenue Fund:		
Building Company	-	240,600
Total	\$ 240,600	\$ 240,600

The General Fund had interfund activity with the Building Company related to the bond issuance and other transactions which resulted in amounts being owed between the two funds at year-end. Such amounts are expected to be repaid during the next fiscal year.

**NOTE 3 DEPOSITS AND INVESTMENTS**

A. Deposits

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

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

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110.0% 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, 2019 were \$1,032,598. The Spectrum Building Company carrying and bank balance of deposits at June 30, 2019 was \$83,308. In accordance with Minnesota Statutes, all balances were entirely covered by federal depository insurance or by surety bonds and collateral.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

B. 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

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

B. Investments (Continued)

At June 30, 2019, the Building Company's investment balances were as follows:

**Investments Held by Trustee**

Type	Total	Maturity			No Maturity	Rating
		Duration Less Than 1	in Years 1 to 5			
Federated Government Obligations						
Fund # 703	\$ 1,763,610	\$ 1,763,610	\$ -	\$ -	\$ -	Aaa-mf
US Treasury Notes	750,736	750,736	-	-	-	AAA
Total	<u>\$ 2,514,346</u>	<u>\$ 2,514,346</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

The investments noted as Federated Government Obligations Fund #703 are investments that are held by an escrow agent in accordance with escrow agreements established with the sale of the Lease Revenue Bonds Series 2017. The investments noted as US Treasury Notes are managed with Charles Schwab Corporation.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School and the Building Company do not have formal investment policies.

Concentration of Credit Risk – The School and the Building Company place no limits on the amount that the School and Building Company 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	\$ 1,783,334
Cash and Investments Held by Trustee - Statement of Net Position	<u>2,514,346</u>
Total Cash and Investments	<u>\$ 4,296,780</u>

C. 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.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

C. Fair Value Measurements (Continued)

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.

The School did not hold any investments measured at fair value as of June 30, 2019. The money market fund investments held by the Building Company's escrow agent are valued at cost. The US Treasury Notes investments held by the entity are valued as amortized cost due to being purchased while the investments are within 1 year or less of maturity.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 4 CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets, Not Being Depreciated:				
<b>Building Company</b>				
Land	\$ 1,090,967	\$ -	\$ -	\$ 1,090,967
Construction in Progress	2,821,174	-	(2,821,174)	-
Total Capital Assets, Not Being Depreciated	3,912,141	-	(2,821,174)	1,090,967
Capital Assets, Being Depreciated:				
<b>Building Company</b>				
Buildings and Improvements	13,456,100	4,421,495	-	17,877,595
Furniture and Equipment	1,056,325	-	(76,465)	979,860
<b>Charter School</b>				
Building and Improvements	322,995	14,705	-	337,700
Furniture and Equipment	874,521	281,112	(75,872)	1,079,761
Total Capital Assets, Being Depreciated	15,709,941	4,717,312	(152,337)	20,274,916
Accumulated Depreciation for:				
<b>Building Company</b>				
Buildings and Improvements	(1,872,136)	(413,285)	65,271	(2,220,150)
Furniture and Equipment	(468,884)	(10,733)	3,777	(475,840)
<b>Charter School</b>				
Building and Improvements	(154,890)	(38,419)	-	(193,309)
Furniture and Equipment	(331,223)	(123,847)	63,659	(391,411)
Total Accumulated Depreciation	(2,827,133)	(586,284)	132,707	(3,280,710)
Total Capital Assets, Being Depreciated, Net	12,882,808	4,131,028	(19,630)	16,994,206
Governmental Activities Capital Assets, Net	<u>\$ 16,794,949</u>	<u>\$ 4,131,028</u>	<u>\$ (2,840,804)</u>	<u>\$ 18,085,173</u>

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

<b>Governmental Activities</b>	
Administration	\$ 1,055
District Support Services	555
Regular Instruction	522,650
Pupil Support Services	10,075
Sites and Buildings	51,949
Total Depreciation Expense, Governmental Activities	<u>\$ 586,284</u>

