

LIONSGATE ACADEMY  
MINNETONKA, MINNESOTA

Financial Statements and  
Supplemental Information

Year Ended  
June 30, 2018

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# LIONSGATE ACADEMY

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INTRODUCTORY SECTION

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LIONSGATE ACADEMY

School Board  
Year Ended June 30, 2018

**SCHOOL BOARD**

	<u>Position</u>
Alicen Thorstad	Board Chair
Emy Bachman	Vice Chair
Liz Wielinski	Treasurer
Laura Cottingham	Secretary
Bradford Gran	Director
Jim Harms	Director
Amy Kunkel	Director
Hannah Nelsen	Director
Stephen Sawyer	Director



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FINANCIAL SECTION

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**PRINCIPALS**

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

**INDEPENDENT AUDITOR'S REPORT**

To the School Board and Management of  
Lionsgate Academy  
Minnetonka, Minnesota

**REPORT ON THE FINANCIAL STATEMENTS**

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

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

**AUDITOR'S RESPONSIBILITY**

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

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

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

(continued)

## **OPINIONS**

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and aggregate remaining fund information of Lionsgate as of June 30, 2018, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **OTHER MATTERS**

### **Required Supplementary Information**

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

### **Other Information**

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

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

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

### **Prior Year Comparative Information**

We have previously audited Lionsgate's 2017 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, major fund, and aggregate remaining fund information in our report dated October 12, 2017. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

(continued)

**OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018 on our consideration of Lionsgate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lionsgate'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 Lionsgate's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota  
November 19, 2018

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# LIONSGATE ACADEMY

## Management's Discussion and Analysis Fiscal Year Ended June 30, 2018

This section of Lionsgate Academy's (Lionsgate) financial statements presents management's discussion and analysis of Lionsgate's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the other components of Lionsgate's financial statements.

### **FINANCIAL HIGHLIGHTS**

Lionsgate's enrollment continues to remain at an all-time high; enrollment is expected to increase substantially for the fiscal year ending June 30, 2019 as Lionsgate opens its Shoreview, Minnesota campus. Average daily membership (ADM) was 186 in 2018, which was an overall increase of 2 ADM from 184 in 2017. As of November 8, 2018, Lionsgate's enrollment was 260, ADM was approximately 255, and the waiting list was approximately 290 students.

In the entity-wide financial statements, Lionsgate's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources, resulting in a deficit net position of \$8,643,710 at June 30, 2018.

Lionsgate's net position increased \$55,597 during the fiscal year ending June 30, 2018 before giving effect to the following: Governmental Accounting Standards Board (GASB) required recognition of decreases for (a) \$33,854 of depreciation expense and (b) \$2,253,956 of actuarially determined net expense related to the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA) pension plans compared to Lionsgate's expenditures included in the revenues and expenditures used in calculating the change in fund balance, and (c) \$28,601 of other net increase adjustments. The resulting change in net position after giving effect to these three items was a decrease of \$2,203,612.

In the entity-wide financial statements, 2018 revenues increased 3.8 percent over 2017 to \$12,447,286, and expenses increased 6.3 percent over 2017 to \$14,650,898. Amounts due from other governments, substantially all due from the state of Minnesota, decreased in the current year by \$739,841. As of June 30, 2018, Lionsgate was owed \$481,594, a decrease of 60.6 percent from 2017. This amount represented about 4.0 percent of 2018 revenues from the state of Minnesota, compared to 10.8 percent of 2017 state revenues.

In the fund financial statements, Lionsgate's General Fund, its primary operating fund, ended the year with a fund balance of \$639,942, an increase of \$55,597 from the beginning of the year. Lionsgate's cash plus availability on its revolving line of credit ended the year at \$2.0 million, or 17 percent, of General Fund expenses.

### **OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

The financial statements and supplemental information include:

- List of School Board members as of June 30, 2018;
- Independent Auditor's Report;
- Management's discussion and analysis (this section);
- Basic financial statements, including the entity-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Supplemental information consisting of individual fund statements and schedules.



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

### **ENTITY-WIDE FINANCIAL STATEMENTS**

The entity-wide financial statements (Statement of Net Position and Statement of Activities) report information about Lionsgate as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of Lionsgate's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two entity-wide financial statements report Lionsgate's net position and how it has changed. Net position—the difference between Lionsgate's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure Lionsgate's financial health or position. Over time, increases or decreases in Lionsgate's net position are indicators of whether its financial position is improving or deteriorating, respectively. To assess the overall health of Lionsgate requires consideration of additional nonfinancial factors, including, but not limited to, changes in Lionsgate's student population.

In the entity-wide financial statements, Lionsgate's activities are all shown in one category titled "governmental activities." These activities, including regular and special education, transportation, administration, and food services, are primarily financed with state aids.

### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about Lionsgate's funds, focusing on its most significant or "major" fund (the General Fund), rather than Lionsgate as a whole. Funds that do not meet the threshold to be classified as major funds are called "nonmajor" funds (the Food Service Special Revenue Fund). Detailed financial information for nonmajor funds is presented as supplemental information.

Funds are accounting devices Lionsgate uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law.
- Lionsgate may establish other funds to control and manage money for particular purposes.

Lionsgate's basic services are reported in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance Lionsgate's programs. Because this information does not encompass the additional long-term focus of the entity-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental fund financial statements that explain the relationship (or differences) between these two types of financial statement presentations.

## FINANCIAL ANALYSIS OF LIONSGATE AS A WHOLE

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

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Current and other assets	\$ 1,531,000	\$ 1,825,510
Capital assets, net of depreciation	<u>400,780</u>	<u>421,420</u>
Total assets	<u>\$ 1,931,780</u>	<u>\$ 2,246,930</u>
<b>Deferred outflows of resources</b>		
Pension plan deferments	<u>\$ 9,067,255</u>	<u>\$ 11,011,166</u>
<b>Liabilities</b>		
Current and other liabilities	\$ 891,058	\$ 1,241,165
Long-term liabilities, including due within one year	<u>15,950,857</u>	<u>17,984,773</u>
Total liabilities	<u>\$ 16,841,915</u>	<u>\$ 19,225,938</u>
<b>Deferred inflows of resources</b>		
Pension plan deferments	<u>\$ 2,800,830</u>	<u>\$ 472,256</u>
<b>Net position</b>		
Net investment in capital assets	\$ 355,520	\$ 360,773
Unrestricted	<u>(8,999,230)</u>	<u>(6,800,871)</u>
Total net position	<u>\$ (8,643,710)</u>	<u>\$ (6,440,098)</u>

Lionsgate's financial position is the product of many factors. For example, determination of Lionsgate's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. Changes in variables such as estimated depreciable lives or capitalization policies may produce differences in calculated amounts. Long-term liabilities and the deficit in unrestricted net position include \$15,905,597 related to Lionsgate's pro rata share of the actuarially determined long-term unfunded pension plan liabilities for the TRA and the PERA.

Lionsgate's most significant asset is the amount due from the state of Minnesota at the end of each fiscal year. Those amounts were \$481,594 and \$1,221,435 as of June 30, 2018 and 2017, respectively, which represented 4.0 percent and 10.8 percent of the total revenues from the state for the respective years.

Lionsgate's total net position decreased by (\$2,203,612) from the prior year, including a net charge of (\$2,253,956) related to changes in Lionsgate's allocated share of net pension liabilities and related deferments. Total assets and deferred outflows of resources decreased \$2,259,061, while total liabilities and deferred inflows of resources decreased \$55,449.

