

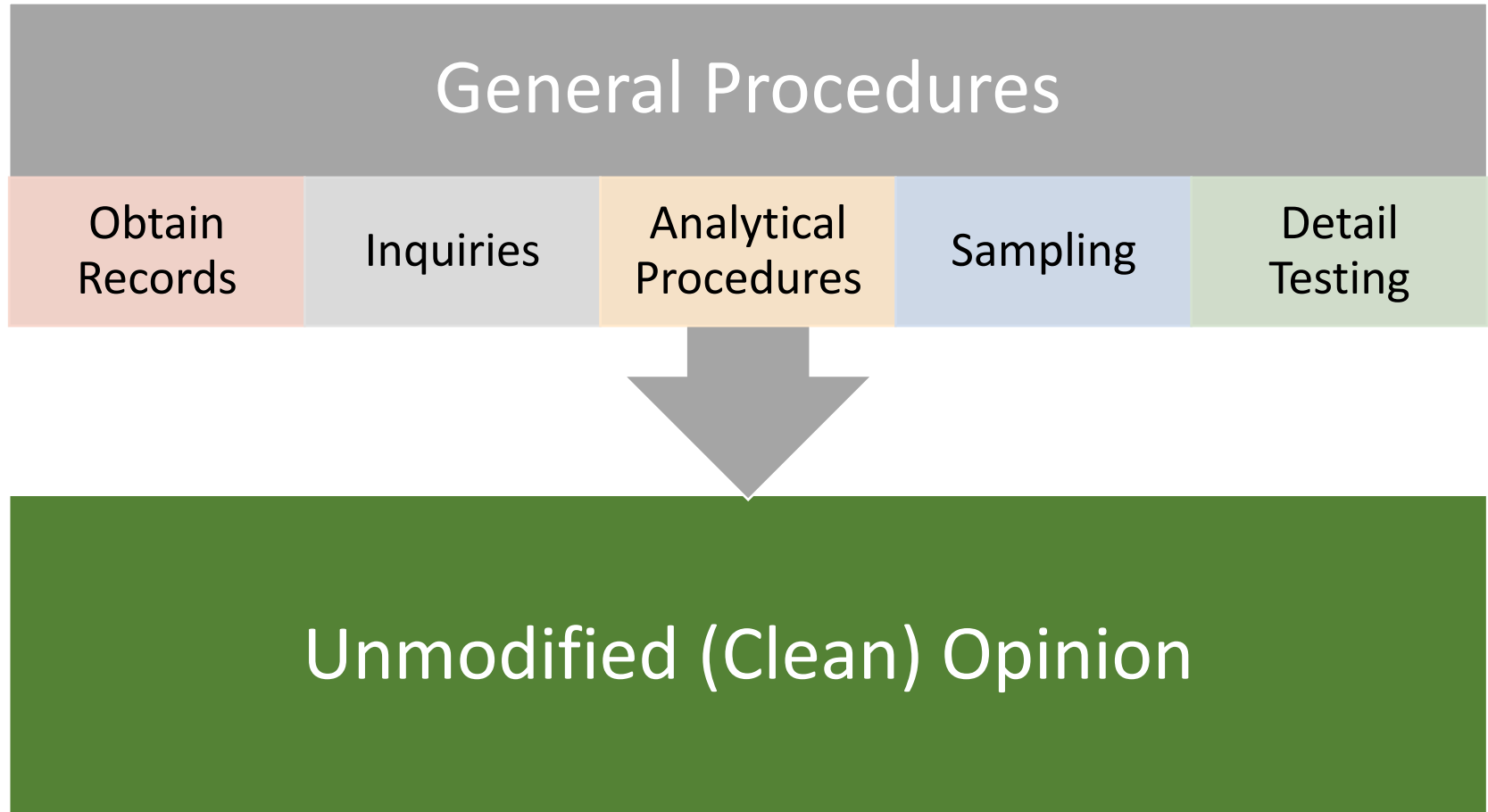


Minnesota Transitions Charter School

Presentation of the Audited Financial Statements

Fiscal Year Ended June 30, 2022

Audit Process and Opinion



Required Communications



Audit went smoothly



Positive Working Relationship with Management



Nothing unusual noted in terms of recorded transactions or accounting policies/treatments



Significant estimates for
- Amounts due from MDE
- Net Pension Liability/Balances



New Accounting Standard: GASB 87 *Leases*

Minnesota Legal Compliance

- Areas Reviewed:
 - Conflicts of Interest
 - Depositories of Public Funds
 - Claims and Disbursements
 - UFARS Compliance
 - Other Provisions
- Findings:
 - No instances of noncompliance were identified



Single Audit (Federal Program Compliance)

Major Programs Tested

- Title I, Part A
- Education Stabilization Fund
- Coronavirus State & Local Fiscal Recovery

Opinion

- Unmodified (Clean) Opinion on the Schedule of Expenditures of Federal Awards

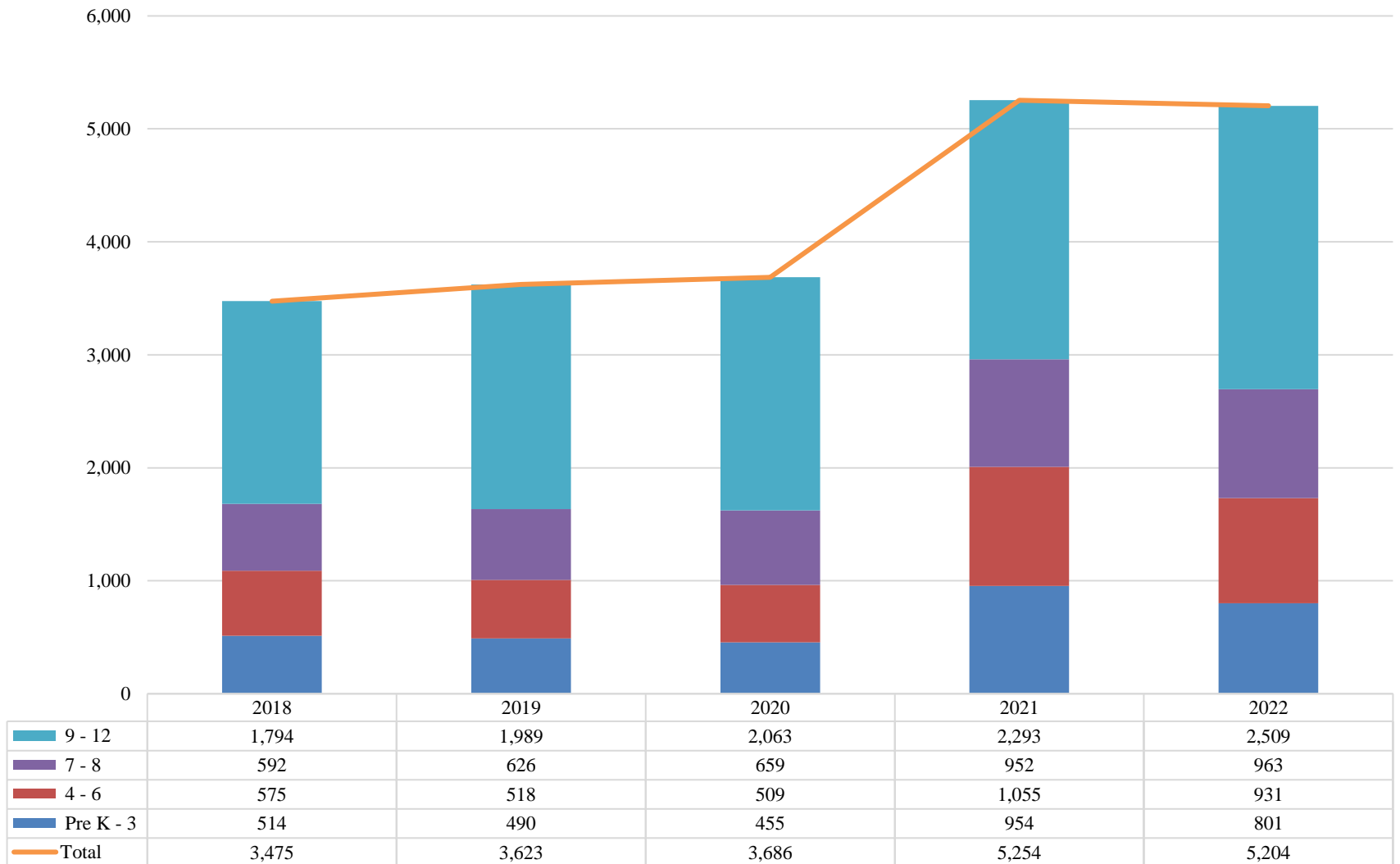
Compliance

- No Findings Identified

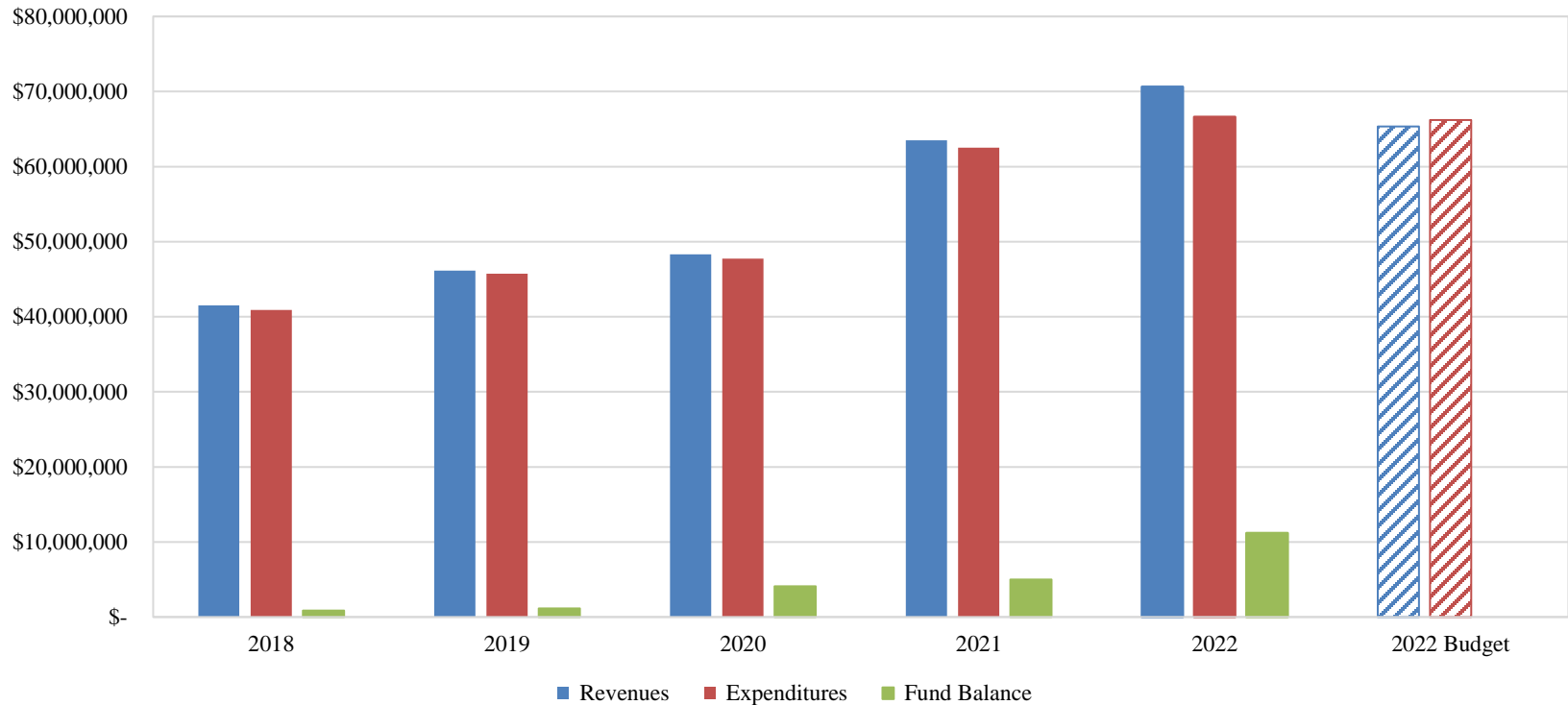
Internal Control Over Compliance

- No Findings Identified

Pupil Units (ADM) Trend Analysis



General Fund - Trend Analysis & Budgetary Comparison



❑ Revenues over budget by \$5.3M

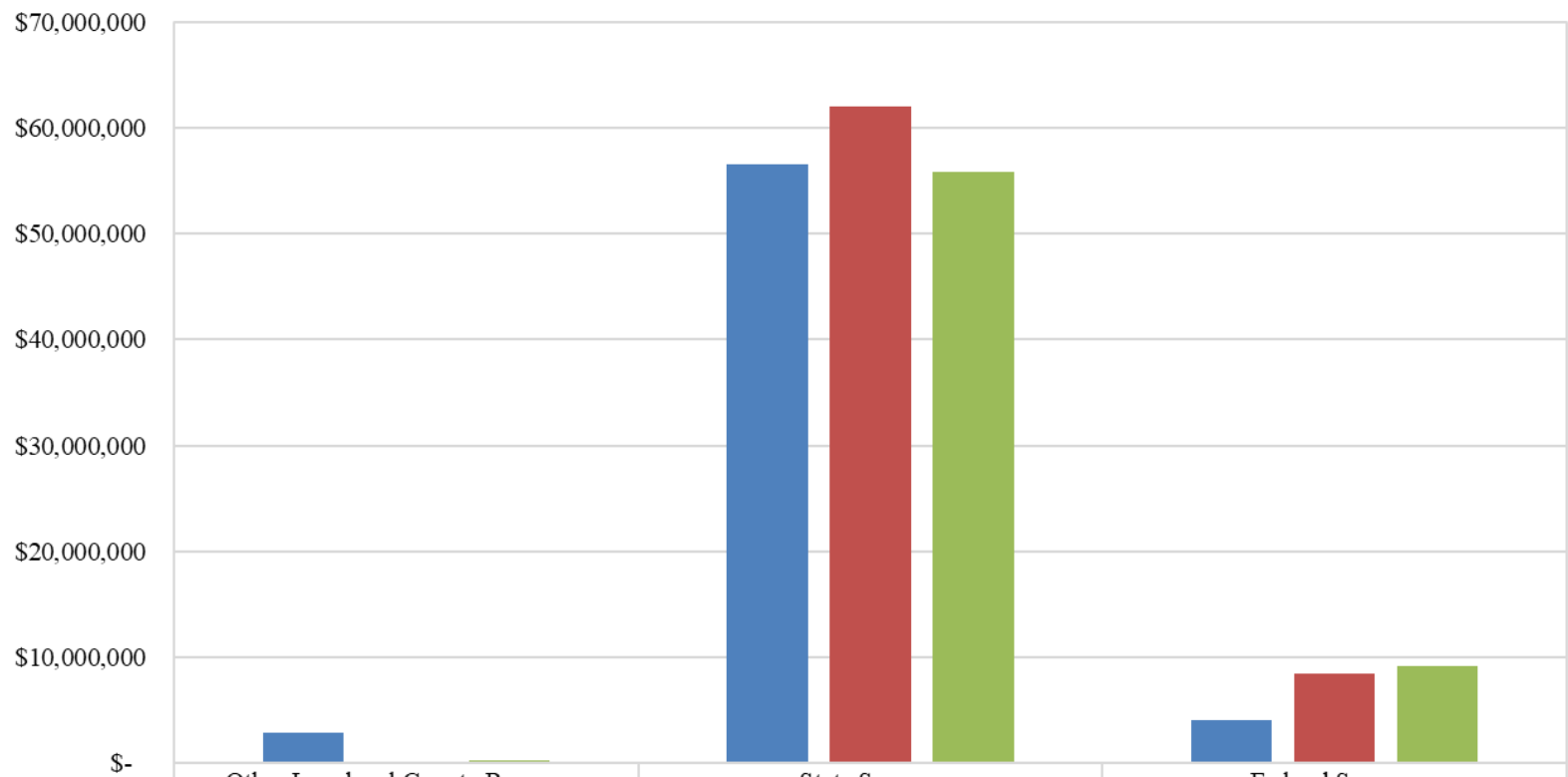
❑ Expenditures slightly over budget

❑ Fund balance has increased for 5th consecutive year

	2021	2022	2022 Budget
Revenues	\$ 63,523,053	\$ 70,635,171	\$ 65,330,606
Expenditures	62,516,180	66,616,367	66,203,689
Other Sources (Uses)	(113,069)	2,151,640	871,992
Change in Fund Balance	893,804	6,170,444	(1,091)
Fund Balance	\$ 5,011,092	\$ 11,181,536	N/A