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 5 DEBT**

A. Long-Term Debt

Bonds Payable

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
11/20/2017	2.375%	\$ 23,200,000	7/1/2052	\$ 340,000	\$ 22,910,000
Premium on Bonds Payable				-	19,092
Total				<u>\$ 340,000</u>	<u>\$ 22,929,092</u>

Charter School Lease Revenue Bonds Series 2017 – In November of 2017, the School issued Charter School Lease Revenue Bonds, Series 2017A and 2017B in the amount of \$23,200,000. The Bonds were issued to finance construction on their building and to advance refund the Charter School Lease Revenue Bonds, series 2012A, 2014A and 2014B. An escrow account was established with the proceeds of the 2017 bonds, which will pay the principal and interest payments due on the 2017 bonds through July 1, 2052, the call date. The refunding portion of the 2017 Charter School Lease Revenue Bonds advance refunded and defeased \$14,600,000 of the 2011A, 2014A, and 2014B Charter School Lease Revenue Bonds which resulted in an increase future interest payments of \$220,835 and a net present value loss of \$72,976.

The resulting payable in semi-annual installments of principal and interest beginning July 1, 2018 through July 1, 2052. The note is based on annual interest rates that will increase from 3.5% to 4.375% (the rates of the related lease revenue bonds) and is secured by a mortgage agreement covering the related land, school building, and building contents as well as the assignment of all lease revenue.

Changes in long-term debt are as follows:

	June 30, 2018	Additions	Retirements	June 30, 2019	Principal Due Within One Year
Lease Revenue Bonds Payable	\$ 23,200,000	-	\$ 290,000	\$ 22,910,000	\$ 340,000
Premium on Bonds Payable	19,681	-	589	19,092	-
Total	<u>\$ 23,219,681</u>	<u>\$ -</u>	<u>\$ 290,589</u>	<u>\$ 22,929,092</u>	<u>\$ 340,000</u>

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 5 DEBT (CONTINUED)**

Following are maturities of long-term debt for the School and the Building Company for each of the next five years and thereafter ended June 30:

<u>Year Ending June 30,</u>	<u>Revenue Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 340,000	\$ 941,569
2021	350,000	931,056
2022	380,000	918,806
2023	395,000	905,506
2024	410,000	891,681
2025-2029	2,260,000	4,231,880
2030-2034	2,735,000	3,757,080
2035-2039	3,330,000	3,162,555
2040-2044	4,090,000	2,403,668
2045+	8,620,000	1,773,506
Total	<u>\$ 22,910,000</u>	<u>\$ 19,917,307</u>

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS**

Substantially all employees of Spectrum High 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:

A. Plan Description

The School participates in the following defined multiple employer, cost-sharing, 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))**

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 the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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

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

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

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**B. Benefits Provided**

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

**1. General Employees Plan Benefits**

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

B. Benefits Provided (Continued)

**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

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.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

B. Benefits Provided (Continued)

**2. TRA Benefits (Continued)**

*Tier II Benefits (Continued)*

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

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

C. Contributions

Minnesota Statutes Chapters 353 and 354 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

**1. General Employees Fund Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2019 and the School was required to contribute 7.50% for Coordinated Plan members. The School's contributions to the General Employees Fund for the year ended June 30, 2019 were \$86,478. The School's contributions were equal to the required contributions as set by state statute.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

C. Contributions (Continued)

**2. TRA Contributions**

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

	Employee	Employer
Basic	11.00 %	11.71 %
Coordinate	7.50	7.71

The School's contributions to TRA for the plan's fiscal year ended June 30, 2019 were \$233,405. 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, 2019, the School reported a liability of \$809,948 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 \$16 million to the fund in 2018. The state of Minnesota is considered a non-employer 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 \$26,429, for a total net pension liability of \$836,377 associated with the School. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportionate share of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers

At June 30, 2018, the School's proportionate share was 0.0146% which was a decrease of 0.0016% from its proportionate share measured as of June 30, 2017.