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

	<u>2018</u>	<u>2017</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 30,875	\$ 25,498
Operating grants and contributions	10,710,549	9,894,973
General revenues		
General grants and aids	1,564,239	1,687,535
Other – primarily local support	141,623	385,567
Total revenues	<u>12,447,286</u>	<u>11,993,573</u>
<b>Expenses</b>		
Administration	166,799	203,183
District support services	689,624	590,620
Secondary regular instruction	1,910,777	1,921,409
Vocational education instruction	7,743	4,910
Special education instruction	8,099,420	8,082,362
Instructional support services	462,435	167,198
Pupil support services, primarily transportation	1,659,197	1,598,015
Sites and buildings	1,540,844	1,111,941
Fiscal and other fixed cost programs	32,056	29,044
Food service	78,094	71,575
Interest and fiscal charges	3,909	4,418
Total expenses	<u>14,650,898</u>	<u>13,784,675</u>
Change in net position	<u>\$ (2,203,612)</u>	<u>\$ (1,791,102)</u>

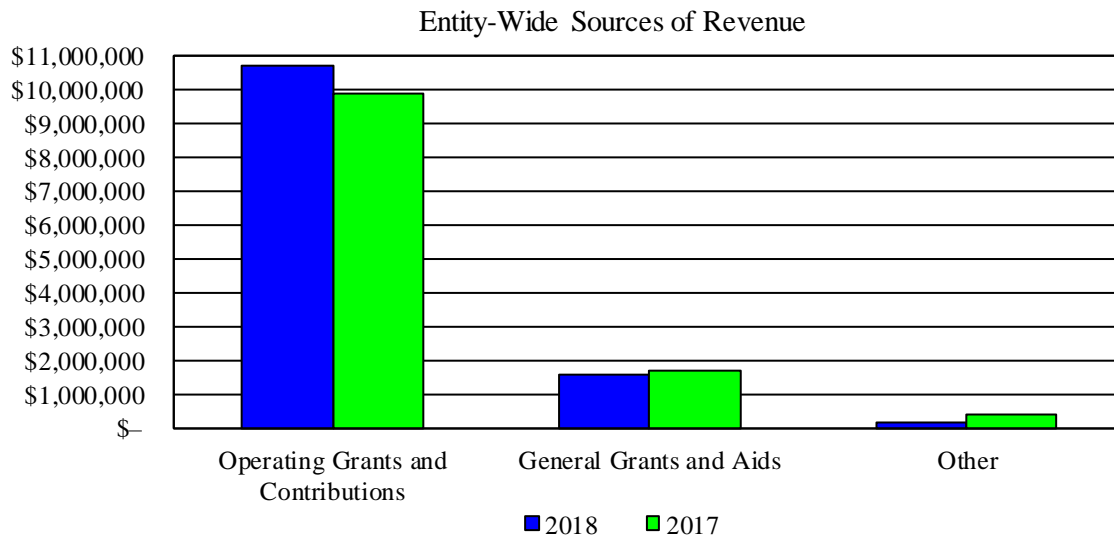
The financial information included in this schedule is presented on an accrual basis of accounting and it includes all of the governmental activities of Lionsgate. This schedule includes \$33,854 of depreciation expense, but excludes \$41,623 of capital asset purchase costs.

The impact on expenses from the change in pension plan liabilities and related deferments for fiscal 2018 and 2017 are included in the following categories:

	<u>2018</u>	<u>2017</u>
Administration	\$ 62,027	\$ 67,994
District support services	10,555	18,374
Secondary regular instruction	540,822	526,260
Special education instruction	1,633,468	1,714,408
Instructional support services	3,931	5,562
Pupil support services	252	85
Sites and buildings	21	3,327
Total	<u>\$ 2,251,076</u>	<u>\$ 2,336,010</u>

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

**Figure A – Sources of Revenues for Fiscal Years 2018 and 2017**



The largest share of Lionsgate’s revenue is received from the state of Minnesota, including substantially all of its general and operating grants. This significant reliance on the state for funding exposes Lionsgate to unpredictable and inconsistent cash flows during the course of each year. This condition is common to charter schools, but the impact is significantly mitigated for Lionsgate, as described below.

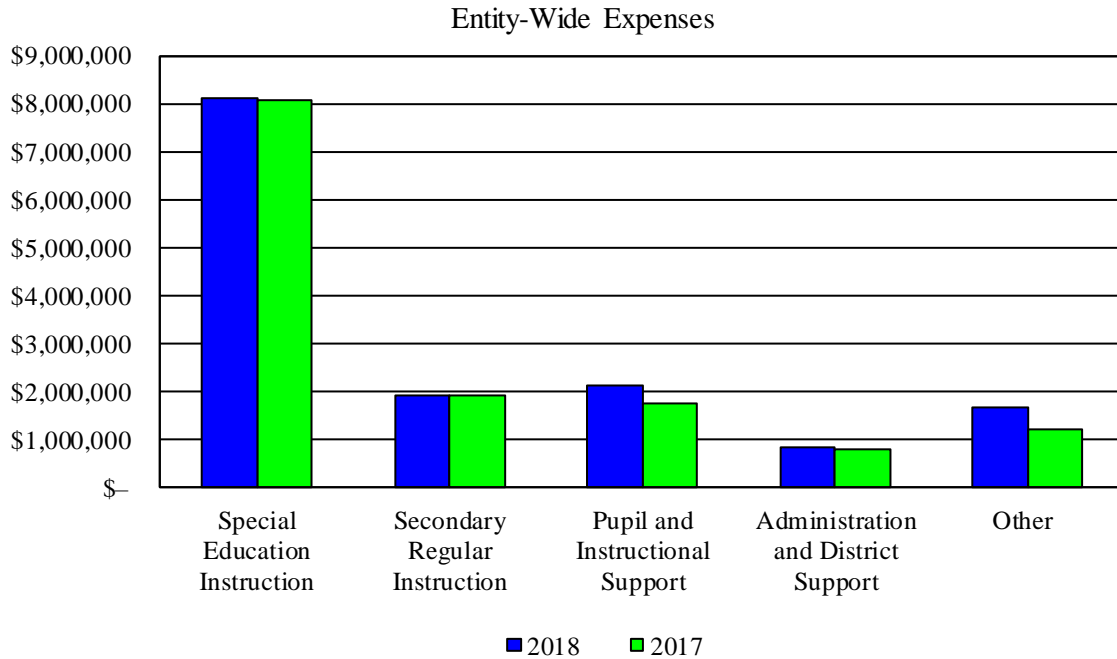
There are a number of safeguards in the Minnesota Statutes that enable Lionsgate to receive its state aid on a current basis, consistent with its current-year budgeted expenditures. The following provisions apply to Lionsgate and other charter schools where 90 percent or more of their students receive their education pursuant to Individualized Education Programs (IEPs). Minnesota Statutes designate these schools as “eligible special education charter school(s)” under § 124E.21, Subd. 2:

- The Minnesota Department of Education shall disburse aids in advance, pursuant to a timely-submitted budget. Deadlines are June 15 of the prior fiscal year for initial budgets and January 15 of the current fiscal year for a revised budget.
- Holdback shall not exceed 10 percent for eligible special education charter schools.
- Holdback payments shall be made 75 percent on each July 15 and 25 percent on each October 30.
- The excess cost of educating students who do not receive special education services shall be reimbursed as if those students were special education students.

These provisions, taken as a whole, provide Lionsgate greater control over its cash flow and nearly eliminate the need for lines of credit to fund periodic fluctuations in cash balances.

Lionsgate’s total revenues were \$12,447,286 for the year ended June 30, 2018, which is an increase of \$453,713 (3.8 percent) from the prior year.

**Figure B – Expenses for Fiscal Years 2018 and 2017**



Lionsgate’s cost of all governmental activities for 2018 was \$14,650,898, which is an increase of \$866,223 (6.3 percent) from the prior year. Increases were primarily related to the costs of educating additional students, to the cost of serving those higher-needs students evidenced by the increase in the average federal setting, staff and materials costs related to preparing for the replication of Lionsgate’s program in Shoreview, Minnesota.

Lionsgate’s expenses are predominately related to educating students. The majority of Lionsgate’s expenses were in categories directly related to providing classroom instruction, which includes secondary regular instruction and special education instruction, including transition services to students aged 18 to 21 and instructional support services. The remaining programs support instruction or are related to leasing and maintaining Lionsgate’s school sites.