General Fund

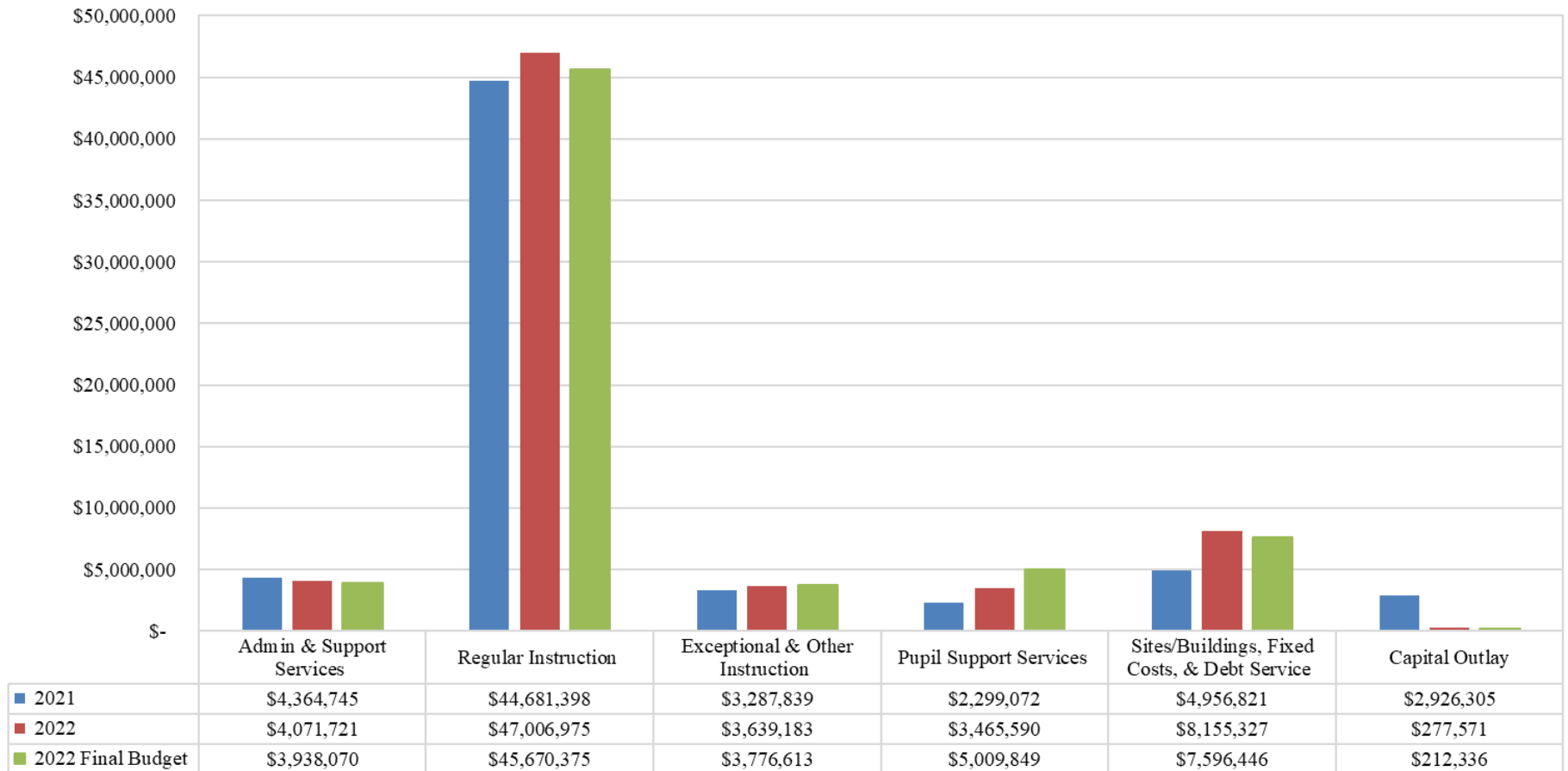
Detailed Revenues Analysis



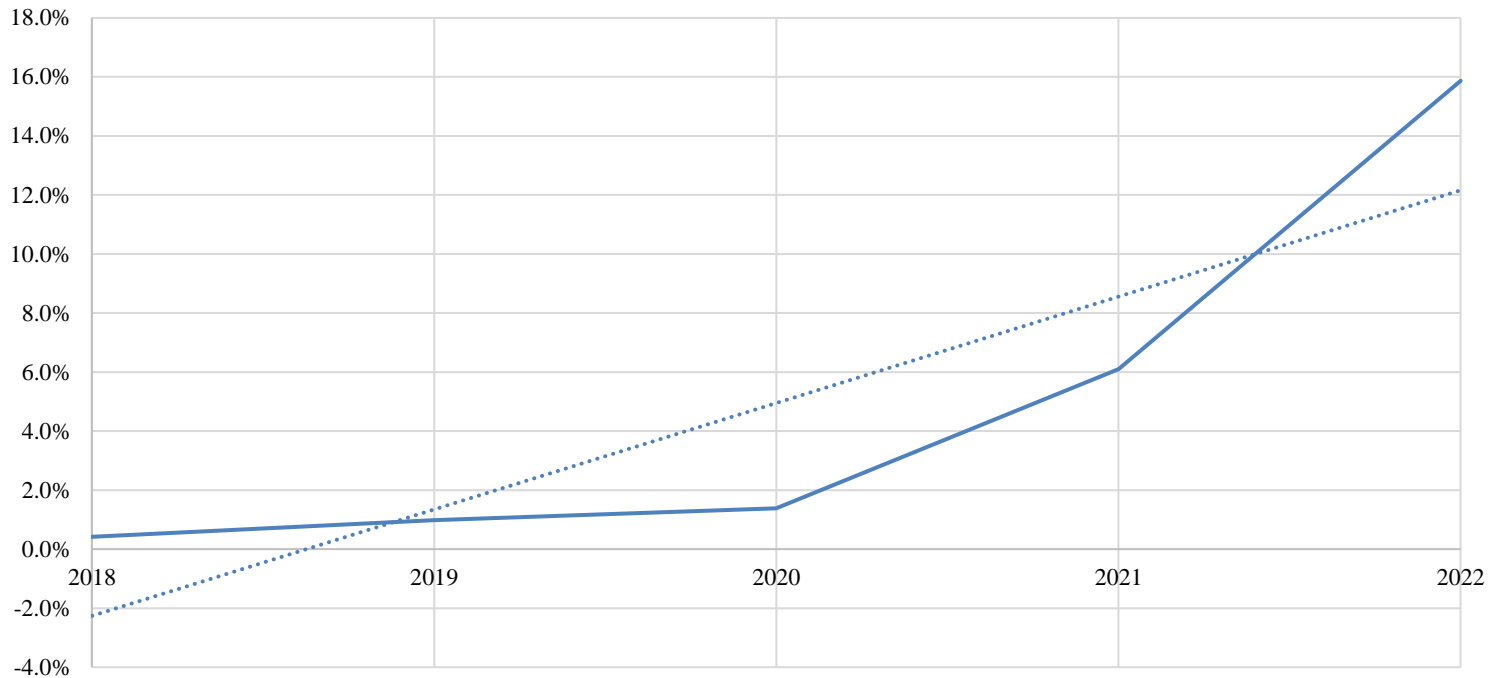
■ 2021	\$2,835,479	\$56,619,405	\$4,068,169
■ 2022	\$162,532	\$62,071,391	\$8,401,248
■ 2022 Final Budget	\$280,500	\$55,835,057	\$9,215,049