For the year ended June 30, 2019, the School recognized pension expense of \$42,219 for its proportionate share of the General Employees Fund's pension expense. In addition, the School recognized an additional \$6,163 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

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

At June 30, 2019, the School reported its proportionate share of 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	\$ 21,438	\$ 23,623
Changes in Actuarial Assumptions	77,371	91,006
Net Difference Between Projected and Actual		
Earnings on Plan Investments	-	82,764
Changes in Proportion and Differences Between		
District Contributions and Proportionate		
Share of Contributions	34,356	77,285
District Contributions Subsequent to the		
Measurement Date	86,478	-
Total	<u>\$ 219,643</u>	<u>\$ 274,678</u>

Of the resources related to pensions resulting from School contributions to the General Employees Fund subsequent to the measurement date, \$86,478 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to General Employees Fund pensions will be recognized in pension expense as follows:

<u>Year Ending June 30.</u>	<u>Pension Expense Amount</u>
2020	\$ 22,723
2021	(55,850)
2022	(91,482)
2023	(16,904)

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

**2. TRA Pension Costs**

At June 30, 2019, the School reported a liability of \$3,040,871 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the state of Minnesota, city of Minneapolis, and Minneapolis School District. The School's proportionate share was .0484% at the end of the measurement period and .0481% 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	\$ 3,040,871
State's Proportionate Share of the Net Pension Liability Associated with the School	285,359

For the year ended June 30, 2019, the School recognized negative pension expense of \$893,102. It also recognized \$199,399 as a decrease to pension expense and negative grant revenue for the support provided by direct aid.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

D. Pension Costs (Continued)

**2. TRA Pension Costs (Continued)**

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 32,434	\$ 61,326
Changes in Actuarial Assumptions	3,926,328	5,185,063
Net Difference Between Projected and Actual Earnings on Plan Investments	-	235,816
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	384,446	-
District Contributions Subsequent to the Measurement Date	233,405	-
Total	<u>\$ 4,576,613</u>	<u>\$ 5,482,205</u>

Of the resources related to pensions resulting from School contributions to TRA subsequent to the measurement date, \$233,405 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30.	Pension Expense Amount
2020	\$ 466,563
2021	261,833
2022	68,980
2023	(1,120,886)
2024	(815,487)

The School recognized total negative pension expense of \$1,044,119 for all of the pension plans in which it participates. This includes pension expense recognized as a result of PERA and TRA direct aid.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

E. Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.50% per Year	2.50%
Salary Growth	11.25 after 1 Year of Service Decreasing to 3.25% per Year After 26 Years	2.85% for 10 Years and 3.25% Thereafter
Investment Rate of Return	7.50%	7.50%

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

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

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

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

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

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

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

E. Actuarial Assumptions (Continued)

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

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 4 years, (7.92% in 2019, 8.13% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate was changed from 5.12% to 7.5%.

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

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

E. Actuarial Assumptions (Continued)

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 Stocks	36 %	5.10 %
International Stocks	17	5.30
Bonds (Fixed Income)	20	0.75
Alternative Assets (Private Markets)	25	5.90
Cash	2	-
Total	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the PERA General Employees Plan liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

G. Pension Liability Sensitivity

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

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.50%	7.50%	8.50%
School's Proportionate Share of the GERF Net Pension Liability	\$ 1,316,269	\$ 809,948	\$ 391,994
<u>TRA Discount Rate</u>	6.50%	7.50%	8.50%
School's Proportionate Share of the TRA Net Pension Liability	\$ 4,824,425	\$ 3,040,871	\$ 1,567,812

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](http://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](http://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 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.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2019**

**NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**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, state building lease aid payments, state distributions of Federal Title I 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 lease revenue bonds issued by the Building Company. Proceeds from the bonds provided financing for the acquiring, construction, and equipping of the education facility located at 17796 Industrial Circle NW, Elk River, Minnesota. The bonds are payable solely from lease revenues paid by the School to the Building Company revenues and are payable through 2052.