## FINANCIAL ANALYSIS OF LIONSGATE'S FUNDS

### Governmental Fund Balances

The financial performance of Lionsgate as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances of each of Lionsgate's governmental funds:

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
Governmental funds			
General	\$ 639,942	\$ 584,345	\$ 55,597
Food Service Special Revenue	—	—	—
Total governmental funds	<u>\$ 639,942</u>	<u>\$ 584,345</u>	<u>\$ 55,597</u>

### Analysis of the General Fund

Table 4 summarizes the operating results of the General Fund:

	<u>2018</u>		<u>Actual</u>	<u>Over (Under) Final Budget</u>		<u>Change From Prior Year</u>	
	<u>Original Budget</u>	<u>Final Budget</u>		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
	Revenues	\$ 13,124,234		\$ 12,792,260	\$ 12,403,567	\$ (388,693)	(3.0%)
Expenditures	13,046,008	12,707,901	12,317,873	\$ (390,028)	(3.1%)	\$ 621,592	5.3%
Other financing sources (uses)	<u>(27,536)</u>	<u>(27,536)</u>	<u>(30,097)</u>	\$ (2,561)	(9.3%)	\$ (34,928)	(723.0%)
Net change in fund balances	<u>\$ 50,690</u>	<u>\$ 56,823</u>	<u>\$ 55,597</u>				

Lionsgate is required to adopt an operating budget prior to the beginning of its fiscal year, shown above as the original budget. Lionsgate amends the budget for known changes in circumstances such as enrollment, legislative funding, or staffing levels.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

Table 5 shows Lionsgate's net capital assets and depreciation expense for fiscal years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Leasehold improvements	\$ 313,172	\$ 296,387	\$ 16,785
Furniture and equipment	205,637	261,423	(55,786)
Less accumulated depreciation	<u>(118,029)</u>	<u>(136,390)</u>	<u>18,361</u>
Total capital assets, net	<u>\$ 400,780</u>	<u>\$ 421,420</u>	<u>\$ (20,640)</u>
Depreciation expense	<u>\$ 33,854</u>	<u>\$ 27,524</u>	<u>\$ 6,330</u>

### Debt Administration

Table 6 illustrates the components of Lionsgate's long-term liabilities:

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Notes payable	\$ 45,260	\$ 60,647	\$ (15,387)
Net pension liability – PERA	2,611,029	3,207,204	(596,175)
Net pension liability – TRA	<u>13,294,568</u>	<u>14,716,922</u>	<u>(1,422,354)</u>
Total	<u>\$ 15,950,857</u>	<u>\$ 17,984,773</u>	<u>\$ (2,033,916)</u>

Lionsgate also had an operating line of credit with maximum availability totaling \$1,200,000 as of June 30, 2018. Outstanding balances on this line were \$335,000 and \$0 as of June 30, 2017 and 2018, respectively.

Additional details of Lionsgate's capital assets and debt administration can be found in the notes to basic financial statements.

## **FACTORS BEARING ON LIONSGATE'S FUTURE**

Lionsgate is dependent on the state of Minnesota for much of its revenue. Minnesota Statutes require funding of all “ordinary, essential, and reasonable” special education costs, including excess general education costs attributable to special education students. Approximately 99 percent of Lionsgate’s students received services pursuant to IEPs during the year ending June 30, 2018. Beginning in fiscal year 2016 and beyond, so long as Lionsgate’s special education students make up 90 percent or more of its student body, (a) Lionsgate’s budgeted expenses will be funded on a current basis, and (b) 100 percent of its excess general education costs will be funded as if every student were a special education student.

Lionsgate is required to maintain operating lines of credit to manage the periodic cash flow shortfalls endemic to its state funding structure. Lionsgate must also raise funds from private donors to fund the costs of its general education program that are not reimbursed by the state and to build fund balance to support growth.

The general education program provides approximately 15 percent of Lionsgate’s financial support. This source of funding is primarily state aid and, as such, charter schools rely heavily on the state of Minnesota for educational resources. The Legislature has added \$124, or 2 percent, per pupil to the basic general education funding formula for fiscal year 2019. Lionsgate’s ability to attract and retain students and the changes in service levels required by its special education students are the greatest determinants in the amount of state aid it earns.

## **CONTACTING LIONSGATE'S FINANCIAL MANAGEMENT**

These financial statements are designed to provide our donors, families of students, community members, employees, and creditors with a general overview of Lionsgate’s finances and to demonstrate Lionsgate’s accountability for the money it receives. If you have questions about these statements or need additional financial information, contact Lionsgate Academy, 5605 Green Circle Drive, Minnetonka, Minnesota 55343.



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BASIC FINANCIAL STATEMENTS

LIONSGATE ACADEMY

Statement of Net Position  
as of June 30, 2018  
(With Partial Comparative Information as of June 30, 2017)

	Governmental Activities	
	2018	2017
Assets		
Cash	\$ 897,372	\$ 406,690
Receivables		
Accounts and interest	-	100,528
Due from other governmental units	481,594	1,221,435
Prepaid items	152,034	96,857
Capital assets, net of accumulated depreciation	400,780	421,420
Total assets	<u>1,931,780</u>	<u>2,246,930</u>
Deferred outflows of resources		
Pension plan deferments	<u>9,067,255</u>	<u>11,011,166</u>
Total assets and deferred outflows of resources	<u>\$ 10,999,035</u>	<u>\$ 13,258,096</u>
Liabilities		
Short-term borrowing	\$ -	\$ 335,000
Salaries and benefits payable	752,475	714,158
Accounts payable	84,971	173,779
Due to other governmental units	112	-
Unearned revenue	53,500	18,228
Long-term liabilities		
Due within one year	16,268	15,408
Due in more than one year	15,934,589	17,969,365
Total long-term liabilities	<u>15,950,857</u>	<u>17,984,773</u>
Total liabilities	<u>16,841,915</u>	<u>19,225,938</u>
Deferred inflows of resources		
Pension plan deferments	2,800,830	472,256
Net position		
Net investment in capital assets	355,520	360,773
Unrestricted	(8,999,230)	(6,800,871)
Total net position	<u>(8,643,710)</u>	<u>(6,440,098)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 10,999,035</u>	<u>\$ 13,258,096</u>

LIONSGATE ACADEMY

Statement of Activities  
Year Ended June 30, 2018

(With Partial Comparative Information for the Year Ended June 30, 2017)

Functions/Programs	2018			2017	
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
			Governmental Activities	Governmental Activities	
Governmental activities					
Administration	\$ 166,799	\$ -	\$ -	\$ (166,799)	\$ (203,183)
District support services	689,624	-	-	(689,624)	(590,620)
Secondary regular instruction	1,910,777	-	162,169	(1,748,608)	(1,908,626)
Vocational education instruction	7,743	-	-	(7,743)	(4,910)
Special education instruction	8,099,420	-	10,234,988	2,135,568	1,493,435
Instructional support services	462,435	-	-	(462,435)	(167,198)
Pupil support services	1,659,197	-	-	(1,659,197)	(1,598,015)
Sites and buildings	1,540,844	-	297,668	(1,243,176)	(821,074)
Fiscal and other fixed cost programs	32,056	-	-	(32,056)	(29,044)
Food service	78,094	30,875	15,724	(31,495)	(30,551)
Interest and fiscal charges	3,909	-	-	(3,909)	(4,418)
Total governmental activities	<u>\$ 14,650,898</u>	<u>\$ 30,875</u>	<u>\$ 10,710,549</u>	(3,909,474)	(3,864,204)
General revenues					
General grants and aids				1,564,239	1,687,535
Other general revenues				138,512	384,926
Investment earnings				3,111	641
Total general revenues				<u>1,705,862</u>	<u>2,073,102</u>
Change in net position				(2,203,612)	(1,791,102)
Net position – beginning				<u>(6,440,098)</u>	<u>(4,648,996)</u>
Net position – ending				<u>\$ (8,643,710)</u>	<u>\$ (6,440,098)</u>

LIONSGATE ACADEMY

Balance Sheet  
Governmental Funds  
as of June 30, 2018

(With Partial Comparative Information as of June 30, 2017)

	General Fund	Nonmajor Fund	Total Governmental Funds	
			2018	2017
<b>Assets</b>				
Cash	\$ 897,372	\$ -	\$ 897,372	\$ 406,690
Receivables				
Accounts and interest	-	-	-	100,528
Due from other governmental units	476,311	5,283	481,594	1,221,435
Due from other funds	3,642	-	3,642	-
Prepaid items	152,034	-	152,034	96,857
	<u>152,034</u>	<u>-</u>	<u>152,034</u>	<u>96,857</u>
Total assets	<u>\$ 1,529,359</u>	<u>\$ 5,283</u>	<u>\$ 1,534,642</u>	<u>\$ 1,825,510</u>
<b>Liabilities</b>				
Short-term borrowing	\$ -	\$ -	\$ -	\$ 335,000
Salaries and benefits payable	752,475	-	752,475	714,158
Accounts payable	83,330	1,641	84,971	173,779
Due to other governmental units	112	-	112	-
Due to other funds	-	3,642	3,642	-
Unearned revenue	53,500	-	53,500	18,228
	<u>889,417</u>	<u>5,283</u>	<u>894,700</u>	<u>1,241,165</u>
Total liabilities	<u>889,417</u>	<u>5,283</u>	<u>894,700</u>	<u>1,241,165</u>
<b>Fund balances</b>				
Nonspendable for prepaid items	152,034	-	152,034	96,857
Unassigned	487,908	-	487,908	487,488
	<u>639,942</u>	<u>-</u>	<u>639,942</u>	<u>584,345</u>
Total fund balances	<u>639,942</u>	<u>-</u>	<u>639,942</u>	<u>584,345</u>
	<u>\$ 1,529,359</u>	<u>\$ 5,283</u>	<u>\$ 1,534,642</u>	<u>\$ 1,825,510</u>
Total liabilities and fund balances	<u>\$ 1,529,359</u>	<u>\$ 5,283</u>	<u>\$ 1,534,642</u>	<u>\$ 1,825,510</u>