General Fund

Detailed Expenditures Analysis



Unassigned Fund Balance as a Percentage of the Annual Budget

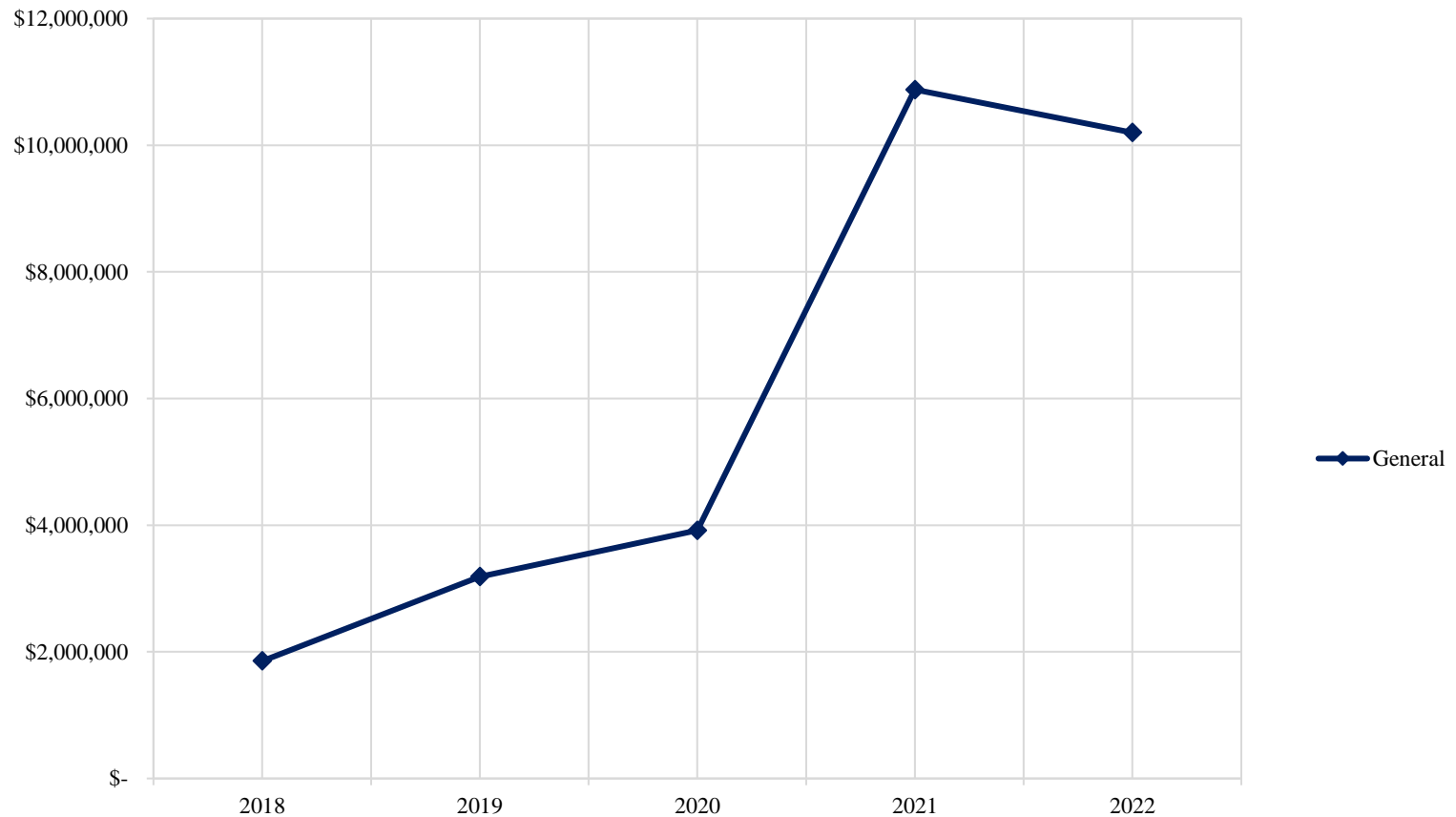


Year	Percentage
2018	0.4%
2019	1.0%
2020	1.4%
2021	6.1%
2022	15.9%

- The authorizer contract has set a goal of 20% for this ratio

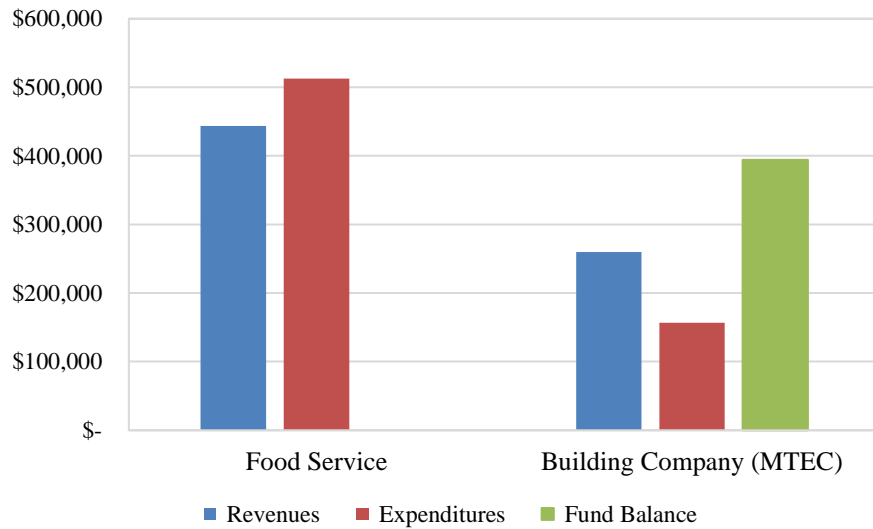
General Fund

Cash Trend Analysis



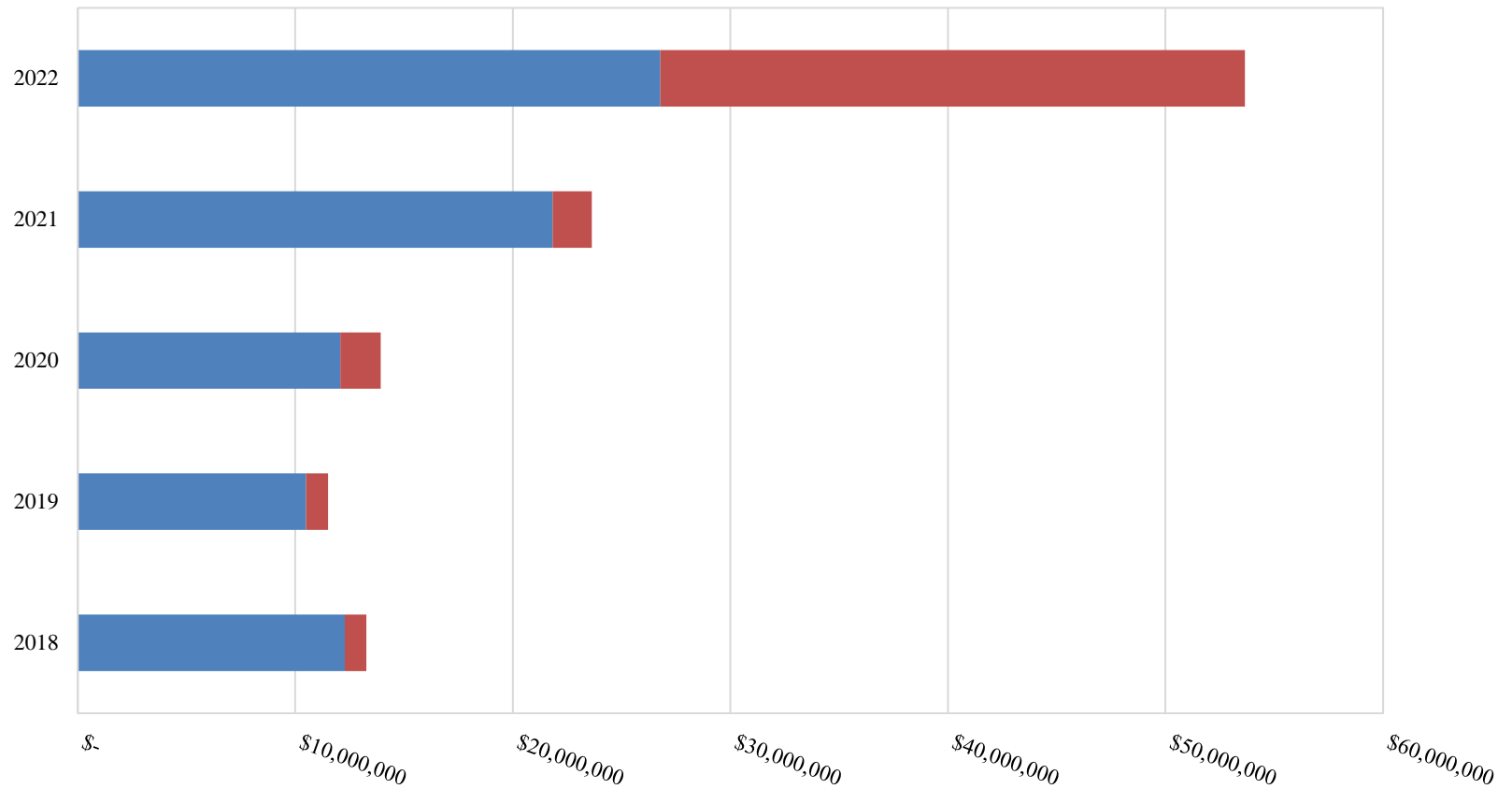
Financial Highlights

Remaining Governmental Funds



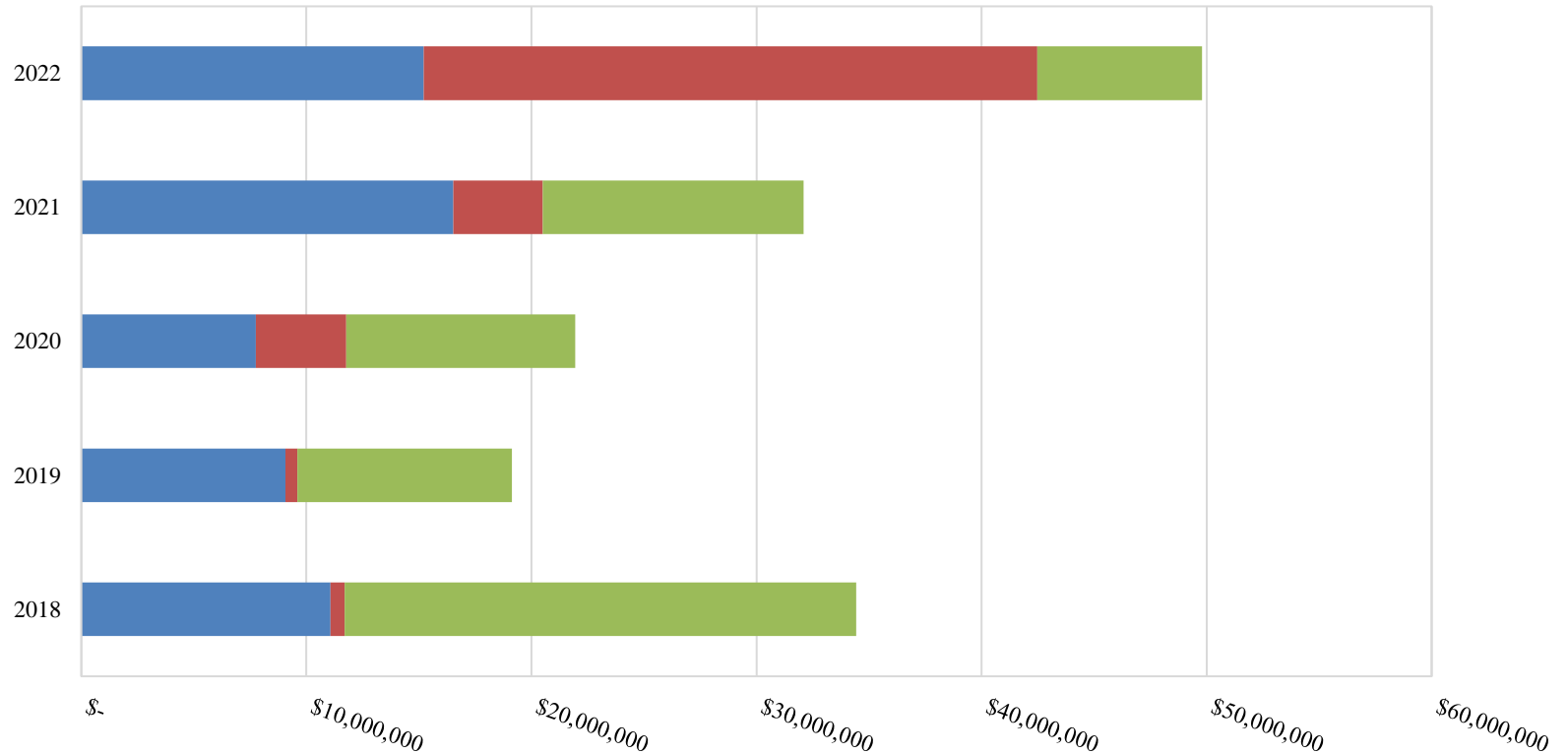
	Food Service	Building Company (MTEC)
Revenues	\$ 443,611	\$ 259,911
Expenditures	512,661	156,544
Other Financing Sources	69,050	-
Change in Fund Balance	-	103,367
Fund Balance	\$ -	\$ 394,089

School-Wide Assets



	2018	2019	2020	2021	2022
Current Assets	\$12,282,606	\$10,485,012	\$12,071,521	\$21,835,369	\$26,784,308
Capital/Noncurrent	\$982,277	\$1,019,227	\$1,860,404	\$1,800,155	\$26,863,674

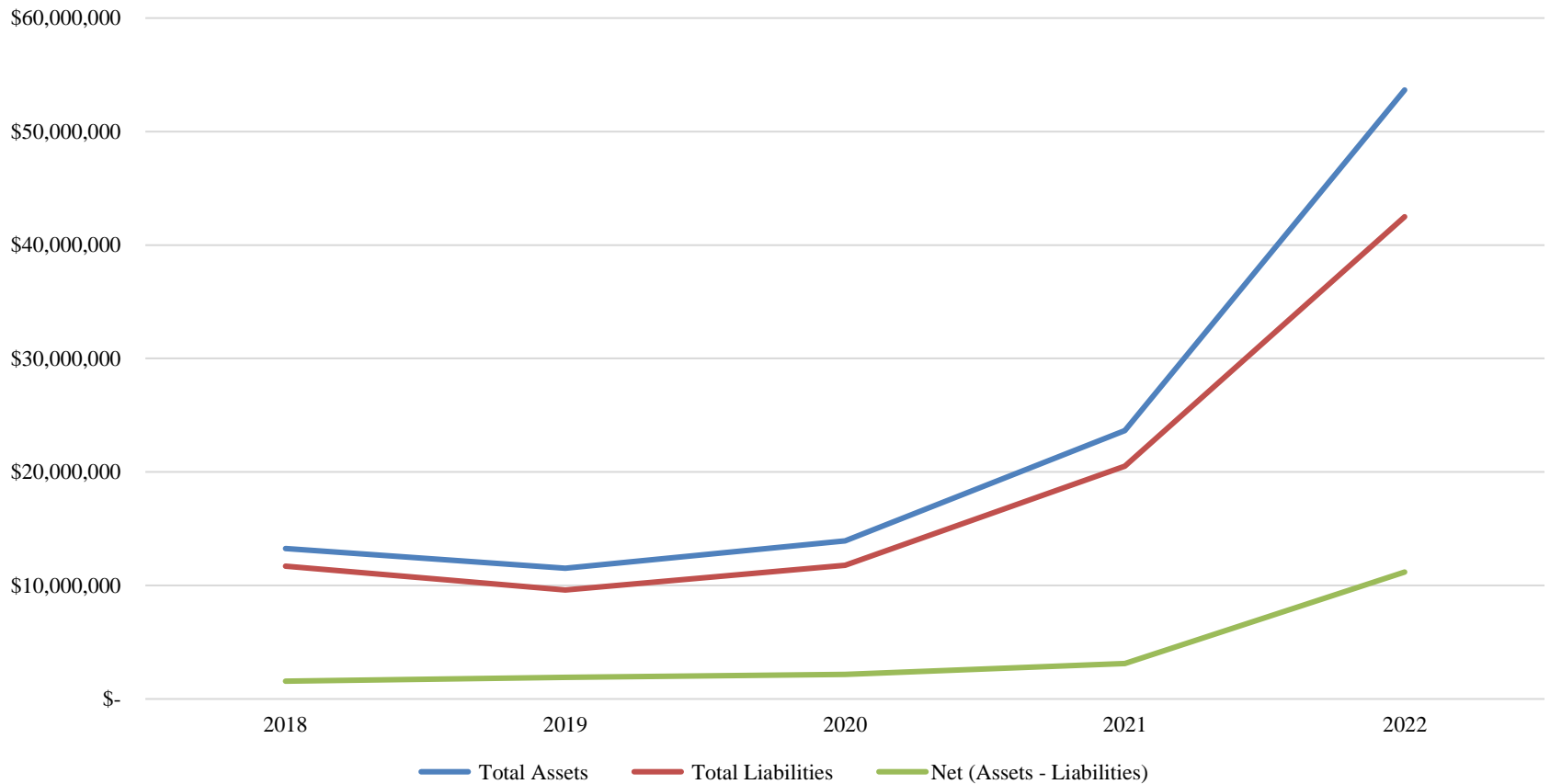
School-Wide Liabilities

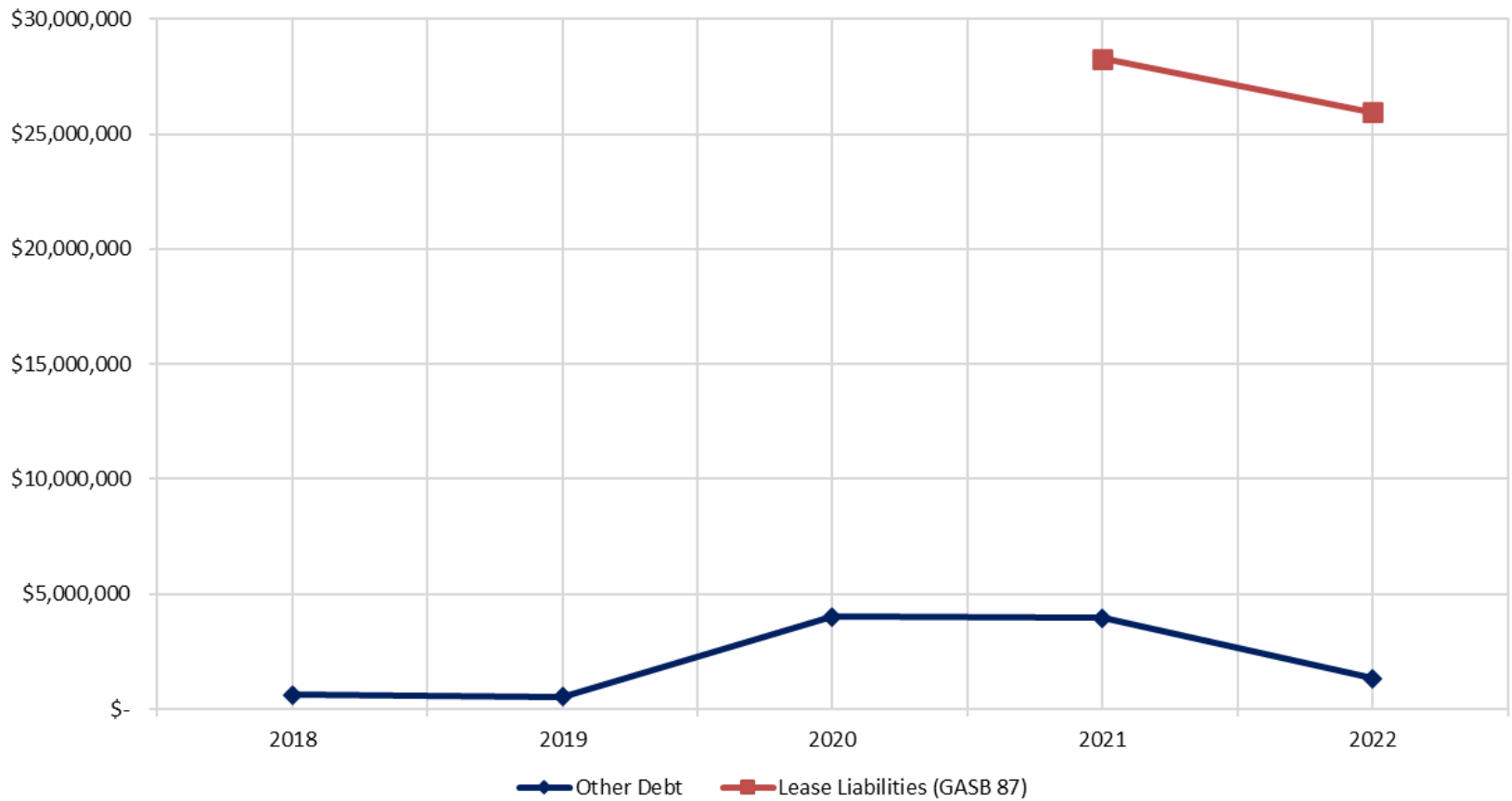


	2018	2019	2020	2021	2022
■ Current Liabilities	\$11,076,608	\$9,077,208	\$7,750,728	\$16,534,088	\$15,209,214
■ Debt/Noncurrent	\$631,650	\$525,909	\$4,026,801	\$3,973,919	\$27,270,250
■ Net Pension Liability	\$22,723,395	\$9,523,710	\$10,164,141	\$11,584,231	\$7,307,159

School-Wide Assets & Liabilities

(Excluding Pension Balances)





Long Term Debt Outstanding

- Lease liabilities under GASB 87, *Leases*
- Mortgage payable for MTEC (Banaadir)

Upcoming Accounting Standard – GASB 96

Subscription-Based Information Technology Arrangements (SBITA's)

Old Method

- Record subscription expenses over the life of the arrangement

New Method

- A “subscription liability” and corresponding “right-to-use subscription asset” will need to be calculated and recorded for any SBITA's
- Implementation will be similar to GASB 87, *Leases*

Effective Date

- Effective for the FY23 fiscal year

Questions?