**C. Lease Commitments and Terms**

The School leases its main educational site at 17796 Industrial Circle NW, Elk River, Minnesota from the Spectrum Building Company (a blended component unit). Under the terms of the revised lease agreement, the lease term is for the period beginning December 5, 2017 and ending June 5, 2052. The School has 10 options to extend the lease term for five years each option.

The net annual base rent for the term of the lease agreement is directly tied to the debt service requirements of the Spectrum Building Company, 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 total cost of all educational-related space for fiscal 2018-2019 which qualified for state lease aid was \$1,273,169. The School qualified for state charter school lease aid based on a statutory cap of \$1,314 per pupil unit served, or \$1,107,965. 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. Future amounts to be requested for state lease aid from the Minnesota Department of Education may vary due to financing arrangements, which are subject to change.

**SPECTRUM HIGH SCHOOL  
 CHARTER SCHOOL NO. 4160  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2019**

**NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

C. Lease Commitments and Terms (Continued)

Below is the schedule of future base rents payable in accordance with the lease agreements summarized above:

<u>Year Ending June 30,</u>	<u>Scheduled Lease Payments</u>
2020	\$ 1,311,569
2021	1,361,056
2022	1,378,806
2023	1,380,506
2024	1,381,681
2025-2029	6,891,880
2030-2034	6,892,080
2035-2039	6,892,555
2040-2044	6,893,668
2045-2049	6,895,881
2050 and On	4,137,625
Total	<u>\$ 45,417,307</u>

The School's ability to make payments under such 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**SPECTRUM HIGH SCHOOL  
 CHARTER SCHOOL NO. 4160  
 TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE  
 OF THE NET PENSION LIABILITY  
 LAST FIVE MEASUREMENT PERIODS \***

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

	Measurement Date June 30,				
	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.0484%	0.0481%	0.0456%	0.0416%	0.0375%
School's Proportionate Share of the Net Pension Liability	\$ 3,040,871	\$ 9,601,633	\$ 10,876,688	\$ 2,573,371	\$ 1,727,973
State's Proportionate Share of the Net Pension Liability Associated with School	285,359	927,285	1,092,235	315,631	121,445
Total	<u>\$ 3,326,230</u>	<u>\$ 10,528,918</u>	<u>\$ 11,968,923</u>	<u>\$ 2,889,002</u>	<u>\$ 1,849,418</u>
School's Covered Payroll	\$ 2,943,160	\$ 2,575,373	\$ 2,410,880	\$ 2,097,307	\$ 1,760,032
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	103.32%	372.82%	451.15%	122.70%	98.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.07%	51.57%	44.88%	76.80%	81.50%

\*The School implemented GASB Statement No. 68 in fiscal 2015, and the above table will be expanded to 10 years as information is available.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
TRA SCHEDULE OF SCHOOL CONTRIBUTIONS  
LAST FIVE FISCAL YEARS \***

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

	Fiscal Year Ended June 30,				
	2019	2018	2017	2016	2015
Statutorily Required Contribution	\$ 250,552	\$ 220,737	\$ 193,153	\$ 180,816	\$ 157,298
Contributions in Relation to the Statutorily Required Contribution	(250,552)	(220,737)	(193,153)	(180,816)	(157,298)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 3,340,693	\$ 2,943,160	\$ 2,575,373	\$ 2,410,880	\$ 2,097,307
Contributions as a Percentage of Covered Payroll	7.71%	7.50%	7.50%	7.50%	7.50%

\*The School implemented GASB Statement No. 68 in fiscal 2015, and the above table will be expanded to 10 years as information is available.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
LAST FIVE MEASUREMENT PERIODS \***

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

	Measurement Date June 30,				
	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.0146%	0.0162%	0.0153%	0.0148%	0.0144%
School's Proportionate Share of the Net Pension Liability	\$ 809,948	\$ 1,034,197	\$ 1,242,284	\$ 767,013	\$ 676,440
State's Proportionate Share of the Net Pension Liability Associated with School	26,429	13,043	16,225	-	-
Total	<u>\$ 836,377</u>	<u>\$ 1,047,240</u>	<u>\$ 1,258,509</u>	<u>\$ 767,013</u>	<u>\$ 676,440</u>
School's Covered Payroll	980,747	1,044,440	942,413	879,580	877,823
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	82.58%	99.02%	131.82%	0.00%	0.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.53%	75.90%	68.90%	78.20%	78.70%