LIONSGATE ACADEMY

Reconciliation of the Balance Sheet to the  
Statement of Net Position  
Governmental Funds  
as of June 30, 2018

(With Partial Comparative Information as of June 30, 2017)

	<u>2018</u>	<u>2017</u>
Total fund balances – governmental funds	\$ 639,942	\$ 584,345
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	518,809	557,810
Accumulated depreciation	(118,029)	(136,390)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Notes payable	(45,260)	(60,647)
Net pension liability – PERA	(2,611,029)	(3,207,204)
Net pension liability – TRA	(13,294,568)	(14,716,922)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	9,067,255	11,011,166
Deferred inflows – PERA and TRA pension plans	<u>(2,800,830)</u>	<u>(472,256)</u>
Total net position – governmental activities	<u>\$ (8,643,710)</u>	<u>\$ (6,440,098)</u>

LIONSGATE ACADEMY

Statement of Revenue, Expenditures, and Changes in Fund Balances  
 Governmental Funds  
 Year Ended June 30, 2018  
 (With Partial Comparative Information for the Year Ended June 30, 2017)

	General Fund	Nonmajor Fund	Total Governmental Funds	
			2018	2017
<b>Revenue</b>				
Federal sources	\$ 248,575	\$ 14,228	\$ 262,803	\$ 120,144
State sources	12,013,369	1,496	12,014,865	11,270,156
Local sources				
Investment earnings	3,111	–	3,111	641
Other	138,512	30,875	169,387	410,424
Total revenue	<u>12,403,567</u>	<u>46,599</u>	<u>12,450,166</u>	<u>11,801,365</u>
<b>Expenditures</b>				
Current				
Administration	104,772	–	104,772	135,189
District support services	669,752	–	669,752	570,741
Secondary regular instruction	1,367,958	–	1,367,958	1,427,797
Vocational education instruction	6,099	–	6,099	4,657
Special education instruction	6,456,285	–	6,456,285	6,362,773
Instructional support services	458,504	–	458,504	161,636
Pupil support services	1,658,945	–	1,658,945	1,597,930
Sites and buildings	1,551,833	–	1,551,833	1,398,677
Fiscal and other fixed cost programs	32,056	–	32,056	29,044
Food service	–	71,269	71,269	67,046
Debt service				
Principal	9,123	6,264	15,387	11,046
Interest and fiscal charges	2,546	1,363	3,909	4,418
Total expenditures	<u>12,317,873</u>	<u>78,896</u>	<u>12,396,769</u>	<u>11,770,954</u>
Excess (deficiency) of revenue over expenditures	85,694	(32,297)	53,397	30,411
<b>Other financing sources (uses)</b>				
Note issued	–	–	–	38,480
Proceeds from sale of assets	2,200	–	2,200	–
Transfer in	–	32,297	32,297	33,649
Transfer (out)	(32,297)	–	(32,297)	(33,649)
Total other financing sources (uses)	<u>(30,097)</u>	<u>32,297</u>	<u>2,200</u>	<u>38,480</u>
Net change in fund balances	55,597	–	55,597	68,891
<b>Fund balances</b>				
Beginning of year	<u>584,345</u>	<u>–</u>	<u>584,345</u>	<u>515,454</u>
End of year	<u>\$ 639,942</u>	<u>\$ –</u>	<u>\$ 639,942</u>	<u>\$ 584,345</u>

LIONSGATE ACADEMY

Reconciliation of the Statement of  
Revenue, Expenditures, and Changes in Fund Balances  
to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2018

(With Partial Comparative Information for the Year Ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
Total net change in fund balances – governmental funds	\$ 55,597	\$ 68,891
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	41,623	338,767
Depreciation expense	(33,854)	(27,524)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.		
	(28,409)	–
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.		
Notes issued	–	(38,480)
Note principal repaid	15,387	11,046
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liability – PERA	596,175	(1,004,633)
Net pension liability – TRA	1,422,354	(11,178,536)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	(1,943,911)	9,764,810
Deferred inflows – PERA and TRA pension plans	(2,328,574)	274,557
Change in net position – governmental activities	<u>\$ (2,203,612)</u>	<u>\$ (1,791,102)</u>



LIONSGATE ACADEMY

Statement of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
General Fund  
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
<b>Revenue</b>				
Federal sources	\$ 237,660	\$ 243,073	\$ 248,575	\$ 5,502
State sources	12,658,874	12,321,487	12,013,369	(308,118)
Local sources				
Investment earnings	600	600	3,111	2,511
Other	227,100	227,100	138,512	(88,588)
Total revenue	<u>13,124,234</u>	<u>12,792,260</u>	<u>12,403,567</u>	<u>(388,693)</u>
<b>Expenditures</b>				
Current				
Administration	141,538	140,759	104,772	(35,987)
District support services	586,285	637,709	669,752	32,043
Secondary regular instruction	1,314,209	1,292,405	1,367,958	75,553
Vocational education instruction	5,300	6,300	6,099	(201)
Special education instruction	7,194,694	6,836,130	6,456,285	(379,845)
Instructional support services	431,010	435,062	458,504	23,442
Pupil support services	1,719,020	1,663,840	1,658,945	(4,895)
Sites and buildings	1,627,853	1,669,597	1,551,833	(117,764)
Fiscal and other fixed cost programs	12,360	12,360	32,056	19,696
Debt service				
Principal	9,131	9,131	9,123	(8)
Interest and fiscal charges	4,608	4,608	2,546	(2,062)
Total expenditures	<u>13,046,008</u>	<u>12,707,901</u>	<u>12,317,873</u>	<u>(390,028)</u>
Excess of revenue over expenditures	78,226	84,359	85,694	1,335
<b>Other financing sources (uses)</b>				
Proceeds from sale of assets	—	—	2,200	2,200
Transfer (out)	(27,536)	(27,536)	(32,297)	(4,761)
Total other financing sources (uses)	<u>(27,536)</u>	<u>(27,536)</u>	<u>(30,097)</u>	<u>(2,561)</u>
Net change in fund balances	<u>\$ 50,690</u>	<u>\$ 56,823</u>	55,597	<u>\$ (1,226)</u>
<b>Fund balances</b>				
Beginning of year			<u>584,345</u>	
End of year			<u>\$ 639,942</u>	

# LIONSGATE ACADEMY

Notes to Basic Financial Statements  
June 30, 2018

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Reporting Entity**

Lionsgate Academy (Lionsgate) is a nonprofit corporation that was formed and began operating in November 2007, in accordance with Minnesota Statutes § 124E. Lionsgate is required to operate under a charter agreement with an entity approved by the Minnesota Department of Education (MDE) to be a charter school “authorizer.” The authorizer monitors and evaluates Lionsgate’s performance, and periodically determines whether to renew Lionsgate’s charter. Lionsgate is authorized by Novation Education Opportunities under the terms of an authorizer agreement that extends through June 30, 2020. Aside from its responsibilities as authorizer, Novation Education Opportunities has no authority or control over Lionsgate, and is not financially accountable for Lionsgate. Therefore, Lionsgate is not considered a component unit of Novation Education Opportunities.

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

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

Extracurricular student activities are determined primarily by student participants under the guidance of an adult, and are generally conducted outside of school hours. In accordance with Minnesota Statutes, Lionsgate’s School Board can elect to either control or not control student activities. Lionsgate’s School Board has elected to control student activities; therefore, any such activities are accounted for in the General Fund.

### **B. Basis of Statement Presentation**

As required by state law, Lionsgate operates as a nonprofit corporation under Minnesota Statutes § 317A. However, state law also requires that Lionsgate comply with Uniform Financial Accounting and Reporting Standards for Minnesota School Districts, which mandates the use of a governmental fund accounting structure.

### **C. Entity-Wide Financial Statement Presentation**

The entity-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of Lionsgate. Generally, the effect of material interfund activity has been removed from the entity-wide financial statements. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other internally directed revenues are reported instead as general revenues.