Ryan J. Schmidt, CPA

Partner

rschmidt@schlennerwenner.cpa

320-251-0286

Minnesota Transitions Charter School Minneapolis, Minnesota

Audited Financial Statements

June 30, 2022

**SCHLENNER
WENNER & Co.**
CPAs

**MINNESOTA TRANSITIONS CHARTER SCHOOL
MINNEAPOLIS, MINNESOTA
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INTRODUCTORY SECTION

**MINNESOTA TRANSITIONS CHARTER SCHOOL
BOARD OF DIRECTORS AND ADMINISTRATION
FOR THE YEAR ENDED JUNE 30, 2022**

BOARD OF DIRECTORS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tyler Frankhouse	Chair	October 31, 2023
Terry Brown	Vice Chair	October 31, 2024
Martin Lukaszewski	Secretary/Treasurer	October 31, 2022
Ismail Adam	Member	October 31, 2022
Mohamed Mahad Mire	Member	October 31, 2023
Sara Roberts	Member	October 31, 2024
Alinasir Samatar	Member	October 31, 2022

ADMINISTRATION

<u>Name</u>	<u>Title</u>
Shawn Fondow	Executive Director
Scott Marine	Business Manager

**FINANCIAL
SECTION**

INDEPENDENT AUDITOR'S REPORT

Members of the School Board
Minnesota Transitions Charter School
Minneapolis, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Minnesota Transitions Charter School, Minneapolis, Minnesota, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Minnesota Transitions Charter School, Minneapolis, Minnesota, as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Minnesota Technology Education Corporation, which represent 3.5 percent, 2.7 percent, and 0.4 percent, respectively, of the assets, liabilities, and expenses of the governmental activities and all of the Building Company Fund. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Minnesota Technology Education Corporation, is based solely on the report of the other auditors.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1.F. to the financial statements, during the current fiscal year the School adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Minnesota Transitions Charter School's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule, Schedule of School's Proportionate Share of Net Pension Liability, and Schedule of School Pension Contributions listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Minnesota Transitions Charter School, Minneapolis, Minnesota's basic financial statements. The introductory section, combining nonmajor fund financial statements, the Uniform Financial Accounting and Reporting Standards Compliance Table, and Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements, Uniform Financial Accounting and Reporting Standards Compliance Table, and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, Uniform Financial Accounting and Reporting Standards Compliance Table, and Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2022 on our consideration of Minnesota Transitions Charter 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 Minnesota Transitions Charter 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 Minnesota Transitions Charter School's internal control over financial reporting and compliance.



SCHLENNER WENNER & CO.

St. Cloud, Minnesota

December 22, 2022

**REQUIRED SUPPLEMENTARY
INFORMATION**

**MINNESOTA TRANSITIONS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

As management of Minnesota Transitions Charter School (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2022.

FINANCIAL HIGHLIGHTS

- The liabilities and deferred inflows of resources of the School exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$2,069,504 (negative net position). Of this amount, negative \$2,130,570 is considered unrestricted.
- The School's total net position increased \$8,601,844 as a result of current year operations.
- At the close of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$11,575,625, an increase of \$6,273,811 in comparison with the prior year. Approximately 91 percent of this amount, \$10,503,121, is available for spending at the School's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund is \$10,503,121, or 16 percent of total General Fund expenditures.
- As discussed in Note 1.F. in the Notes to the Basic Financial Statements, the School adopted Governmental Accounting Standards Board Statement No. 87 *Leases* (GASB 87) during the current fiscal year. This standard changes previous lease accounting methodology and requires the recognition of all lease assets and liabilities on the Statement of Net Position. Due to the adoption of this standard, the School reported leased assets of \$25,167,012 (net of accumulated amortization) and a corresponding lease liability of \$25,933,556 in its governmental activities statement of net position at June 30, 2022. Because the overall impact of the change was not significant, no restatements to beginning net position or the comparative information in this Management's Discussion and Analysis were necessary.
- The School's total debt decreased by \$2,637,225 in the current fiscal year, excluding the change in the net pension and additional liabilities recorded as a result of adopting GASB 87 *Leases*.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the School's basic financial statements. The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The major features of the School's financial statements, including the portion of the School's activities they cover and the types of information they contain are summarized in the following table. The remainder of the overview section of the Management Discussion and Analysis highlights the structure and contents of each of the statements.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

	Government-Wide	Fund Financial Statements
		Governmental Funds
Scope	Entire School	The activities of the School, such as regular instruction, special education, support services, building leases, food service, and community education
Required financial statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Type of asset/deferred outflows/liability/ deferred inflows information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon there after; no capital assets or long-term liabilities included
Type of outflow/inflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the School's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the net difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

The *Statement of Activities* presents information showing how the School's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., interest accrued on outstanding debt).

**MINNESOTA TRANSITIONS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Both of the government-wide financial statements distinguish functions of the School that are principally supported by intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the School include administration, school support services, regular instruction, vocational instruction, exceptional instruction, instructional support services, pupil support services, sites and buildings, fiscal and other fixed cost programs, and interest and other fiscal charges. The School currently does not report any business-type activities.

The government-wide financial statements start on page 19 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Although governments often report multiple types of funds, all of the funds of the School are classified as governmental funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact by the School's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and change in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The School maintains one individual major governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The School adopts annual appropriated budgets for its General Fund and its Food Service Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 21 of this report.

Notes to the Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 25 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented as supplementary information. Combining fund statements start on page 58 of this report.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources, for a net balance of negative \$2,069,504 at the close of the most recent fiscal year.

A portion of the School's net position reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment), less any related debt used to acquire those assets still outstanding. The School uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although, the School's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Net Position
Table 1**

	Governmental Activities		
	2022	2021	Increase (Decrease)
Assets			
Current and Other Assets	\$ 26,784,308	\$ 21,835,369	\$ 4,948,939
Capital Assets	26,863,674	1,800,155	25,063,519
Total Assets	53,647,982	23,635,524	30,012,458
Deferred Outflows of Resources	5,717,869	6,515,325	(797,456)
Liabilities			
Current and Other Liabilities	15,209,214	16,534,088	(1,324,874)
Noncurrent Liabilities	34,577,409	15,558,150	19,019,259
Total Liabilities	49,786,623	32,092,238	17,694,385
Deferred Inflows of Resources	11,648,732	8,729,959	2,918,773
Net Position			
Net Investment in Capital Assets	(406,576)	409,772	(816,348)
Restricted	467,642	295,118	172,524
Unrestricted	(2,130,570)	(11,376,238)	9,245,668
Total Net Position	<u>\$ (2,069,504)</u>	<u>\$ (10,671,348)</u>	<u>\$ 8,601,844</u>

An additional portion of the School's net position (\$467,642) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted balance of net position is negative \$2,130,570 at year end. This unrestricted balance has been reduced by a total of \$13,238,022 as a result of recording the School's proportionate share of the net pension liability and related balances for the statewide pension plans in which School employees participate.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Net Position

The School's net position increased \$8,601,844 during the most recent fiscal year. Key elements of this increase are as follows:

**Changes in Net Position
Table 2**

	Governmental Activities		
	2022	2021	Increase (Decrease)
Revenues			
Program Revenues			
Charges for Services	\$ 69,155	\$ 2,545,872	\$ (2,476,717)
Operating Grants and Contributions	20,894,454	13,096,858	7,797,596
Capital Grants and Contributions	777,907	778,754	(847)
General Revenues			
State Aid Not Restricted to Specific Programs	49,253,283	47,153,646	2,099,637
Earnings on Investments	7,425	11,792	(4,367)
Gifts and Donations	655	125,592	(124,937)
Insurance Recovery	2,110,828	-	2,110,828
Paycheck Protection Program Loan Forgiveness	2,557,100	-	2,557,100
Miscellaneous	85,324	152,478	(67,154)
Total Revenues	75,756,131	63,864,992	11,891,139
Expenses			
Administration	1,896,140	1,875,095	21,045
District Support Services	1,513,508	1,510,948	2,560
Regular Instruction	46,718,148	45,324,108	1,394,040
Vocational Instruction	76,080	-	76,080
Exceptional Instruction	3,442,975	3,451,153	(8,178)
Instructional Support Services	748,234	1,216,323	(468,089)
Pupil Support Services	3,959,189	2,738,941	1,220,248
Sites and Buildings	6,376,710	7,322,149	(945,439)
Fiscal and Other Fixed Costs Programs	889,840	99,029	790,811
Interest and Other Fiscal Charges	1,533,463	55,971	1,477,492
Total Expenses	67,154,287	63,593,717	3,560,570
Change in Net Position	8,601,844	271,275	8,330,569
Net Position - Beginning of Year	(10,671,348)	(10,942,623)	271,275
Net Position - End of Year	<u>\$ (2,069,504)</u>	<u>\$ (10,671,348)</u>	<u>\$ 8,601,844</u>

- The current increase in net position was \$8,601,844, compared to an increase of \$271,275 in the prior year. This is a result of a 18.6 percent increase in revenues and a 5.6 percent increase in expenses during fiscal year 2022.
- Operating grants and contributions increased \$7,797,596, primarily due to additional funding received from the Federal government in response to the coronavirus pandemic.
- Expenses related to regular instruction increased \$1,394,040, primarily due to increased enrollment at Connections Academy. This increase consists largely of funding from the State being passed to Connections Academy as compensation for services rendered.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

- Due to the adoption a GASB 87, *Leases*, the majority of the School's leasing payments are now either recorded as a reduction to the lease liability, or expenses under the interest and other fiscal charges line item. This explains the increase in expenses for interest and other fiscal charges and the decrease in expenses for sites and buildings noted above.

Total and Net Cost of Governmental Activities

The net cost of governmental activities is their total costs less program revenues applicable to each category. The following table presents these total and net costs.

**Total and Net Costs of Services
Table 3**

	Total Cost of Services			Net Cost of Services		
	2022	2021	Increase (Decrease)	2022	2021	Increase (Decrease)
Administration	\$ 1,896,140	\$ 1,875,095	\$ 21,045	\$ 1,896,140	\$ 1,875,095	\$ 21,045
District Support Services	1,513,508	1,510,948	2,560	1,513,508	1,510,948	2,560
Regular Instruction	46,718,148	45,324,108	1,394,040	37,672,524	40,553,306	(2,880,782)
Vocational Instruction	76,080	-	76,080	76,080	-	76,080
Exceptional Instruction	3,442,975	3,451,153	(8,178)	(4,249,848)	(2,461,534)	(1,788,314)
Instructional Support Services	748,234	1,216,323	(468,089)	578,638	1,216,323	(637,685)
Pupil Support Services	3,959,189	2,738,941	1,220,248	3,515,578	2,475,171	1,040,407
Sites and Buildings	6,376,710	7,322,149	(945,439)	1,986,848	1,847,924	138,924
Fiscal and Other Fixed Costs Programs	889,840	99,029	790,811	889,840	99,029	790,811
Interest and Other Fiscal Charges	1,533,463	55,971	1,477,492	1,533,463	55,971	1,477,492
Totals	<u>\$ 67,154,287</u>	<u>\$ 63,593,717</u>	<u>\$ 3,560,570</u>	<u>\$ 45,412,771</u>	<u>\$ 47,172,233</u>	<u>\$ (1,759,462)</u>

Some significant items to note include the following:

- Despite the increase in total costs, the net costs of regular instruction decreased \$2,880,782 (7.1 percent) due to the federal funding discussed in the previous section.
- The net costs of exceptional instruction decreased \$1,788,314 (72.7 percent) due to the state funding received for special education aid.

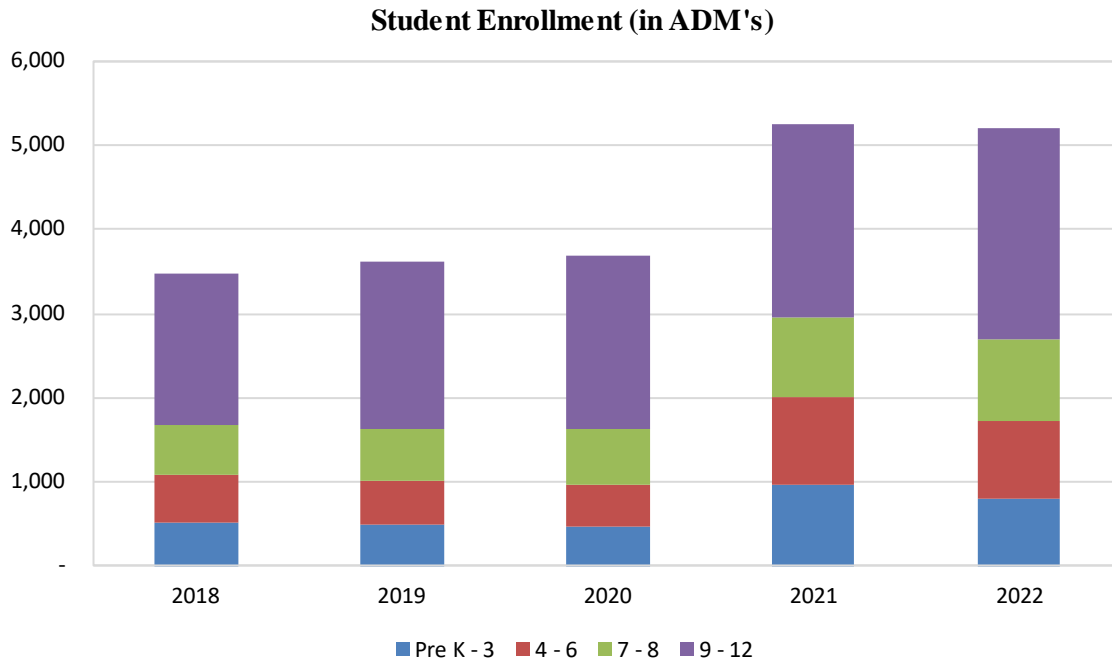
FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The majority of the financial aid received by the School is determined based on the number of students enrolled during the year. Therefore, fluctuations in enrollment have a significant impact on the financial health of the School. The following graphs show the trend in student enrollment counts over the past five years:

	Student Enrollment (Average Daily Membership)				
	2018	2019	2020	2021	2022
Pre K - 3	514	490	455	954	801
4 - 6	575	518	509	1,055	931
7 - 8	592	626	659	952	963
9 - 12	<u>1,794</u>	<u>1,989</u>	<u>2,063</u>	<u>2,293</u>	<u>2,509</u>
Total Student for Aid	<u>3,475</u>	<u>3,623</u>	<u>3,686</u>	<u>5,254</u>	<u>5,204</u>
Percentage Change	10.00%	4.26%	1.74%	42.54%	-0.95%

**MINNESOTA TRANSITIONS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS (Continued)



As noted earlier, the School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the School's *governmental funds* is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the School's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School's governmental funds reported combined ending fund balances of \$11,575,625, an increase of \$6,273,811 in comparison with the prior year. The following is a summary of the School's major funds:

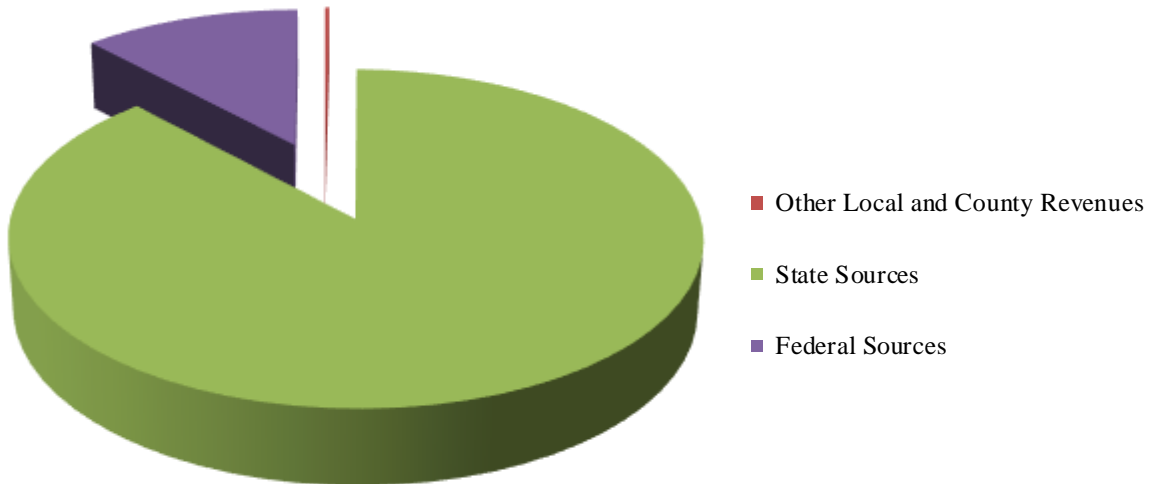
Major Funds	Fund Balance June 30,		Increase (Decrease)
	2022	2021	
General	\$ 11,181,536	\$ 5,011,092	\$ 6,170,444