\*The School implemented GASB Statement No. 68 in fiscal 2015, and the above table will be expanded to 10 years as information is available.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
GERF SCHEDULE OF SCHOOL CONTRIBUTIONS  
LAST FIVE FISCAL YEARS \***

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

	Fiscal Year Ended June 30,				
	2019	2018	2017	2016	2015
Statutorily Required Contribution	\$ 86,560	\$ 73,556	\$ 78,333	\$ 70,681	\$ 64,869
Contributions in Relation to the Statutorily Required Contribution	(86,560)	(73,556)	(78,333)	(70,681)	(64,869)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 1,154,133	\$ 980,747	\$ 1,044,440	\$ 942,413	\$ 879,580
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.38%

\*The School implemented GASB Statement No. 68 in fiscal 2015, and the above table will be expanded to 10 years as information is available.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS**

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

A. General Employees Fund

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested 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 non-vested deferred member liability.
- The assumed post-retirement 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.

2016

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**CHANGES IN SIGNIFICANT PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS**

The following changes were reflected in the valuation performed on behalf of the Teachers Retirement Association for the year ended June 30:

A. Coordinated Plan  
2018

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 4 years, (7.92% in 2019, 8.13% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate was changed from 5.12% to 7.5%

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.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate was changed from 4.66% to 5.12%

2016

- There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date.
- Post-retirement benefit adjustments are now assumed to stay level at 2.0% annually.
- The single discount rate was changed from 8.0% to 4.66%.

## **SUPPLEMENTARY INFORMATION**

**SPECTRUM HIGH SCHOOL  
CHARTER SCHOOL NO. 4160  
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS  
COMPLIANCE TABLE  
JUNE 30, 2019**

	AUDIT	UFARS	DIFFERENCE
<b>01 GENERAL FUND</b>			
Total Revenue	\$ 8,863,471	\$ 8,863,469	\$ 2
Total Expenditures	8,960,255	8,960,251	4
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	86,667	86,667	-
<i>Restricted:</i>			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health and Safety	-	-	-
407 Capital Project Levy	-	-	-
408 Cooperative Programs	-	-	-
413 Projects Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	-	-	-
426 \$25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State-Approved Alternative Programs	-	-	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluations	-	-	-
441 Basic Skills Programs	-	-	-
445 Career and Technical Programs	-	-	-
448 Achievement and Integration	-	-	-
449 Sage Schools Crime Levy	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-
453 Unfunded Severance & Retirement Levy	-	-	-
464 Restricted Fund Balance	-	-	-
<i>Committed:</i>			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	-	-	-
<i>Assigned:</i>			
462 Assigned Fund Balance	-	-	-
<i>Unassigned:</i>			
422 Unassigned Fund Balance	2,046,953	2,046,954	(1)
<b>02 FOOD SERVICE</b>			
Total Revenue	187,943	187,943	-
Total Expenditures	218,430	218,430	-
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>			
452 OPEB Liability Not Held in Trust	-	-	-
464 Restricted Fund Balance	-	-	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-
<b>04 COMMUNITY SERVICE</b>			
Total Revenue	-	-	-
Total Expenditures	-	-	-
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>			
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	-	-	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-

## **OTHER REQUIRED REPORTS**



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

Board of Education  
Charter School No. 4160  
Spectrum High School  
Elk River, 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 Spectrum High School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Spectrum High School's basic financial statements, and have issued our report thereon dated November 11, 2019.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 11, 2019



## INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education  
Charter School No. 4160  
Spectrum High School  
Elk River, 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 Spectrum High School as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 11, 2019.

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

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

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

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
November 11, 2019