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

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest is considered an indirect expense and is reported separately on the Statement of Activities.

### D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for any nonmajor governmental funds is reported in a single column in the fund financial statements.

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

- 1. Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, except as follows, Lionsgate generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. The proceeds of long-term notes payable used for capital asset acquisition are reported as other financing sources.
- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

### Description of Funds

The existence of the various funds has been established by the MDE. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

#### Major Governmental Fund

**General Fund** – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

#### Nonmajor Governmental Fund

**Food Service Special Revenue Fund** – The Food Service Special Revenue Fund is used to account for Lionsgate’s child nutrition program.

### E. Budgetary Information

Lionsgate’s School Board adopts an annual budget for all governmental funds on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end.

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

### **F. Use of Estimates**

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

### **G. Cash and Investments**

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled balances are allocated to the respective funds on the basis of cash participation by each fund. Lionsgate held no investments at June 30, 2018, or during the year then ended.

### **H. Receivables**

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

### **I. Prepaid Items**

Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items. Prepaid items are recorded as expenses/expenditures at the time of consumption.

### **J. Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. Lionsgate defines capital assets as those with an initial, individual cost of \$2,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the entity-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit for use or needed by Lionsgate, no salvage value is taken into consideration for depreciation purposes. The useful life used for leasehold improvements is 15 years, and varies from 5 to 20 years for furniture and equipment.

### **K. Deferred Outflows/Inflows of Resources**

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

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

### **L. Interfund Balances and Transfers**

At June 30, 2018, the Food Service Special Revenue Fund had a payable of \$3,642 due to the General Fund to eliminate a short-term cash flow deficit.

During fiscal year 2018, the General Fund transferred \$32,297 to the Food Service Special Revenue Fund to finance excess program costs.

Interfund balances and transfers between governmental funds reported in the fund financial statements are eliminated in the entity-wide financial statements.

### **M. Long-Term Obligations**

In the entity-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. In the fund financial statements, governmental fund types recognize the face amount of debt as other financing sources in the year of issuance.

### **N. Compensated Absences**

All year-round employees are entitled to personal time off (PTO). All other full-time employees are entitled to a combination of PTO and sick leave. Employees are not compensated for unused PTO or sick leave upon termination; therefore, no liability for compensated absences has been recorded.

### **O. Pensions**

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

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

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

### **P. Risk Management**

Lionsgate is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees. Lionsgate carries commercial insurance purchased from independent third parties to cover these risks. Settled claims have not exceeded commercial insurance coverage for any of the last three fiscal years. There were no reductions in insurance coverage in the current fiscal year.

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

### Q. Income Taxes

Lionsgate is exempt from income taxes under Internal Revenue Code (IRC) § 501(c)(3). Lionsgate is subject to tax on income from any unrelated business; however, Lionsgate has no unrelated businesses.

Lionsgate is subject to the recognition requirements for uncertain income tax positions as required by the Financial Accounting Standards Board Accounting Standards Codification 740-10. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. Lionsgate has analyzed tax positions taken for filing with the Internal Revenue Service and state jurisdiction where it operates. Lionsgate believes that income tax filing positions will be sustained upon examination and do not anticipate any adjustments that would result in a material adverse effect on their respective financial condition, results of operation, or cash flows. Accordingly, Lionsgate has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at the current year-end. Lionsgate is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

### R. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by Lionsgate for specific purposes but do not meet the criteria to be classified as restricted or committed. Pursuant to School Board resolution, Lionsgate’s executive director is authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is Lionsgate’s policy to first use restricted resources, then unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is Lionsgate’s policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

The School Board has formally adopted a fund balance policy that sufficient reserves exist in each fund balance to equal or exceed the balances needed to meet or exceed requirements of that fund. Fund balances must meet the demands of current and future obligations of each fund.

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

### S. Net Position

In the entity-wide financial statements, net position represents the difference between all other financial statement elements. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

### T. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Lionsgate’s financial statements for the year ended June 30, 2017, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year’s presentation.

## NOTE 2 – DEPOSITS

In accordance with applicable Minnesota Statutes, Lionsgate maintains deposits at depository banks authorized by the School Board.

The following is considered the most significant risk associated with deposits:

**Custodial Credit Risk** – In the case of deposits, this is the risk that in the event of a bank failure, Lionsgate’s deposits may be lost. Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. Lionsgate’s deposit policies do not further limit depository choices.

At June 30, 2018, Lionsgate had deposits (consisting of checking and savings accounts) with a bank balance of \$902,311 and a carrying value of \$897,372. At June 30, 2018, all deposits were fully covered by federal deposit insurance or pledged collateral held by Lionsgate’s agent in Lionsgate’s name.

**NOTE 3 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2018 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, depreciated				
Leasehold improvements	\$ 296,387	\$ 16,785	\$ –	\$ 313,172
Furniture and equipment	<u>261,423</u>	<u>24,838</u>	<u>(80,624)</u>	<u>205,637</u>
Total capital assets, depreciated	557,810	41,623	(80,624)	518,809
Less accumulated depreciation for				
Leasehold improvements	(9,880)	(20,319)	–	(30,199)
Furniture and equipment	<u>(126,510)</u>	<u>(13,535)</u>	<u>52,215</u>	<u>(87,830)</u>
Total accumulated depreciation	<u>(136,390)</u>	<u>(33,854)</u>	<u>52,215</u>	<u>(118,029)</u>
Net capital assets	<u>\$ 421,420</u>	<u>\$ 7,769</u>	<u>\$ (28,409)</u>	<u>\$ 400,780</u>

Depreciation expense for 2018 was charged to the following governmental functions:

District support services	\$ 419
Secondary regular instruction	4,930
Special education instruction	2,962
Sites and buildings	21,431
Food service	<u>4,112</u>
Total depreciation expense	<u>\$ 33,854</u>

**NOTE 4 – SHORT-TERM BORROWING**

Lionsgate has a \$1,200,000 line of credit through Venture Bank. The line, which matures on May 2, 2019, is secured by a lien on Lionsgate’s assets and bears interest at the Wall Street Journal prime rate plus 1.00 percent, with a floor of 5.75 percent. The line replaced a previous line of credit with similar terms that matured on May 2, 2018.

Lionsgate paid interest of \$915 from the General Fund on short-term borrowing during the year ended June 30, 2018. Borrowing activity on the line during 2018 was as follows:

	<u>June 30, 2017</u>	<u>Draws</u>	<u>Payments</u>	<u>June 30, 2018</u>	<u>Maximum Availability</u>
Venture Bank	<u>\$ 335,000</u>	<u>\$ 260,000</u>	<u>\$ 595,000</u>	<u>\$ –</u>	<u>\$ 1,200,000</u>



## NOTE 5 – LONG-TERM LIABILITIES

### A. Notes Payable

On June 10, 2016, Lionsgate entered into an interest-bearing promissory note with Venture Bank secured by certain food service equipment. The interest rate is the Wall Street Journal prime rate plus 1.0 percent, with a floor of 5.5 percent. Lionsgate will repay the note from the Food Service Special Revenue Fund in 60 payments of approximately \$636 each, beginning on July 10, 2016, with the final payment due on June 10, 2021 for all principal and accrued interest not yet paid.

On November 2, 2016, Lionsgate entered into an interest-bearing promissory note with Venture Bank secured by certain equipment. The interest rate is the Wall Street Journal prime rate plus 1.0 percent, with a floor of 5.5 percent. Lionsgate will repay the note from the General Fund in 48 payments of approximately \$896 each, beginning on December 2, 2016, with the final payment due on November 2, 2020 for all principal and accrued interest not yet paid.

### B. Future Minimum Payments

The future minimum principal and interest payments due on the notes payable are as follows:

Year Ending June 30,	Principal	Interest
2019	\$ 16,268	\$ 2,114
2020	17,196	1,186
2021	11,796	312
	<u>\$ 45,260</u>	<u>\$ 3,612</u>

### C. Pension Liabilities

Lionsgate reports its proportionate share of the unfunded net pension liabilities for the state-wide PERA and TRA pension plans to which its employees belong. Lionsgate remits employee withholdings and employer contributions from the governmental fund paying the related salary.