The fund balance of the General Fund increased by \$6,170,444. Operations were similar to that of the prior year, with the exception of revenues increasing approximately 11.2 percent in comparison to the prior year, as a result of additional funding received from the Federal government in response to the coronavirus pandemic. Additionally, expenditures increased approximately 6.6 percent from the prior year.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

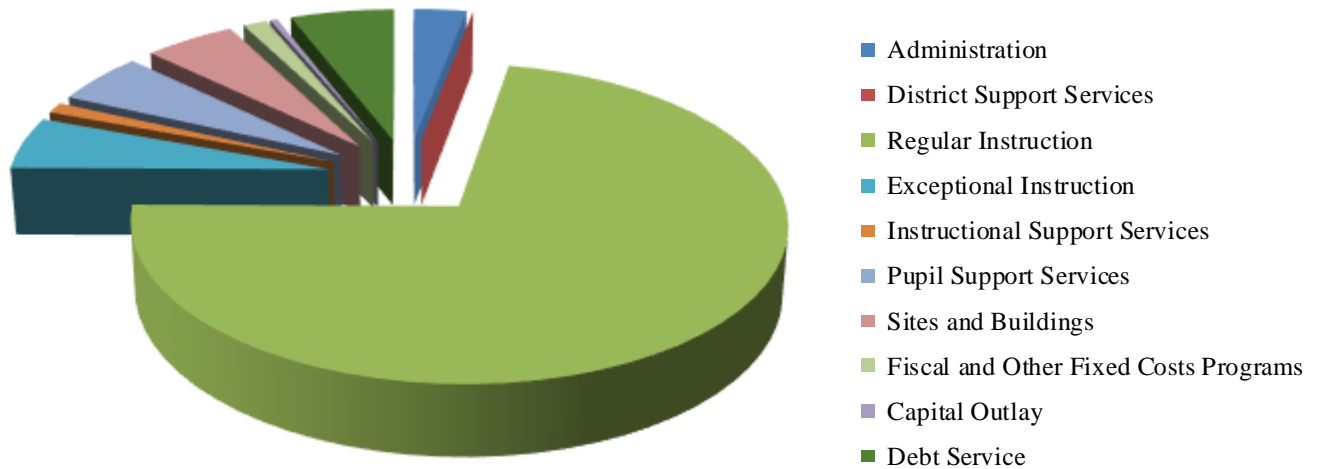
FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS (Continued)

General Fund Revenue



The School receives the vast majority of its funding in the General Fund from the State of Minnesota (88 percent), which is subject to fluctuation based on the number of pupils served by the School and changes in State legislation. In addition, the School receives approximately 12 percent of its General Fund revenues from federal sources.

General Fund Expenditures



**MINNESOTA TRANSITIONS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS (Continued)

A significant portion of the School's General Fund expenditures are used for regular and exceptional instruction (78 percent). Expenditures for various support services total 6 percent, and the remaining 16 percent consists of expenditures for administration, sites and buildings, and other items.

General Fund Budgetary Highlights

The School's General Fund budget was amended during the year. The revenues budget was increased by \$4,863,345, and the expenditures budget was changed in several functions for an overall increase of \$5,756,116 from original to final. The final budget called for expenditures of \$66,203,689 and a decrease in fund balance of \$1,091. Actual expenditures were \$412,678 more than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The School's investment in capital assets for its governmental activities as of June 30, 2022, amounts to \$26,863,674 (net of accumulated depreciation and amortization). This investment in capital assets consists of land, buildings and improvements, leasehold improvements, vehicles, equipment and furniture, and leased assets. The School's investment in capital assets increased dramatically during the current year, due to the right-of-use assets recognized upon implementing GASB 87, *Leases*.

**Capital Assets Net of Depreciation and Amortization
Table 4**

	Governmental Activities		
	2022	2021	Increase (Decrease)
Land	\$ 250,000	\$ 250,000	\$ -
Buildings and Improvements	1,222,783	1,375,064	(152,281)
Leasehold Improvements	57,184	66,014	(8,830)
Vehicles	81,434	96,762	(15,328)
Equipment and Furniture	85,261	12,315	72,946
Leased Assets	25,167,012	-	25,167,012
Total	<u>\$ 26,863,674</u>	<u>\$ 1,800,155</u>	<u>\$ 25,063,519</u>

Additional information on the School's capital assets can be found in Note 2.B. on page 32 of this report.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2022**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long-Term Debt

At the end of the current fiscal year, the School had total long-term debt outstanding of \$27,270,250, excluding the School's long-term net pension liability of \$7,307,159. A summary of long-term debt activity for the year ended June 30, 2022 follows:

**Long-Term Debt
Table 5**

	Governmental Activities		
	2022	2021	Increase (Decrease)
Mortgage Payable	\$ 1,336,694	\$ 1,390,383	\$ (53,689)
Notes Payable	-	26,436	(26,436)
Paycheck Protection Program Loan Payable	-	2,557,100	(2,557,100)
Lease Payable	25,933,556	-	25,933,556
Total	<u>\$ 27,270,250</u>	<u>\$ 3,973,919</u>	<u>\$ 23,296,331</u>

The School's total debt increased by \$23,296,331 during the current fiscal year due to lease liabilities recognized upon the adoption of GASB 87, *Leases*. Additional information on the School's long-term debt can be found in Note 2.C. on page 33 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The School's appointed and elected officials considered many factors when setting the fiscal year 2023 budget. These factors included the following:

- The School has experienced increases in enrollment in recent years.
- Budgets include normal inflationary increases in expenditures, with more significant increases expected in utility and food costs.

REQUESTS FOR INFORMATION

This financial report is designed to provide our students, taxpayers, authorizer, customers, investors, and creditors with 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, please contact Minnesota Transitions Charter School, 2872 26th Avenue South, Minneapolis, MN 55406.

BASIC FINANCIAL STATEMENTS

MINNESOTA TRANSITIONS CHARTER SCHOOL
STATEMENT OF NET POSITION
JUNE 30, 2022

	Governmental Activities
<hr/>	
ASSETS	
Cash and Temporary Investments	\$ 10,595,887
Accounts Receivable	1,922
Due from Minnesota Department of Education	12,601,864
Due from Federal through Minnesota Department of Education	2,810,708
Due from Federal Received Directly	169,596
Prepays and Deposits	604,331
Capital Assets not Being Depreciated or Amortized	250,000
Capital Assets Being Depreciated and Amortized (Net)	<u>26,613,674</u>
TOTAL ASSETS	53,647,982
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	5,717,869
LIABILITIES	
Accounts Payable	13,901,341
Salaries Payable	775,206
Accrued Interest Payable	531
Payroll Deductions and Employer Contributions	532,136
Noncurrent Liabilities:	
Amount Due Within One Year	2,399,993
Amount Due After One Year	24,870,257
Net Pension Liability	<u>7,307,159</u>
TOTAL LIABILITIES	49,786,623
DEFERRED INFLOWS OF RESOURCES	
Pensions	<u>11,648,732</u>
NET POSITION	
Net Investment in Capital Assets	(406,576)
Restricted:	
General Fund Mandated Restrictions	74,084
Building Company	393,558
Unrestricted	<u>(2,130,570)</u>
TOTAL NET POSITION	<u><u>\$ (2,069,504)</u></u>

**MINNESOTA TRANSITIONS CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	\$ 1,896,140	\$ -	\$ -	\$ -	\$ (1,896,140)
District Support Services	1,513,508	-	-	-	(1,513,508)
Regular Instruction	46,718,148	69,155	8,976,469	-	(37,672,524)
Vocational Instruction	76,080	-	-	-	(76,080)
Exceptional Instruction	3,442,975	-	7,692,823	-	4,249,848
Instructional Support Services	748,234	-	169,596	-	(578,638)
Pupil Support Services	3,959,189	-	443,611	-	(3,515,578)
Sites and Buildings	6,376,710	-	3,611,955	777,907	(1,986,848)
Fiscal and Other Fixed Costs Programs	889,840	-	-	-	(889,840)
Interest and Other Fiscal Charges	1,533,463	-	-	-	(1,533,463)
Total Governmental Activities	<u>\$ 67,154,287</u>	<u>\$ 69,155</u>	<u>\$ 20,894,454</u>	<u>\$ 777,907</u>	(45,412,771)
General Revenues:					
State Aid Not Restricted to Specific Programs					49,253,283
Earnings on Investments					7,425
Gifts and Donations					655
Insurance Recovery					2,110,828
Paycheck Protection Program Loan Forgiveness					2,557,100
Miscellaneous					<u>85,324</u>
Total General Revenues					<u>54,014,615</u>
CHANGE IN NET POSITION					8,601,844
NET POSITION - BEGINNING OF YEAR					<u>(10,671,348)</u>
NET POSITION - END OF YEAR					<u>\$ (2,069,504)</u>

MINNESOTA TRANSITIONS CHARTER SCHOOL
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Temporary Investments	\$ 10,201,391	\$ 394,496	\$ 10,595,887
Accounts Receivable	1,922	-	1,922
Due from Other Funds	75,770	-	75,770
Due from Minnesota			
Department of Education	12,601,444	420	12,601,864
Due from Federal through Minnesota			
Department of Education	2,732,567	78,141	2,810,708
Due from Federal Received Directly	169,596	-	169,596
Prepays and Deposits	<u>604,331</u>	<u>-</u>	<u>604,331</u>
TOTAL ASSETS	<u>\$ 26,387,021</u>	<u>\$ 473,057</u>	<u>\$ 26,860,078</u>
LIABILITIES			
Accounts Payable	\$ 13,900,237	\$ 1,104	\$ 13,901,341
Salaries Payable	773,112	2,094	775,206
Due to Other Funds	-	75,770	75,770
Payroll Deductions and			
Employer Contributions	<u>532,136</u>	<u>-</u>	<u>532,136</u>
Total Liabilities	15,205,485	78,968	15,284,453
FUND BALANCES			
Nonspendable	604,331	-	604,331
Restricted	74,084	394,089	468,173
Unassigned	<u>10,503,121</u>	<u>-</u>	<u>10,503,121</u>
Total Fund Balances	<u>11,181,536</u>	<u>394,089</u>	<u>11,575,625</u>
TOTAL LIABILITIES			
AND FUND BALANCES	<u>\$ 26,387,021</u>	<u>\$ 473,057</u>	<u>\$ 26,860,078</u>

**MINNESOTA TRANSITIONS CHARTER SCHOOL
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2022**

Total Fund Balances - Governmental Funds	\$ 11,575,625
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds:

Capital Assets	\$ 31,434,106	
Accumulated Depreciation and Amortization	<u>(4,570,432)</u>	
Capital Assets (Net)		26,863,674

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds:

Mortgage Payable - MTEC	(1,336,694)	
Lease Liabilities	<u>(25,933,556)</u>	
		(27,270,250)

The net pension liability and related deferred outflows/inflows represent the allocation of the pension obligations of the statewide plans to the School. Such balances are not reported in the funds:

Net Pension Liability	(7,307,159)	
Deferred Outflows - Pensions	5,717,869	
Deferred Inflows - Pensions	<u>(11,648,732)</u>	
		(13,238,022)

Interest on long-term debt is recognized as an expenditure when due and payable in the governmental funds. Therefore, interest is not accrued in the governmental funds Balance Sheet, but is accrued in the Statement of Net Position:

	<u>(531)</u>
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TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES

	<u><u>\$ (2,069,504)</u></u>
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MINNESOTA TRANSITIONS CHARTER SCHOOL
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Other Local and County Revenues	\$ 162,532	\$ 259,911	\$ 422,443
State Sources	62,071,391	7,831	62,079,222
Federal Sources	<u>8,401,248</u>	<u>435,780</u>	<u>8,837,028</u>
TOTAL REVENUES	70,635,171	703,522	71,338,693
EXPENDITURES			
Current:			
Administration	1,952,190	-	1,952,190
District Support Services	1,383,802	-	1,383,802
Regular Instruction	47,006,975	-	47,006,975
Vocational Instruction	80,049	-	80,049
Exceptional Instruction	3,559,134	-	3,559,134
Instructional Support Services	735,729	-	735,729
Pupil Support Services	3,465,590	512,661	3,978,251
Sites and Buildings	3,413,214	48,819	3,462,033
Fiscal and Other Fixed Cost Programs	889,840	-	889,840
Capital Outlay	277,571	-	277,571
Debt Service:			
Principal	2,372,846	53,689	2,426,535
Interest and Other Charges	<u>1,479,427</u>	<u>54,036</u>	<u>1,533,463</u>
TOTAL EXPENDITURES	<u>66,616,367</u>	<u>669,205</u>	<u>67,285,572</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,018,804	34,317	4,053,121
OTHER FINANCING SOURCES (USES)			
Insurance Recovery	2,110,828	-	2,110,828
Lease Issuance	109,862	-	109,862
Transfers In	-	69,050	69,050
Transfers Out	<u>(69,050)</u>	<u>-</u>	<u>(69,050)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,151,640</u>	<u>69,050</u>	<u>2,220,690</u>
NET CHANGE IN FUND BALANCES	6,170,444	103,367	6,273,811
FUND BALANCES - BEGINNING	<u>5,011,092</u>	<u>290,722</u>	<u>5,301,814</u>
FUND BALANCES - ENDING	<u><u>\$ 11,181,536</u></u>	<u><u>\$ 394,089</u></u>	<u><u>\$ 11,575,625</u></u>

**MINNESOTA TRANSITIONS CHARTER SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022**

Net Change in Fund Balances - Total Governmental Funds	\$ 6,273,811
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Amounts reported for governmental activities in the Statement of Activities are different due to the following:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation and amortization expense:

Capital Outlay Capitalized	\$ 189,964	
Depreciation and Amortization Expense	<u>(3,296,549)</u>	(3,106,585)

The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The amounts below detail the effects of these differences in the treatment of long term debt and related items:

Paycheck Protection Program Loan Forgiveness	2,557,100	
Lease Principal Repayments	2,346,410	
Note Payable Principle Repayments	26,436	
Mortgage Principal Repayments	53,689	
Lease Issuance	<u>(109,862)</u>	4,873,773

Certain liabilities do not represent the impending use of current resources.

Therefore, the change in such liabilities and related deferrals are not reported in the governmental funds:

Net Pension Liability and Deferred Outflows/Inflows of Resources	<u>560,845</u>	
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 8,601,844</u>
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**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. FINANCIAL REPORTING ENTITY

Minnesota Transitions Charter School (the School) is an educational entity established in September 1995 in accordance with Minnesota Statutes. The School is authorized by Pillsbury United Communities and is operating under a contract extending through the 2023-2024 school year. The School is directed by an elected seven member Board of Directors (the Board). The Board exercises legislative authority and determines all matters of policy. The Board appoints personnel responsible for the proper administration of all affairs relating to the School. The accompanying financial statements present the government entities for which the School is considered to be financially accountable.

The School has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the School are such that exclusion would cause the School's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include (1) appointing a voting majority of an organization's governing body and the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government.

Aside from its authorizer relationship, Pillsbury United Communities has no authority, control, power, or administrative responsibilities over Minnesota Transitions Charter School. Therefore, the School is not considered a component unit of Pillsbury United Communities.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The student activity accounts are included in the basic financial statements as part of the General Fund.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the School Board or the component unit provides services entirely to the School. These component units' funds are blended into those of the School's by appropriate activity type to compose the primary government presentation. The School's blended component unit consists of:

Minnesota Technology Education Corporation (MTEC)

MTEC was established in 2001 as a nonprofit organization formed solely for the purpose of maintaining and managing a building rented to Minnesota Transitions Charter School. The revenues of MTEC consist primarily of the rent received from the School, and the mortgage debt of MTEC has been guaranteed by the School as the sole tenant. The financial activity of MTEC has been incorporated into the School's basic financial statements.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the School has no discretely presented component units.