### D. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Notes payable	\$ 60,647	\$ –	\$ 15,387	\$ 45,260	\$ 16,268
Net pension liability – PERA	3,207,204	504,909	1,101,084	2,611,029	–
Net pension liability – TRA	14,716,922	1,168,767	2,591,121	13,294,568	–
	<u>\$ 17,984,773</u>	<u>\$ 1,673,676</u>	<u>\$ 3,707,592</u>	<u>\$ 15,950,857</u>	<u>\$ 16,268</u>

## NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

### A. Plan Descriptions

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

#### 1. General Employees Retirement Fund (GERF)

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

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

#### 2. Teachers Retirement Association (TRA)

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

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

### B. Benefits Provided

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

- **PERA** – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.
- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually through 2018, and 1.00 percent thereafter.

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

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**1. GERF Benefits**

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

**2. TRA Benefits**

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

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

**Tier I Benefits**

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

With these provisions:

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

## NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

### Tier II Benefits

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

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

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

### C. Contributions

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

#### 1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2018; Lionsgate was required to contribute 7.5 percent for Coordinated Plan members. Lionsgate's contributions to the GERF for the year ended June 30, 2018, were \$189,254, equal to the required contributions as set by state statutes.

#### 2. TRA Contributions

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

	Year Ended June 30,			
	2017		2018	
	Employee	Employer	Employee	Employer
<b>Basic Plan</b>	11.0 %	11.5 %	11.0 %	11.5 %
<b>Coordinated Plan</b>	7.5 %	7.5 %	7.5 %	7.5 %

Lionsgate's contributions to the TRA for the plan's fiscal year ended June 30, 2018, were \$287,144, equal to the required contributions as set by state statutes.

## NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

	<i>in thousands</i>
Employer contributions reported in the TRA’s CAFR Statement of Changes in Fiduciary Net Position	\$ 367,791
Add employer contributions not related to future contribution efforts	810
Deduct the TRA’s contributions not included in allocation	<u>(456)</u>
Total employer contributions	368,145
Total nonemployer contributions	<u>35,588</u>
Total contributions reported in the Schedule of Employer and Nonemployer Pension Allocations	<u>\$ 403,733</u>

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

### D. Pension Costs

#### 1. GERF Pension Costs

At June 30, 2018, Lionsgate reported a liability of \$2,611,029 for its proportionate share of the GERF’s net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Lionsgate’s proportion of the net pension liability was based on its contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of the PERA’s participating employers. Lionsgate’s proportionate share was 0.0409 percent at the end of the measurement period and 0.0395 percent for the beginning of the period.

Lionsgate’s net pension liability reflected a reduction due to the state of Minnesota’s contribution of \$6 million to the fund in 2018. The state of Minnesota is considered a nonemployer contributing entity and the state’s contribution meets the definition of a special funding situation. The amount recognized by Lionsgate as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with Lionsgate were as follows:

Lionsgate’s proportionate share of the net pension liability	\$ 2,611,029
State’s proportionate share of the net pension liability associated with Lionsgate	\$ 32,866

For the year ended June 30, 2018, Lionsgate recognized pension expense of \$298,024 for its proportionate share of the GERF’s pension expense. Lionsgate recognized an additional \$948 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota’s contribution of \$6 million to the GERF.

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

At June 30, 2018, Lionsgate reported its proportionate share of the GERF’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 86,052	\$ 164,837
Changes in actuarial assumptions	418,647	261,756
Difference between projected and actual investment earnings	–	126,389
Changes in proportion	85,255	96,675
Lionsgate’s contributions to the GERF subsequent to the measurement date	<u>189,254</u>	<u>–</u>
Total	<u>\$ 779,208</u>	<u>\$ 649,657</u>

A total of \$189,254 reported as deferred outflows of resources related to pensions resulting from Lionsgate contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2019	\$ (57,273)
2020	\$ 133,539
2021	\$ (25,133)
2022	\$ (110,836)

**2. TRA Pension Costs**

At June 30, 2018, Lionsgate reported a liability of \$13,294,568 for its proportionate share of the TRA’s net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Lionsgate’s proportion of the net pension liability was based on Lionsgate’s contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. Lionsgate’s proportionate share was 0.0666 percent at the end of the measurement period and 0.0617 percent for the beginning of the period.

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

Lionsgate’s proportionate share of the net pension liability	\$ 13,294,568
State’s proportionate share of the net pension liability associated with Lionsgate	\$ 1,284,474

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

For the year ended June 30, 2018, Lionsgate recognized pension expense of \$2,435,949. It also recognized \$24,635 as an increase to pension expense for the support provided by direct aid.

At June 30, 2018, Lionsgate reported its proportionate share of the TRA’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 91,600	\$ 93,330
Changes in actuarial assumptions	6,664,623	1,862,359
Difference between projected and actual investment earnings	–	161,083
Changes in proportion	1,244,680	34,401
Lionsgate’s contributions to the TRA subsequent to the measurement date	<u>287,144</u>	<u>–</u>
Total	<u>\$ 8,288,047</u>	<u>\$ 2,151,173</u>

A total of \$287,144 reported as deferred outflows of resources related to pensions resulting from Lionsgate contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2019	\$ 1,518,958
2020	\$ 1,720,070
2021	\$ 1,503,457
2022	\$ 1,303,523
2023	\$ (196,278)

**E. Actuarial Assumptions**

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

Assumptions	GERF	TRA
Inflation	2.50% per year	
Price inflation		2.50%
Wage growth rate		2.85% for 10 years, and 3.25% thereafter
Active member payroll	3.25% per year	2.85% for 10 years, and 3.25% to 9.25% thereafter
Investment rate of return	7.50%	5.12%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.0 percent per year for the GERF through 2044, and then 2.5 percent thereafter, and 2.0 percent per year for all future years for the TRA.

## **NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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

The following changes in actuarial assumptions occurred in 2017:

### **1. GERF**

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.
- The assumed post-retirement 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.

### **2. TRA**

- 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 CSA loads. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested 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 10 years, followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66 percent to 5.12 percent.

The long-term expected rate of return on pension plan investments is 7.50 percent for the GERF and 5.12 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.



**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	39 %	5.10 %
International stocks	19	5.30 %
Bonds	20	0.75 %
Alternative assets	20	5.90 %
Cash	<u>2</u>	– %
Total	<u><u>100 %</u></u>	

**F. Discount Rate**

**1. GERF**

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

**2. TRA**

The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

## NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

### G. Pension Liability Sensitivity

The following table presents Lionsgate’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 Lionsgate’s proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.50%	7.50%	8.50%
Lionsgate’s proportionate share of the GERF net pension liability	\$ 4,049,900	\$ 2,611,029	\$ 1,433,052
TRA discount rate	4.12%	5.12%	6.12%
Lionsgate’s proportionate share of the TRA net pension liability	\$ 17,546,268	\$ 13,294,568	\$ 9,709,868

### H. Pension Plan Fiduciary Net Position

Pension Benefit Reforms – The 2018 pension bill included a number of reforms to the various defined benefit pension plans across the state, including the plans administered by the PERA and the TRA. The reforms include several changes, including modifications in future COLA and contribution rates.

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

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

## NOTE 7 – COMMITMENTS AND CONTINGENCIES

### A. Operating Lease

Lionsgate has a lease agreement with BEAM Properties, LLC for its North St. Paul Campus with a 10-year lease term, commencing September 1, 2014 and ending August 31, 2024. The lease has a renewal option for another five fiscal years ending June 30, 2029.

Lionsgate has a lease agreement with Green Circle, LLC for the Green Circle Campus with a 15-year lease term. The initial term runs from August 1, 2016 (the commencement date) through July 31, 2031. The lease has a renewal option for another five fiscal years ending July 31, 2036.

Future minimum base lease payments under these agreements are as follows:

Year Ending June 30,	North St. Paul Campus	Green Circle Campus	Total
2019	\$ 131,400	\$ 723,275	\$ 854,675
2020	143,445	737,741	881,186
2021	144,540	752,206	896,746
2022	144,540	766,672	911,212
2023	144,540	781,137	925,677
2024–2028	168,630	4,122,668	4,291,298
2029–2032	–	2,647,185	2,647,185
	<u>\$ 877,095</u>	<u>\$ 10,530,884</u>	<u>\$ 11,407,979</u>

Lionsgate is also responsible for its pro rata share of property taxes and operating costs based on square footage used. Lionsgate paid a total of \$1,046,758 under these agreements for the year ended June 30, 2018.

Lionsgate qualified for state charter school lease aid of \$297,668 based on the number of pupil units multiplied by a statutory cap of \$1,314 for the year ended June 30, 2017. This entitlement is subject to proration by the MDE to the extent the overall funding that has been provided is insufficient to meet all amounts owed to Minnesota charter schools.

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

### B. Federal and State Revenues

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

## NOTE 8 – SUBSEQUENT EVENTS

On August 1, 2018, Lionsgate entered into a lease agreement with Wellington Management for the lease of property for its third site located in Shoreview, Minnesota. The lease has a 180-month lease term, with an end date of July 31, 2033. Lease terms also include a cancellation of the lease if there would be a cancellation of the charter school contract, and one 5-year renewal option under the terms of the original lease.

REQUIRED SUPPLEMENTARY INFORMATION

LIONSGATE ACADEMY

Public Employees Retirement Association Pension Benefits Plan  
 Schedule of Lionsgate's and Nonemployer Proportionate Share of Net Pension Liability  
 Year Ended June 30, 2018

Lionsgate Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Lionsgate's Proportion of the Net Pension Liability	Lionsgate's Proportionate Share of the Net Pension Liability	Lionsgate's Proportionate Share of the Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and Lionsgate's Share of the State of Minnesota's Share of the Net Pension Liability	Lionsgate's Covered Payroll	Lionsgate's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.0439%	\$ 2,062,202	\$ -	\$ 2,062,202	\$ 2,296,321	89.80%	78.70%
06/30/2016	06/30/2015	0.0425%	\$ 2,202,571	\$ -	\$ 2,202,571	\$ 2,505,126	87.92%	78.20%
06/30/2017	06/30/2016	0.0395%	\$ 3,207,204	\$ 41,871	\$ 3,249,075	\$ 2,445,077	131.17%	68.90%
06/30/2018	06/30/2017	0.0409%	\$ 2,611,029	\$ 32,866	\$ 2,643,895	\$ 2,590,724	100.78%	75.90%

Public Employees Retirement Association Pension Benefits Plan  
 Schedule of Lionsgate Contributions  
 Year Ended June 30, 2018

Lionsgate Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 186,758	\$ 186,758	\$ -	\$ 2,505,126	7.46%
06/30/2016	\$ 183,631	\$ 183,631	\$ -	\$ 2,445,077	7.51%
06/30/2017	\$ 195,492	\$ 195,492	\$ -	\$ 2,590,724	7.55%
06/30/2018	\$ 189,254	\$ 189,254	\$ -	\$ 2,524,200	7.50%

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

LIONSGATE ACADEMY

Teachers Retirement Association Pension Benefits Plan  
 Schedule of Lionsgate's and Nonemployer Proportionate Share of Net Pension Liability  
 Year Ended June 30, 2018

Lionsgate Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	Lionsgate's Proportion of the Net Pension Liability	Lionsgate's Proportionate Share of the Net Pension Liability	Lionsgate's Proportionate Share of the Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and Lionsgate's Share of the State of Minnesota's Share of the Net Pension Liability	Lionsgate's Covered Payroll	Lionsgate's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.0612%	\$ 2,820,052	\$ 198,371	\$ 3,018,423	\$ 2,795,396	100.88%	81.50%
06/30/2016	06/30/2015	0.0572%	\$ 3,538,386	\$ 433,908	\$ 3,972,294	\$ 2,903,427	121.87%	76.80%
06/30/2017	06/30/2016	0.0617%	\$ 14,716,922	\$ 1,477,346	\$ 16,194,268	\$ 3,200,915	459.77%	44.88%
06/30/2018	06/30/2017	0.0666%	\$ 13,294,568	\$ 1,284,474	\$ 14,579,042	\$ 3,557,280	373.73%	51.57%

Teachers Retirement Association Pension Benefits Plan  
 Schedule of Lionsgate Contributions  
 Year Ended June 30, 2018

Lionsgate Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	06/30/2015	\$ 216,930	\$ 216,930	\$ -	\$ 2,903,427	7.47%
06/30/2016	06/30/2016	\$ 241,562	\$ 241,562	\$ -	\$ 3,200,915	7.55%
06/30/2017	06/30/2017	\$ 267,145	\$ 267,145	\$ -	\$ 3,557,280	7.51%
06/30/2018	06/30/2018	\$ 287,144	\$ 287,144	\$ -	\$ 3,684,375	7.79%

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

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LIONSGATE ACADEMY

Notes to Required Supplementary Information  
June 30, 2018

**PERA – GENERAL EMPLOYEES RETIREMENT FUND**

**2017 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 nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.
- The assumed post-retirement 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.

**2016 CHANGES IN ACTUARIAL ASSUMPTIONS:**

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

**2015 CHANGES IN PLAN PROVISIONS:**

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Retirement 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.

**2015 CHANGES IN ACTUARIAL ASSUMPTIONS:**

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



LIONSGATE ACADEMY

Notes to Required Supplementary Information (continued)  
June 30, 2018

**TRA**

**2017 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 CSA loads. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested 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 10 years, followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66 percent to 5.12 percent.

**2016 CHANGES IN ACTUARIAL ASSUMPTIONS:**

- The single discount rate was changed from 8.00 percent to 4.66 percent.

**2015 CHANGES IN PLAN PROVISIONS:**

- The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

**2015 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.

SUPPLEMENTAL INFORMATION

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LIONSGATE ACADEMY

General Fund  
Comparative Balance Sheet  
as of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash	\$ 897,372	\$ 405,316
Receivables		
Accounts and interest	-	100,528
Due from other governmental units	476,311	1,221,429
Due from other funds	3,642	-
Prepaid items	<u>152,034</u>	<u>96,857</u>
Total assets	<u>\$ 1,529,359</u>	<u>\$ 1,824,130</u>
<b>Liabilities</b>		
Short-term borrowing	\$ -	\$ 335,000
Salaries and benefits payable	752,475	714,158
Accounts payable	83,330	172,959
Due to other governmental units	112	-
Unearned revenue	<u>53,500</u>	<u>17,668</u>
Total liabilities	889,417	1,239,785
<b>Fund balances</b>		
Nonspendable for prepaid items	152,034	96,857
Unassigned	<u>487,908</u>	<u>487,488</u>
Total fund balances	<u>639,942</u>	<u>584,345</u>
Total liabilities and fund balances	<u>\$ 1,529,359</u>	<u>\$ 1,824,130</u>

LIONSGATE ACADEMY

General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Year Ended June 30, 2018  
 (With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Final Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Federal sources	\$ 243,073	\$ 248,575	\$ 5,502	\$ 106,127
State sources	12,321,487	12,013,369	(308,118)	11,268,647
Local sources				
Investment earnings	600	3,111	2,511	641
Other	227,100	138,512	(88,588)	384,926
Total revenue	<u>12,792,260</u>	<u>12,403,567</u>	<u>(388,693)</u>	<u>11,760,341</u>
<b>Expenditures</b>				
Current				
Administration				
Salaries	105,000	84,718	(20,282)	101,500
Employee benefits	27,959	18,787	(9,172)	24,895
Purchased services	7,600	516	(7,084)	7,015
Supplies and materials	200	–	(200)	1,020
Other expenditures	–	751	751	759
Total administration	<u>140,759</u>	<u>104,772</u>	<u>(35,987)</u>	<u>135,189</u>
District support services				
Salaries	362,279	337,232	(25,047)	275,073
Employee benefits	111,287	95,208	(16,079)	82,525
Purchased services	124,233	209,330	85,097	191,064
Supplies and materials	7,950	8,044	94	9,404
Capital expenditures	14,425	14,425	–	–
Other expenditures	17,535	5,513	(12,022)	12,675
Total district support services	<u>637,709</u>	<u>669,752</u>	<u>32,043</u>	<u>570,741</u>
Secondary regular instruction				
Salaries	880,838	898,272	17,434	978,062
Employee benefits	259,591	259,830	239	253,767
Purchased services	22,775	63,337	40,562	94,110
Supplies and materials	121,301	140,035	18,734	39,679
Capital expenditures	–	–	–	38,480
Other expenditures	7,900	6,484	(1,416)	23,699
Total secondary regular instruction	<u>1,292,405</u>	<u>1,367,958</u>	<u>75,553</u>	<u>1,427,797</u>
Vocational education instruction				
Salaries	1,000	–	(1,000)	1,000
Purchased services	180	–	(180)	–
Supplies and materials	5,120	6,099	979	1,571
Other expenditures	–	–	–	2,086
Total vocational education instruction	<u>6,300</u>	<u>6,099</u>	<u>(201)</u>	<u>4,657</u>
Special education instruction				
Salaries	4,988,068	4,753,828	(234,240)	4,510,632
Employee benefits	1,467,982	1,415,811	(52,171)	1,262,774
Purchased services	300,450	204,460	(95,990)	241,057
Supplies and materials	72,835	42,792	(30,043)	34,877
Capital expenditures	6,195	18,192	11,997	290,410
Other expenditures	600	21,202	20,602	23,023
Total special education instruction	<u>6,836,130</u>	<u>6,456,285</u>	<u>(379,845)</u>	<u>6,362,773</u>