Tax Status

The School is recognized by the Internal Revenue Service as a not-for-profit organization under IRS Code Section 501(c)(3). Due to the not-for-profit nature and provision of the School, all income and expenses attributable to the mission of the School are tax exempt and accordingly no provision or liability for income taxes have been made in the financial statements and contributions to the School are tax deductible to donors as allowed by IRS regulations. However, the School is required to pay state and federal income taxes on unrelated business income. If the School were to engage in any activities that resulted in unrelated business income, a tax would be assessed on that activity. The School is open and subject to examination generally for three years after the filing date.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government. For the most part, interfund activities have been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

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

1.C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements of Minnesota Transitions Charter School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

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 as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenses are classified by function for governmental activities.

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

Governmental Funds – By Character	Current (further classified by function)
	Capital Outlay
	Debt Service

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

In the government-wide financial statements, amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, if any. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**1.C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION
(Continued)**

Non-exchange transactions, in which the School receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School on a reimbursement basis.

The School reports the following major governmental funds:

The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the School reports the following nonmajor governmental funds:

The *Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

As a general rule, the effect of interfund activity has been eliminated from government-wide financial statements.

1.D. USE OF ESTIMATES

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

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY

Deposits 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 participation by each of the funds. Temporary cash investments are stated at cost which approximates fair value. Investments in external investment pools, if any, are valued at the pool's share price.

See Note 2.A. for additional information related to Deposits and Investments.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. No substantial losses are anticipated from present receivable balances; therefore, no allowance for uncollectible accounts is deemed necessary.

Due from Other Governments

Amounts due from the Minnesota Department of Education, from the federal government through the Department of Education and from other governmental units for general education aids and reimbursements under various specific programs are reported at the estimated amounts to be received based on available information at the date of this report. In some instances, adjustments and proration by these agencies, which are dependent upon the amount of funds available for distribution, and may result in differing amounts actually being received. Any such differences will be absorbed into operations as of the subsequent period.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY
(Continued)**

Prepays

Prepaid expenses consist of amounts paid during the year ended June 30, 2022 which will benefit future periods. Included in this amount is supplies purchased for use in subsequent periods and a lease deposit.

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 estimated acquisition value at the date of donation. The School maintains a threshold level of \$5,000 or more for capitalizing capital assets. The system for accumulation of fixed asset cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated and amortized 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 purposes by the School, no salvage value is taken into consideration for depreciation purposes. Capital assets consist of land, buildings, leasehold improvements, and equipment owned by the School which are being depreciated over useful lives varying from five to thirty years. Also included in capital assets are leased buildings and equipment, which are amortized over the duration of the corresponding lease agreements.

Accrued Payroll Liabilities

Salaries pertaining to the school year ended June 30, 2022, which are payable in July and August 2022, are accrued as of June 30, 2022, and are shown as a liability on the accompanying financial statements. Liabilities for payroll taxes, amounts withheld from payroll checks and benefits accrued are also included.

Unearned Revenue

Unearned revenue consists of local revenue received but not yet earned. Such amounts typically consist of grants and entitlements received before eligibility requirements are met and prepaid pupil lunch balances. There is no unearned revenue at June 30, 2022.

Compensated Absences Payable

Unpaid sick and personal leave is not accrued in any funds as these benefits, when vesting is applicable, are paid prior to year-end according to School policy.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term debt obligations are reported as liabilities in the governmental activities Statement of Net Position.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

Net Pension Liability

The net pension liability represents the School's allocation of their pro-rata share of the Statewide General Employees Retirement Fund and Teachers Retirement Association net pension liabilities.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY
(Continued)**

Pensions

PERA

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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.

TRA

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association in 2015.

Interfund Transactions and Balances

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. If short-term in nature or incurred through goods and service type transactions, such interfund balances are reported as "due to/from other funds." Long-term interfund loans are reported as "advances to/from other funds." The School also reports lease revenue and expense resulting from a lease between the School and its building company component unit. These amounts are reported on the lines other local and county revenues and sites and buildings expense in the Statement of Revenues, Expenditures, and Changes in Fund Balances. Interfund transactions and balances between governmental funds are eliminated in the Statement of Net Position and Statement of Activities.

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated. See additional information at Note 2.E.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The School reports deferred outflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which School employees participate.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The School reports deferred inflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which School employees participate.

See Notes 3 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY
(Continued)**

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the School is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or they are legally or contractually required to be maintained intact. The nonspendable fund balances at June 30, 2022 consist of prepaid expenditures and a lease deposit.

Restricted – Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed – Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the Board of Education (the Board), which is the School's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned – Amounts that are neither restricted or committed but are constrained by the School's intent to be used for specific purposes. The Board currently has the authority to assign fund balances as it has not delegated this ability to an official.

Unassigned – The residual classification for the General Fund and also negative residual amounts in other funds, if any. The School has not formally adopted a policy for maintaining an unassigned fund balance for its governmental funds.

When both restricted and unrestricted resources are available for use, it is the School's practice to first use restricted resources, and then use unrestricted resources as they are needed. If resources from more than one fund balance classification could be spent, the School will spend the resources from fund balance classifications in the following order: committed, assigned, and unassigned, in accordance with the School's policy.

See Note. 2.D. for additional disclosures.

Net Position

Net position represents the difference between the sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources. Net position is displayed in three components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation and amortization, reduced by any outstanding debt attributable to acquiring the capital assets.

Restricted Net Position – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Unrestricted Net Position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

It is the School's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. RECENTLY ISSUED ACCOUNTING STANDARD

During the current fiscal year, the School adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. This standard changes previous lease accounting methodology and requires the recognition of all lease assets and liabilities on the Statement of Net Position. Because the overall impact of the change was not significant, no restatements to beginning net position were necessary.

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS

2.A. DEPOSITS AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the School maintains deposits in financial institutions designated by the School Board. Minnesota Statutes require that all School deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The School complies with such laws.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a 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 selection should be approved by the School.

At June 30, 2022, the School's deposits were not exposed to custodial credit risk. The School's deposits were sufficiently covered by federal depository insurance or by collateral held by the School’s agent in the School's name.

The School’s building company blended component unit (Minnesota Technology Education Corporation), presented in the financial statements as a special revenue fund, is a nonprofit organization and, therefore, is not required to hold insurance, surety bond, or collateral to cover any uninsured deposits. At June 30, 2022, the building company had an uninsured cash balance of \$145,453.

Investments

The School does not hold any investments as of June 30, 2022.

MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.B. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2022 is as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Capital Assets, not Being Depreciated or Amortized					
Land	\$ 250,000	\$ -	\$ -	\$ -	\$ 250,000
Capital Assets, Being Depreciated and Amortized					
Buildings and Improvements	2,550,710	-	-	-	2,550,710
Leasehold Improvements	124,472	-	-	-	124,472
Vehicles	122,618	-	-	-	122,618
Equipment and Furniture	26,238	80,102	-	-	106,340
Leased Buildings	-	28,170,104	-	-	28,170,104
Leased Equipment	-	109,862	-	-	109,862
Total Capital Assets Being Depreciated and Amortized	2,824,038	28,360,068	-	-	31,184,106
Less Accumulated Depreciation for					
Buildings and Improvements	1,175,646	152,281	-	-	1,327,927
Leasehold Improvements	58,458	8,830	-	-	67,288
Vehicles	25,856	15,328	-	-	41,184
Equipment and Furniture	13,923	7,156	-	-	21,079
Less Accumulated Amortization for					
Leased Buildings	-	3,094,643	-	-	3,094,643
Leased Equipment	-	18,311	-	-	18,311
Total Accumulated Depreciation and Amortization	1,273,883	3,296,549	-	-	4,570,432
Total Capital Assets Being Depreciated and Amortized, Net	1,550,155	25,063,519	-	-	26,613,674
Governmental Activities Capital Assets, Net	\$ 1,800,155	\$ 25,063,519	\$ -	\$ -	\$ 26,863,674

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.B. CAPITAL ASSETS (Continued)

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

Governmental Activities	
District Support Services	\$ 2,914
Regular Instruction	267
Instructional Support Services	18,311
Pupil Support Services	14,140
Sites and Buildings	<u>3,260,917</u>
 Total Depreciation and Amortization Expense - Governmental Activities	 <u>\$ 3,296,549</u>

2.C. NONCURRENT LIABILITIES

Loans Payable

On April 22, 2020, the School received loan proceeds in the amount of approximately \$2,557,100 from Choice Financial Group (the lender) under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business and is guaranteed solely by the U.S. Small Business Administration. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees, reduces salaries, or uses funds for unallowable expenses during the eight week period.

The School has used the entire loan proceeds to fund its payroll expenses and subsequently submitted the PPP forgiveness application, which was approved by the Lender and SBA on July 29, 2021. As a result, \$2,557,100 was recognized as a gain on such forgiveness during the year ended June 30, 2022.

Mortgage Payable – Blended Component Unit

On June 26, 2019, the City of Minneapolis issued a Revenue Bond (Minnesota Transitions Charter School Project) Series 2019 in the amount of \$1,500,000. The City has pledged its rights under the loan agreement to Western Bank, a division of American Bank, to secure repayment of the bonds. Terms of the loan agreement mirror the terms of the bonds. Interest has been set through June 2024 at 3.95%. On the dates that are five, ten and fifteen years from the loan date (Adjustment Dates), the interest rate is adjustable to a fixed rate per annum equal to 380 basis points plus the five-year United States Treasury Securities Constant Maturity index, as published by the Federal Reserve Bank, with such sum multiplied by 0.65, but in no event exceeding 7.5% or less than 3.95%.

The current monthly principal and interest payments amount to \$8,997. The mortgage matures June 26, 2039. On each Adjustment Date, the monthly payments due will be adjusted to equal monthly payments sufficient to amortize the then-current principal balance over the remaining term at the adjusted interest rate.

The mortgage requires the School's Building Company Fund component unit to achieve a Debt Service Coverage of 1.00. The School's Building Company Fund blended component unit is in compliance with the coverage requirement.

The mortgage is secured by the building and assignment of rents and leases and is guaranteed by Minnesota Transitions Charter School.

Lease Liability

The School currently has various lease agreements in place for buildings, as well as copier. Because of the nature of the terms of these lease agreement, long-term lease liabilities have been recorded in amounts equal to the present value to the future lease payments. Additionally, corresponding right-of-use assets have been recorded and incorporated into the School's capital asset records.

MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.C. NONCURRENT LIABILITIES (Continued)

As of June 30, 2022, lease liabilities of the School's governmental activities consist of the following:

Lease Liabilities				
Description	Original Issue Amount	Interest Rate	Final Maturity Date	Balance Outstanding
<i>Governmental Activities</i>				
Building Leases:				
MTS Banaadir North Academy	\$ 9,842,096	5.50%	9/30/2036	\$ 9,473,225
MN Connections Academy	255,414	5.50%	8/31/2024	181,758
MTS Elementary	4,289,089	5.50%	6/30/2028	3,823,683
MTS Secondary School	13,225,659	5.50%	7/31/2030	12,094,468
MTS P.E.A.S.E. Academy	329,386	5.50%	8/31/2024	234,066
Minnesota Virtual High School	228,460	5.50%	8/31/2022	32,777
Copiers Lease	109,862	5.50%	8/31/2026	93,579
	<u>\$ 28,279,966</u>			<u>\$ 25,933,556</u>

The lease liabilities have been calculated using the minimum base rent amounts required under the lease agreements. However, several of the School's building lease agreements also contain a clause under which additional rent payments may be required to cover lessor costs incurred for taxes, common area costs, utilities, insurance, and other fees. Additional rent expenditures incurred for variable rent of this nature amounts to \$313,837.

Annual Debt Service Requirements

At June 30, 2022, estimated debt service requirements to maturity for the mortgage payable, using the current interest rate of 3.95%, are as follows:

Mortgage			
Year Ended June 30,	Principal	Interest	Total
2023	\$ 55,930	\$ 51,790	\$ 107,720
2024	58,180	49,540	107,720
2025	60,520	47,200	107,720
2026	62,954	44,766	107,720
2027	65,486	42,233	107,719
2028-2032	370,510	169,365	539,875
2033-2037	451,266	88,609	539,875
2038-2039	211,848	9,065	220,913
	<u>\$ 1,336,694</u>	<u>\$ 502,568</u>	<u>\$ 1,839,262</u>

MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.C. NONCURRENT LIABILITIES (Continued)

At June 30, 2022, estimated annual debt service requirements to maturity for lease liabilities are as follows:

Lease Liabilities			
Year Ended June 30,	Principal	Interest	Total
2023	\$ 2,344,063	\$ 1,350,169	\$ 3,694,232
2024	2,464,897	1,219,036	3,683,933
2025	2,447,132	1,083,798	3,530,930
2026	2,611,748	945,868	3,557,616
2027	2,801,166	797,382	3,598,548
2028-2032	9,411,292	1,995,730	11,407,022
2033-2037	<u>3,853,258</u>	<u>456,907</u>	<u>4,310,165</u>
	<u>\$ 25,933,556</u>	<u>\$ 7,848,890</u>	<u>\$ 33,782,446</u>

Changes in Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2022 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<i>Governmental Activities</i>					
Mortgage Payable - MTEC	\$ 1,390,383	\$ -	\$ (53,689)	\$ 1,336,694	\$ 55,930
Notes Payable	26,436	-	(26,436)	-	-
Lease Liabilities	-	28,279,966	(2,346,410)	25,933,556	2,344,063
Paycheck Protection Program Loan Payable	<u>2,557,100</u>	<u>-</u>	<u>(2,557,100)</u>	<u>-</u>	<u>-</u>
Total Noncurrent Liabilities	<u>\$ 3,973,919</u>	<u>\$ 28,279,966</u>	<u>\$ (4,983,635)</u>	<u>\$ 27,270,250</u>	<u>\$ 2,399,993</u>

Loans payable and lease liabilities are typically funded through the General Fund. Mortgage payments are typically funded through the School's nonmajor Building Company Fund.

Government-wide interest and other fiscal charges for the year ended June 30, 2022 total \$1,533,463. Fund financial statement interest and other fiscal charges for the year ended June 30, 2022 total \$1,533,463. This includes interest expenses reported as direct program expenses total \$0; all interest and fees are included in interest and other fiscal charges.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.D. FUND BALANCE CLASSIFICATIONS

At June 30, 2022, governmental fund equity includes the following:

	General Fund	Nonmajor Funds	Total Governmental Funds
Nonspendable			
Prepays	\$ 522,637	\$ -	\$ 522,637
Lease Deposit	<u>81,694</u>	<u>-</u>	<u>81,694</u>
Total Nonspendable	<u>\$ 604,331</u>	<u>\$ -</u>	<u>\$ 604,331</u>
Restricted for			
Medical Assistance	\$ 74,084	\$ -	\$ 74,084
Building Company	<u>-</u>	<u>394,089</u>	<u>394,089</u>
Total Restricted	<u>\$ 74,084</u>	<u>\$ 394,089</u>	<u>\$ 468,173</u>

Restricted for Medical Assistance - This amount represents the unspent resources available from medical assistance.

Restricted for Building Company - This amount represents resources to be used for building company expenditures.

2.E. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended June 30, 2022:

Transfer From	Transfer To	Amount	Reason
General	Food Service	<u>\$ 69,050</u>	Eliminate deficit Food Service Fund balance

Transfers are used to (a) move revenues from the fund in which Statute or budget requires the revenue be collected to the fund in which Statute or budget requires the dollars be expended and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund balances at June 30, 2022 are as follows:

Due To Fund	Due From Fund	Amount	Reason
General	Food Service	<u>\$ 75,770</u>	Eliminate negative Food Service Fund cash

The interfund balance above is to be repaid as cash flows become available in the Food Service Fund.

The School also reports lease revenue and expense resulting from a lease between the School and its Building Company Fund blended component unit totaling \$259,884. This amount has been eliminated in the government-wide financial statements.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 DEFINED BENEFIT PENSION PLANS - STATEWIDE

3.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

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

General Employees Retirement Plan

The General Employees Retirement Plan covers certain full time and part-time employees of the School. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

Benefits Provided

PERA provides 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.