LIONSGATE ACADEMY

General Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual (continued)  
 Year Ended June 30, 2018  
 (With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018		Over (Under) Budget	2017
	Final Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Instructional support services				
Salaries	272,595	310,759	38,164	96,041
Employee benefits	55,272	56,638	1,366	19,956
Purchased services	86,375	63,484	(22,891)	14,637
Supplies and materials	20,500	25,374	4,874	19,581
Other expenditures	320	2,249	1,929	11,421
Total instructional support services	<u>435,062</u>	<u>458,504</u>	<u>23,442</u>	<u>161,636</u>
Pupil support services				
Salaries	23,002	11,802	(11,200)	–
Employee benefits	5,866	3,131	(2,735)	–
Purchased services	1,631,722	1,639,855	8,133	1,594,544
Supplies and materials	3,250	4,151	901	3,339
Other expenditures	–	6	6	47
Total pupil support services	<u>1,663,840</u>	<u>1,658,945</u>	<u>(4,895)</u>	<u>1,597,930</u>
Sites and buildings				
Salaries	68,197	48,083	(20,114)	11,023
Employee benefits	21,697	17,763	(3,934)	1,287
Purchased services	1,490,727	1,455,368	(35,359)	1,348,371
Supplies and materials	14,188	21,613	7,425	29,599
Capital expenditures	74,788	9,006	(65,782)	8,397
Total sites and buildings	<u>1,669,597</u>	<u>1,551,833</u>	<u>(117,764)</u>	<u>1,398,677</u>
Fiscal and other fixed cost programs				
Purchased services	12,360	32,056	19,696	29,044
Debt service				
Principal	9,131	9,123	(8)	5,097
Interest and fiscal charges	4,608	2,546	(2,062)	2,740
Total debt service	<u>13,739</u>	<u>11,669</u>	<u>(2,070)</u>	<u>7,837</u>
Total expenditures	<u>12,707,901</u>	<u>12,317,873</u>	<u>(390,028)</u>	<u>11,696,281</u>
Excess of revenue over expenditures	84,359	85,694	1,335	64,060
Other financing sources (uses)				
Note issued	–	–	–	38,480
Proceeds from sale of assets	–	2,200	2,200	–
Transfer (out)	(27,536)	(32,297)	(4,761)	(33,649)
Total other financing sources (uses)	<u>(27,536)</u>	<u>(30,097)</u>	<u>(2,561)</u>	<u>4,831</u>
Net change in fund balances	<u>\$ 56,823</u>	55,597	<u>\$ (1,226)</u>	68,891
Fund balances				
Beginning of year		<u>584,345</u>		<u>515,454</u>
End of year		<u>\$ 639,942</u>		<u>\$ 584,345</u>

LIONSGATE ACADEMY

Food Service Special Revenue Fund  
 Comparative Balance Sheet  
 as of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash	\$           –	\$       1,374
Receivables		
Due from other governmental units	<u>          5,283</u>	<u>              6</u>
Total assets	<u><u>          \$ 5,283</u></u>	<u><u>          \$ 1,380</u></u>
Liabilities		
Accounts payable	\$       1,641	\$         820
Due to other funds	3,642	–
Unearned revenue	<u>          –</u>	<u>          560</u>
Total liabilities	<u><u>          \$ 5,283</u></u>	<u><u>          \$ 1,380</u></u>

LIONSGATE ACADEMY

Food Service Special Revenue Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Year Ended June 30, 2018  
 (With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Final Budget	Actual	Over (Under) Budget	Actual
Revenue				
Federal sources	\$ 12,960	\$ 14,228	\$ 1,268	\$ 14,017
State sources	1,605	1,496	(109)	1,509
Local sources				
Other – primarily meal sales	37,000	30,875	(6,125)	25,498
Total revenue	<u>51,565</u>	<u>46,599</u>	<u>(4,966)</u>	<u>41,024</u>
Expenditures				
Current				
Purchased services	–	369	369	417
Supplies and materials	70,514	69,637	(877)	64,475
Other expenditures	974	1,263	289	2,154
Debt service				
Principal	6,269	6,264	(5)	5,949
Interest and fiscal charges	1,344	1,363	19	1,678
Total expenditures	<u>79,101</u>	<u>78,896</u>	<u>(205)</u>	<u>74,673</u>
Excess (deficiency) of revenue over expenditures	(27,536)	(32,297)	(4,761)	(33,649)
Other financing sources				
Transfer in	<u>27,536</u>	<u>32,297</u>	<u>4,761</u>	<u>33,649</u>
Net change in fund balances	<u>\$ –</u>	<u>–</u>	<u>\$ –</u>	<u>–</u>
Fund balances				
Beginning of year		<u>–</u>		<u>–</u>
End of year		<u>\$ –</u>		<u>\$ –</u>



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OTHER REQUIRED REPORTS

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PRINCIPALS

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

To the School Board and Management of  
Lionsgate Academy  
Minnetonka, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, major fund, and aggregate remaining fund information of Lionsgate Academy (Lionsgate) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Lionsgate's basic financial statements, and have issued our report thereon dated November 19, 2018.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

(continued)

## COMPLIANCE AND OTHER MATTERS

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

## PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota

November 19, 2018

INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of  
Lionsgate Academy  
Minnetonka, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, major fund, and aggregate remaining fund information of Lionsgate Academy (Lionsgate) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Lionsgate's basic financial statements, and have issued our report thereon dated November 19, 2018.

**MINNESOTA LEGAL COMPLIANCE**

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

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

**PURPOSE OF THIS REPORT**

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

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

Minneapolis, Minnesota  
November 19, 2018

LIONSGATE ACADEMY

Uniform Financial Accounting and Reporting Standards  
Compliance Table  
June 30, 2018

		Audit	UFARS	Audit – UFARS
<b>General Fund</b>				
Total revenue		\$ 12,403,567	\$ 12,403,567	\$ –
Total expenditures		\$ 12,317,873	\$ 12,317,873	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 152,034	\$ 152,034	\$ –
Restricted				
403	Staff development	\$ –	\$ –	\$ –
406	Health and safety	\$ –	\$ –	\$ –
407	Capital projects levy	\$ –	\$ –	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
413	Project funded by COP	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
423	Certain teacher programs	\$ –	\$ –	\$ –
424	Operating capital	\$ –	\$ –	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
427	Disabled accessibility	\$ –	\$ –	\$ –
428	Learning and development	\$ –	\$ –	\$ –
434	Area learning center	\$ –	\$ –	\$ –
435	Contracted alternative programs	\$ –	\$ –	\$ –
436	State approved alternative program	\$ –	\$ –	\$ –
438	Gifted and talented	\$ –	\$ –	\$ –
440	Teacher development and evaluation	\$ –	\$ –	\$ –
441	Basic skills programs	\$ –	\$ –	\$ –
445	Career and technical programs	\$ –	\$ –	\$ –
448	Achievement and integration	\$ –	\$ –	\$ –
449	Safe schools levy	\$ –	\$ –	\$ –
450	Pre-kindergarten	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
453	Unfunded severance and retirement levy	\$ –	\$ –	\$ –
459	Basic skills extended time	\$ –	\$ –	\$ –
467	Long-term facilities maintenance	\$ –	\$ –	\$ –
472	Medical Assistance	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
475	Title VII – Impact Aid	\$ –	\$ –	\$ –
476	PILT	\$ –	\$ –	\$ –
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ –	\$ –	\$ –
Assigned				
462	Assigned fund balance	\$ –	\$ –	\$ –
Unassigned				
422	Unassigned fund balance	\$ 487,908	\$ 487,908	\$ –
<b>Food Service</b>				
Total revenue		\$ 46,599	\$ 46,599	\$ –
Total expenditures		\$ 78,896	\$ 78,895	\$ 1
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
<b>Community Service</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ –	\$ –	\$ –
432	ECFE	\$ –	\$ –	\$ –
440	Teacher development and evaluation	\$ –	\$ –	\$ –
444	School readiness	\$ –	\$ –	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

LIONSGATE ACADEMY

Uniform Financial Accounting and Reporting Standards  
Compliance Table (continued)  
June 30, 2018

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

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



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