General Employees Plan 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 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent 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. The postretirement increase is equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2022 and the School was required to contribute 7.50 percent for the Coordinated Plan members. The School's contributions to the General Employees Fund for the year ended June 30, 2022 were \$235,260. The School's contributions were equal to the required contributions as set by State Statute.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

3.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Pension Costs

General Employees Fund Pension Costs

At June 30, 2022, the School reported a liability of \$1,639,852 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. 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 \$50,112.

The net pension liability was measured as of June 30, 2021, 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, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The School's proportionate share was 0.0384 percent at the end of the measurement period and 0.0361 percent for the beginning of the period.

School's proportionate share of the net pension liability:	\$1,639,852
State of Minnesota's proportionate share of the net pension liability associated with the School	<u>50,112</u>
Total	<u>\$1,689,964</u>

For the year ended June 30, 2022, the School recognized pension expense of \$172,242 for its proportionate share of the General Employees Plan's pension expense. In addition, the School recognized an additional \$4,043 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2022, the School reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 10,363	\$ 49,836
Changes in actuarial assumptions	1,001,260	35,124
Differences between projected and actual investment earnings	-	1,427,549
Changes in proportion	147,802	93,989
Contributions made to PERA subsequent to the measurement date	<u>235,260</u>	<u>-</u>
Total	<u>\$ 1,394,685</u>	<u>\$ 1,606,498</u>

The \$235,260 reported as deferred outflows of resources related to pensions resulting from School contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2023.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

3.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

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

Year Ended June 30:	Pension Expense Amount
2023	\$ (38,618)
2024	\$ (39,465)
2025	\$ 18,369
2026	\$ (387,359)

Long-Term Expected Return on Investment

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	33.5%	5.10%
International Equity	16.5%	5.30%
Fixed Income	25.0%	0.75%
Private Markets	<u>25.0%</u>	5.90%
Total	<u>100%</u>	

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.50 percent. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.50 percent was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25 percent for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25 percent for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25 percent after one year of service to 3.0 percent after 29 years of service and 6.0 percent per year thereafter.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

3.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

The following changes in actuarial assumptions and plan provisions occurred in 2021:

General Employees Fund

Changes in Actuarial Assumptions:

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions:

- There were no changes in plan provisions since the previous valuation.

Discount Rate

The discount rate used to measure the total pension liability in 2021 was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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:

Sensitivity Analysis		
1% Increase in Discount Rate	7.50%	\$241,116
Current Discount Rate	6.50%	\$1,639,852
1% Decrease in Discount Rate	5.50%	\$3,344,461

Pension Plan Fiduciary Net Position

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

3.B. TEACHERS RETIREMENT ASSOCIATION

Plan Description

The Teachers 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 Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

3.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Benefits Provided

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 I Benefits

Tier I	Step Rate Formula	Percentage
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2 percent per year
	First ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent 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 percent per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Or

Tier II Benefits

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

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

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

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

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

3.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2020, June 30, 2021, and June 30, 2022 were:

	<u>June 30, 2020</u>		<u>June 30, 2021</u>		<u>June 30, 2022</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.00%	11.92%	11.00%	12.13%	11.00%	12.34%
Coordinated	7.50%	7.92%	7.50%	8.13%	7.50%	8.34%

The following is a reconciliation of employer contributions in TRA 's fiscal year 2021 CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

	<i>in thousands</i>
Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	\$448,829
Add employer contributions not related to future contribution efforts	379
Deduct TRA's contributions not included in allocation	<u>(538)</u>
Total employer contributions	\$448,670
Total non-employer contributions	<u>37,840</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u>\$486,510</u>

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

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

3.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<u>Key Methods and Assumptions Used in Valuation of Total Pension Liability</u>	
<u>Actuarial Information:</u>	
Valuation date	July 1, 2021
Measurement date	June 30, 2021
Experience study	June 5, 2019 (demographic assumptions) November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
<u>Actuarial Assumptions:</u>	
Investment rate of return	7.00%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected salary increase	2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% after June 30, 2028
Cost of living adjustment	1.00% for January 2020 through January 2023, then increasing by 0.10% each year up to 1.50% annually.
<u>Mortality Assumptions:</u>	
Pre-retirement:	RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Geometric Mean)</u>
Domestic Equity	35.5%	5.10%
International Equity	17.5%	5.30%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
Unallocated Cash	<u>2.0%</u>	0.00%
Total	<u>100%</u>	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2022 is six years. The *Difference between Expected and Actual Experience*, *Changes of Assumptions*, and *Changes in Proportion* use the amortization period of six years in the schedule presented. The amortization period for *Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments* is five years as required by GASB 68.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

3.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Changes in actuarial assumptions since the 2020 valuation:

- For GASB Valuation:
 - The investment return assumption was changed from 7.50 percent to 7.00 percent.

Discount Rate

The discount rate used to measure the total pension liability was 7.00 percent. The discount rate used to measure the TPL at the Prior Measurement Date was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2021 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).

Net Pension Liability

At June 30, 2022, the School reported a liability of \$5,667,307 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, 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 0.1295 percent at the end of the measurement period and 0.1275 percent for the beginning of the year.

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:

School's proportionate share of net pension liability	\$5,667,307
State's proportionate share of the net pension liability associated with the School	\$477,899

For the year ended June 30, 2022, the School recognized pension expense of negative \$48,178. It also recognized \$5,351 as an increase to pension expense for the support provided by direct aid.

On June 30, 2022, the School had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 151,125	\$ 151,411
Changes in assumptions	2,076,766	4,636,104
Net difference between projected and actual investment earnings on pension plan investments	-	4,749,845
Changes in proportion	1,408,134	504,874
Contributions made to TRA subsequent to the measurement date	687,159	-
Total	<u>\$ 4,323,184</u>	<u>\$ 10,042,234</u>

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

3.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	Pension Expense
2023	\$ (3,351,262)
2024	\$ (2,088,764)
2025	\$ (579,602)
2026	\$ (811,244)
2027	\$ 424,663

Pension Liability Sensitivity

The following presents the net pension liability of TRA calculated using the discount rate of 7.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate.

Sensitivity of Net Pension Liability (NPL) to changes in the discount rate

<u>1 percent decrease (6.00%)</u>	<u>Current (7.00%)</u>	<u>1 percent increase (8.00%)</u>
\$11,448,236	\$5,667,307	\$926,484

The School's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

Pension Plan Fiduciary Net Position

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

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 4 OTHER INFORMATION

4.A. COMMITMENTS AND CONTINGENCIES

Blended Component Unit Leasing Arrangement

The School currently rents a building location from its blended component unit, Minnesota Technology Education Corporation. The pertinent terms of this lease are summarized in the following table:

Lease Description	Expiration Dates	Minimum Monthly Payments	Maximum Monthly Payments	Potential Renewal Terms
MTS Banaadir South Academy	June 30, 2039	\$ <u>21,026</u>	\$ <u>36,870</u>	N/A

At June 30, 2022, estimated future minimum rent payments are as follows:

Year Ended June 30,	Amount
2023	\$ 275,708
2024	283,979
2025	292,499
2026	301,274
2027	310,312
2028-2032	1,696,913
2033-2037	1,967,187
2038-2039	<u>871,975</u>
	<u>\$ 5,999,847</u>

For the year ended June 30, 2022, rent expenditures paid from the General Fund to the Building Company Fund under this agreement total \$259,884.

Other Lease

Prior to year-end, the School also signed a lease agreement, with a new lessor, for the purpose of renting a new building for the operations of Minnesota Virtual Schools. The lease extends through the fiscal year ended June 30, 2029, calling for monthly payments ranging from \$11,888 to \$13,765. Accordingly, upon the effective date of this lease in FY23, the School will record a lease liability and corresponding right-of-use asset in the amount of \$884,011.

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. However, management of the School expects such amounts, if any, to be immaterial.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 4 OTHER INFORMATION (Continued)

4.B. RISK MANAGEMENT

Claims and Judgements

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the School purchases commercial insurance. The School retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported. The School's management is not aware of any incurred but no reported claims.

4.C. NEW ACCOUNTING STANDARDS

In May 2020, the Government Accounting Standards Board (GASB) issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. GASB Statement No. 96 (GASB 96) increases the usefulness of governmental financial statements by requiring recognition of right-to-use assets and liabilities for subscription-based information technology arrangements. GASB 96 will be effective for the School's fiscal year ended June 30, 2023. The effect on net position will likely be significant.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**MINNESOTA TRANSITIONS CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2022**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Other Local and County Revenues	\$ 400,815	\$ 280,500	\$ 162,532	\$ (117,968)
State Sources	58,179,629	55,835,057	62,071,391	6,236,334
Federal Sources	<u>1,886,817</u>	<u>9,215,049</u>	<u>8,401,248</u>	<u>(813,801)</u>
TOTAL REVENUES	<u>60,467,261</u>	<u>65,330,606</u>	<u>70,635,171</u>	<u>5,304,565</u>
EXPENDITURES				
Current:				
Administration	2,078,561	2,132,617	1,952,190	(180,427)
District Support Services	1,563,505	1,137,850	1,383,802	245,952
Regular Instruction	44,516,117	45,670,375	47,006,975	1,336,600
Vocational Instruction	-	84,688	80,049	(4,639)
Exceptional Instruction	3,588,511	3,691,925	3,559,134	(132,791)
Instructional Support Services	504,540	667,603	735,729	68,126
Pupil Support Services	1,840,497	5,009,849	3,465,590	(1,544,259)
Sites and Buildings	5,023,271	6,686,446	3,413,214	(3,273,232)
Fiscal and Other Fixed Cost Programs	113,300	910,000	889,840	(20,160)
Capital Outlay	1,219,271	212,336	277,571	65,235
Debt Service:				
Principal	-	-	2,372,846	2,372,846
Interest and Other Charges	<u>-</u>	<u>-</u>	<u>1,479,427</u>	<u>1,479,427</u>
TOTAL EXPENDITURES	<u>60,447,573</u>	<u>66,203,689</u>	<u>66,616,367</u>	<u>412,678</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>19,688</u>	<u>(873,083)</u>	<u>4,018,804</u>	<u>4,891,887</u>
OTHER FINANCING SOURCES (USES)				
Insurance Proceeds	1,000,000	1,000,000	2,110,828	1,110,828
Lease Issuance	-	-	109,862	109,862
Transfers Out	<u>(152,716)</u>	<u>(128,008)</u>	<u>(69,050)</u>	<u>58,958</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>847,284</u>	<u>871,992</u>	<u>2,151,640</u>	<u>1,279,648</u>
NET CHANGE IN FUND BALANCE	<u>\$ 866,972</u>	<u>\$ (1,091)</u>	<u>6,170,444</u>	<u>\$ 6,171,535</u>
FUND BALANCE - BEGINNING			<u>5,011,092</u>	
FUND BALANCE - ENDING			<u>\$ 11,181,536</u>	

MINNESOTA TRANSITIONS CHARTER SCHOOL
SCHEDULE OF SCHOOL'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN YEARS (Presented Prospectively)

For the Measurement Year Ended June 30	School's Proportion of the Net Pension Liability (Asset)	School's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the School (b)	School's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the School (a+b)	School's Covered Payroll (c)	School's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<i>Public Employees Retirement Association</i>							
2021	0.0384%	\$ 1,639,852	\$ 50,112	\$ 1,689,964	\$ 2,775,120	60.9%	87.0%
2020	0.0361%	\$ 2,164,360	\$ 66,717	\$ 2,231,077	\$ 2,539,280	87.9%	79.1%
2019	0.0395%	\$ 2,183,867	\$ 67,877	\$ 2,251,744	\$ 2,739,813	82.2%	80.2%
2018	0.0363%	\$ 2,013,775	\$ 66,056	\$ 2,079,831	\$ 1,547,840	134.4%	79.5%
2017	0.0295%	\$ 1,883,261	\$ 23,670	\$ 1,906,931	\$ 1,866,413	102.2%	75.9%
2016	0.0330%	\$ 2,679,436	\$ 34,962	\$ 2,714,398	\$ 2,020,080	134.4%	68.9%
2015	0.0379%	\$ 1,964,175	\$ -	\$ 1,964,175	\$ 2,189,960	89.7%	78.2%
2014	0.0411%	\$ 1,930,672	\$ -	\$ 1,930,672	\$ 2,087,747	92.5%	78.7%
<i>Teachers Retirement Association</i>							
2021	0.1295%	\$ 5,667,307	\$ 477,899	\$ 6,145,206	\$ 7,860,394	78.2%	86.6%
2020	0.1275%	\$ 9,419,871	\$ 789,499	\$ 10,209,370	\$ 7,445,960	137.1%	75.5%
2019	0.1252%	\$ 7,980,274	\$ 706,335	\$ 8,686,609	\$ 7,031,180	123.5%	78.2%
2018	0.1196%	\$ 7,509,935	\$ 705,575	\$ 8,215,510	\$ 5,199,427	158.0%	78.1%
2017	0.1044%	\$ 20,840,134	\$ 2,014,689	\$ 22,854,823	\$ 5,553,973	411.5%	51.6%
2016	0.1171%	\$ 27,931,144	\$ 2,804,564	\$ 30,735,708	\$ 5,987,013	513.4%	44.9%
2015	0.1282%	\$ 7,930,438	\$ 972,575	\$ 8,903,013	\$ 6,508,640	136.8%	76.8%
2014	0.1365%	\$ 6,289,822	\$ 442,473	\$ 6,732,295	\$ 6,230,183	108.1%	81.5%

Note: The schedule is provided prospectively with the School's fiscal year ended June 30, 2015 (June 30, 2014 measurement date) and is intended to show a ten year trend. Additional years will be reported as they become available.

MINNESOTA TRANSITIONS CHARTER SCHOOL
SCHEDULE OF SCHOOL PENSION CONTRIBUTIONS
LAST TEN YEARS (Presented Prospectively)

For the Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	School's Covered Payroll	Contributions as a Percentage of Covered Payroll
<i>Public Employees Retirement Association</i>					
2022	\$ 235,260	\$ 235,260	\$ -	\$ 3,136,800	7.50%
2021	\$ 208,134	\$ 208,134	\$ -	\$ 2,775,120	7.50%
2020	\$ 190,446	\$ 190,446	\$ -	\$ 2,539,280	7.50%
2019	\$ 205,486	\$ 205,486	\$ -	\$ 2,739,813	7.50%
2018	\$ 116,088	\$ 116,088	\$ -	\$ 1,547,840	7.50%
2017	\$ 139,981	\$ 139,981	\$ -	\$ 1,866,413	7.50%
2016	\$ 151,506	\$ 151,506	\$ -	\$ 2,020,080	7.50%
2015	\$ 164,247	\$ 164,247	\$ -	\$ 2,189,960	7.50%
<i>Teachers Retirement Association</i>					
2022	\$ 687,159	\$ 687,159	\$ -	\$ 8,239,317	8.34%
2021	\$ 639,050	\$ 639,050	\$ -	\$ 7,860,394	8.13%
2020	\$ 589,720	\$ 589,720	\$ -	\$ 7,445,960	7.92%
2019	\$ 542,104	\$ 542,104	\$ -	\$ 7,031,180	7.71%
2018	\$ 389,957	\$ 389,957	\$ -	\$ 5,199,427	7.50%
2017	\$ 416,548	\$ 416,548	\$ -	\$ 5,553,973	7.50%
2016	\$ 449,026	\$ 449,026	\$ -	\$ 5,987,013	7.50%
2015	\$ 488,148	\$ 488,148	\$ -	\$ 6,508,640	7.50%

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

MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2021 Changes

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.50 percent to 6.50 percent, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100 percent Joint & Survivor option changed from 35 percent to 45 percent. The assumed number of married female new retirees electing the 100 percent Joint & Survivor option changed from 15 percent to 30 percent. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0 percent for the period July 1, 2020 through December 31, 2023 and 0.0 percent after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)

2018 Changes

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)

2015 Changes

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6 million, which meets the special funding situation definition, was due September 2015.

NOTE 2 TEACHERS RETIREMENT ASSOCIATION

2021 Changes

Changes in Actuarial Assumptions

- For GASB Valuation:
 - The investment return assumption was changed from 7.50 percent to 7.00 percent.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020 Changes

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2019 Changes

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022**

NOTE 2 TEACHERS RETIREMENT ASSOCIATION (Continued)

2018 Changes

Changes in Actuarial Assumptions

- The COLA was reduced from 2.00 percent each January 1 to 1.00 percent, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.10 percent each year until reaching the ultimate rate of 1.50 percent on 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 2.50 percent if the funded ratio was at least 90 percent 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 4.00 percent to 3.00 percent, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.50 percent to 7.50 percent, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71 percent in 2018, 7.92 percent in 2019, 8.13 percent in 2020, 8.34 percent in 2021, 8.55 percent in 2022, and 8.75 percent in 2023). In addition, the employee contribution rate will increase from 7.50 percent to 7.75 percent on July 1, 2023. The State provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2017 Changes

Changes in Actuarial Assumptions

- The Cost of Living Adjustment (COLA) was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.40 percent to 0.00 percent, the vested inactive load increased from 4.00 percent to 7.00 percent and the non-vested inactive load increased from 4.00 percent to 9.00 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2022**

NOTE 2 TEACHERS RETIREMENT ASSOCIATION (Continued)

2016 Changes

Changes in Actuarial Assumptions

- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2.00 percent for all future years.
- The price inflation assumption was lowered from 3.00 percent to 2.75 percent.
- The general wage growth and payroll growth assumptions were lowered from 3.75 percent to 3.50 percent.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to 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.
- The post-retirement mortality assumption was changed to 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.
- The post-disability mortality assumption was changed to the RP-2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2.00 percent. The prior year valuation used 2.00 percent with an increase to 2.50 percent commencing in 2034.
- The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent.

Changes in Plan Provisions

- The DTRFA was merged into TRA on June 30, 2015.

NOTE 3 EXPENDITURES IN EXCESS OF BUDGET

Actual expenditures of \$66,616,367 in the General Fund exceeded budgeted amounts by \$412,678, primarily due to additional expenditures incurred for instructional costs and leasing arrangements during the current year.

SUPPLEMENTARY INFORMATION

**MINNESOTA TRANSITIONS CHARTER SCHOOL
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2022**

	Food Service	Building Company (MTEC)	Total Nonmajor Governmental Funds
ASSETS			
Cash and Temporary Investments	\$ -	\$ 394,496	\$ 394,496
Due from Minnesota			
Department of Education	420	-	420
Due from Federal through Minnesota			
Department of Education	<u>78,141</u>	<u>-</u>	<u>78,141</u>
TOTAL ASSETS	<u><u>\$ 78,561</u></u>	<u><u>\$ 394,496</u></u>	<u><u>\$ 473,057</u></u>
LIABILITIES			
Accounts Payable	\$ 697	\$ 407	\$ 1,104
Salaries Payable	2,094	-	2,094
Due to Other Funds	<u>75,770</u>	<u>-</u>	<u>75,770</u>
Total Liabilities	78,561	407	78,968
FUND BALANCES			
Restricted for:			
Building Company	<u>-</u>	<u>394,089</u>	<u>394,089</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 78,561</u></u>	<u><u>\$ 394,496</u></u>	<u><u>\$ 473,057</u></u>

MINNESOTA TRANSITIONS CHARTER SCHOOL
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2022

	Food Service	Building Company (MTEC)	Total Nonmajor Governmental Funds
REVENUES			
Other Local and County Revenues	\$ -	\$ 259,911	\$ 259,911
State Sources	7,831	-	7,831
Federal Sources	435,780	-	435,780
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	443,611	259,911	703,522
EXPENDITURES			
Current:			
Pupil Support Services	512,661	-	512,661
Sites and Buildings	-	48,819	48,819
Debt Service:			
Principal	-	53,689	53,689
Interest and Other Charges	-	54,036	54,036
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	512,661	156,544	669,205
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(69,050)	103,367	34,317
OTHER FINANCING SOURCES (USES)			
Transfers In	69,050	-	69,050
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	-	103,367	103,367
FUND BALANCES - BEGINNING	-	290,722	290,722
	<hr/>	<hr/>	<hr/>
FUND BALANCES - ENDING	\$ -	\$ 394,089	\$ 394,089
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**MINNESOTA TRANSITIONS CHARTER SCHOOL
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2022**

<u>01 GENERAL FUND</u>	Audited	UFARS	Difference	<u>04 COMMUNITY SERVICE</u>	Audited	UFARS	Difference
Total Revenue	70,635,171	70,635,172	(1)	Restricted:			
Total Expenditures	66,616,367	66,616,367	-	464 Restricted Fund Balance	-	-	-
Non Spendable:				Unassigned:			
460 Non Spendable Fund Balance	604,331	604,331	-	463 Unassigned Fund Balance	-	-	-
Restricted/Reserve:							
401 Student Activities	-	-	-	<u>06 BUILDING CONSTRUCTION</u>			
402 Scholarships	-	-	-	Total Revenue	-	-	-
403 Staff Development	-	-	-	Total Expenditures	-	-	-
407 Capital Projects Levy	-	-	-	Non Spendable:			
408 Cooperative Revenue	-	-	-	460 Non Spendable Fund Balance	-	-	-
413 Project Funded by COP	-	-	-	Restricted/Reserve:			
414 Operating Debt	-	-	-	407 Capital Projects Levy	-	-	-
416 Levy Reduction	-	-	-	413 Projects Funded by COP	-	-	-
417 Taconite Building Maint	-	-	-	467 LTFM	-	-	-
424 Operating Capital	-	-	-	Restricted:			
426 \$25 Taconite	-	-	-	464 Restricted Fund Balance	-	-	-
427 Disabled Accessibility	-	-	-	Unassigned:			
428 Learning & Development	-	-	-	463 Unassigned Fund Balance	-	-	-
434 Area Learning Center	-	-	-				
435 Contracted Alt. Programs	-	-	-	<u>07 DEBT SERVICE</u>			
436 St. Approved Alt. Program	-	-	-	Total Revenue	-	-	-
438 Gifted & Talented	-	-	-	Total Expenditures	-	-	-
440 Teacher Development & Eval	-	-	-	Non Spendable:			
441 Basic Skills Programs	-	-	-	460 Non Spendable Fund Balance	-	-	-
448 Achievement & Integration	-	-	-	Restricted/Reserve:			
449 Safe Schools Levy	-	-	-	425 Bond Refundings	-	-	-
451 QZAB Payments	-	-	-	433 Max Effort Loan	-	-	-
452 OPEB Liab Not in Trust	-	-	-	451 QZAB Payments	-	-	-
453 Unfunded Sev. & Retirement	-	-	-	467 LTFM	-	-	-
459 Basic Skills Ext Time	-	-	-	Restricted:			
467 LTFM	-	-	-	464 Restricted Fund Balance	-	-	-
472 Medical Assistance	74,084	74,084	-	Unassigned:			
473 PPP Loans	-	-	-	463 Unassigned Fund Balance	-	-	-
474 EIDL Loans	-	-	-				
Restricted:				<u>08 TRUST</u>			
464 Restricted Fund Balance	-	-	-	Total Revenue	-	-	-
475 Title VII - Impact Aid	-	-	-	Total Expenditures	-	-	-
476 PILT	-	-	-	401 Student Activities	-	-	-
Committed:				402 Scholarships	-	-	-
418 Committed for Separation	-	-	-	422 Net Assets	-	-	-
461 Committed Fund Balance	-	-	-				
Assigned:				<u>18 CUSTODIAL FUND</u>			
462 Assigned Fund Balance	-	-	-	Total Revenue	-	-	-
Unassigned:				Total Expenditures	-	-	-
422 Unassigned Fund Balance	10,503,121	10,503,120	1	401 Student Activities	-	-	-
				402 Scholarships	-	-	-
<u>02 FOOD SERVICE</u>				448 Achievement & Integration	-	-	-
Total Revenue	443,611	443,611	-	464 Restricted Fund Balance	-	-	-
Total Expenditures	512,661	512,661	-				
Non Spendable:				<u>20 INTERNAL SERVICE</u>			
460 Non Spendable Fund Balance	-	-	-	Total Revenue	-	-	-
Restricted/Reserve:				Total Expenditures	-	-	-
452 OPEB Liab. Not in Trust	-	-	-	422 Net Assets	-	-	-
474 EIDL Loans	-	-	-				
Restricted:				<u>25 OPEB REVOCABLE TRUST FUND</u>			
464 Restricted Fund Balance	-	-	-	Total Revenue	-	-	-
Unassigned:				Total Expenditures	-	-	-
463 Unassigned Fund Balance	-	-	-	422 Net Assets	-	-	-
<u>04 COMMUNITY SERVICE</u>				<u>45 OPEB IRREVOCABLE TRUST FUND</u>			
Total Revenue	-	-	-	Total Revenue	-	-	-
Total Expenditures	-	-	-	Total Expenditures	-	-	-
Non Spendable:				422 Net Assets	-	-	-
460 Non Spendable Fund Balance	-	-	-				
Restricted/Reserve:				<u>47 OPEB DEBT SERVICE FUND</u>			
426 \$25 Taconite	-	-	-	Total Revenue	-	-	-
431 Community Education	-	-	-	Total Expenditures	-	-	-
432 E.C.F.E.	-	-	-	Non Spendable:			
440 Teacher Development & Eval	-	-	-	460 Non Spendable Fund Balance	-	-	-
444 School Readiness	-	-	-	Restricted:			
447 Adult Basic Education	-	-	-	425 Bond Refundings	-	-	-
452 OPEB Liab. Not in Trust	-	-	-	464 Restricted Fund Balance	-	-	-
473 PPP Loans	-	-	-	Unassigned:			
474 EIDL Loans	-	-	-	463 Unassigned Fund Balance	-	-	-

**MINNESOTA TRANSITIONS CHARTER SCHOOL
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal ALN	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE		
Pass-through Programs from Minnesota Department of Education		
COVID-19 - Child Nutrition Cluster:		
National School Breakfast Program	10.553	
Cash Assistance		\$ 105,925
National School Lunch Program	10.555	
Cash Assistance		291,679
Non-Cash Assistance (Commodities)		33,902
National Summer Food Service Program for Children	10.559	
Cash Assistance		4,274
<i>Child Nutrition Cluster Subtotal - 10.553, 10.555, 10.559</i>		<u>435,780</u>
 Total U.S. DEPARTMENT OF AGRICULTURE		 <u>\$ 435,780</u>
U.S. DEPARTMENT OF EDUCATION		
Pass-through Programs from Minnesota Department of Education		
Title I, Part A - Grants to Local Education Agencies	84.010	\$ 1,226,310
Special Education Cluster:		
Grants to States (IDEA, Part B)	84.027	964,876
<i>Special Education Cluster Subtotal - 84.027, 84.173</i>		<u>964,876</u>
 Title II, Part A - Improving Teacher Quality	84.367	211,196
Title III, Part A - English Language Acquisition	84.365	35,169
Title IV, Part A - Student Support and Academic Enrichment	84.424	54,600
 COVID-19 - Education Stabilization Fund:		
Elementary and Secondary School Education Relief (ESSER) Fund	84.425D	2,598,117
American Rescue Plan - Elementary and Secondary School Education Relief (ARP ESSER) Fund	84.425U	2,674,951
<i>Education Stabilization Fund Subtotal</i>		<u>5,273,068</u>
 Total U.S. DEPARTMENT OF EDUCATION		 <u>\$ 7,765,219</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Pass-through Programs from Minnesota Department of Education		
COVID-19 - Epidemiology and Laboratory Capacity for Infectious Diseases	93.323	\$ <u>198,284</u>
U.S. DEPARTMENT OF DEFENSE		
Received Direct		
ROTC Language and Culture Training Grants	12.357	\$ <u>72,052</u>
U.S. DEPARTMENT OF THE TREASURY		
Pass-through Programs from Minnesota Department of Education		
COVID-19 - Coronavirus State and Local Fiscal Recovery Fund	21.027	\$ <u>196,097</u>
FEDERAL COMMUNICATIONS COMMISSION		
Direct programs		
COVID-19 - Emergency Connectivity Fund Program	32.009	\$ <u>169,596</u>
 TOTAL FEDERAL EXPENDITURES		 <u>\$ 8,837,028</u>

**MINNESOTA TRANSITIONS CHARTER SCHOOL
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE 1 BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Minnesota Transitions Charter School (the School) under programs of the federal government for the year ended June 30, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a select portion of the operations of Minnesota Transitions Charter School, it is not intended to and does not present the financial position or changes in financial position of Minnesota Transitions Charter School.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INVENTORY

Nonmonetary assistance is reported in this schedule at the fair market value of commodities received and disbursed for the USDA National School Lunch Program Commodities (ALN 10.555). Revenue and expenditures are recorded when commodities are received.

NOTE 4 SUBRECIPIENTS

The School did not pass any federal funds to subrecipients during the year ended June 30, 2022.

NOTE 5 PASS-THROUGH IDENTIFIER

The School's pass-through identifying numbers assigned by each pass-through entity above are unknown.

NOTE 6 INDIRECT COST RATE

The School did not use an indirect cost rate when calculating federal expenditures.

**OTHER REQUIRED
REPORTS**

**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**

INDEPENDENT AUDITOR'S REPORT

Members of the School Board
Minnesota Transitions Charter School
Minneapolis, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Minnesota Transitions Charter School, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Minnesota Transitions Charter School's basic financial statements and have issued our report thereon dated December 22, 2022.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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*.

Minnesota Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that Minnesota Transitions Charter School failed to comply with the provisions of the charter schools and uniform financial accounting and reporting standards sections of the *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the School's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Schlenner Wenner & Co." in dark ink.

SCHLENNER WENNER & CO.

St. Cloud, Minnesota

December 22, 2022

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

INDEPENDENT AUDITOR'S REPORT

Members of the School Board
Minnesota Transitions Charter School
Minneapolis, Minnesota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Minnesota Transitions Charter School's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended June 30, 2022. The School's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

In our opinion, Minnesota Transitions Charter School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Minnesota Transitions Charter School and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Minnesota Transitions Charter School's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Minnesota Transitions Charter School's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weakness, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Schlenner Wenner & Co." in dark ink.

SCHLENNER WENNER & CO.

St. Cloud, Minnesota

December 22, 2022

**MINNESOTA TRANSITIONS CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

SECTION I: SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified		
* Material weakness(es) identified?	_____ Yes	_____ X _____	No
* Significant deficiencies identified that are not considered to be material weaknesses?	_____ Yes	_____ X _____	No
Noncompliance material to financial statements noted?	_____ Yes	_____ X _____	No

Federal Awards

Internal control over major programs:			
* Material weakness(es) identified?	_____ Yes	_____ X _____	No
* Significant deficiencies identified that are not considered to be material weakness(es)?	_____ Yes	_____ X _____	No

Type of auditor's report issued on compliance for major programs:	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	_____ Yes	_____ X _____	No

Identification of major programs:

ALN	Name of Federal Program or Cluster
84.010	Title I, Part A - Grants to Local Education Agencies
84.425	Education Stabilization Fund
21.027	Coronavirus State and Local Fiscal Recovery Fund

Dollar threshold used to distinguish between type A and type B programs:	\$ <u>750,000</u>
Auditee qualified as low-risk auditee?	X Yes _____ No

**MINNESOTA TRANSITIONS CHARTER SCHOOL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

SECTION II: FINANCIAL STATEMENT FINDINGS IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

None identified.

SECTION III: FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None identified.



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022**

No findings were identified in the prior period.