

# Annual Financial Report

Nasha Shkola  
Charter School No. 4208  
Minnetonka, Minnesota

For the Year Ended  
June 30, 2016

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NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED  
JUNE 30, 2016

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NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 ANNUAL FINANCIAL REPORT  
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 FOR THE YEAR ENDED JUNE 30, 2016

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**INTRODUCTORY SECTION**

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2016

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NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA  
BOARD OF EDUCATION AND ADMINISTRATION  
FOR THE YEAR ENDED JUNE 30, 2016

**BOARD OF EDUCATION**

<u>Name</u>	<u>Position</u>
Yelena Hardcopf	Board Chair
Alex Brusilovsky	Vice Chair
Mark Eilers	Treasurer
Christian Schmidt	Secretary
Ben Wallace	Director
Alexei Abyzov	Director
Elizaveta Lindman	Director

**ADMINISTRATION**

<u>Name</u>	<u>Position</u>
Paul Kinsley	Executive Director

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**FINANCIAL SECTION**

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2016

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## INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education  
Nasha Shkola Charter School No. 4208  
Minnetonka, Minnesota

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Nasha Shkola Charter School No. 4208 (the Charter School), Minnetonka, Minnesota as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Charter School as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the General fund, Food Service fund, and Community service fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 13, the Schedules of Employer's Shares of the Net Pension Liability and the Schedules of Employer's Contributions starting on page 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

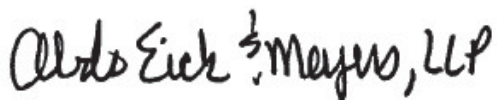
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter School's basic financial statements. The introductory section and individual fund schedule and table are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund schedule and 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2016, on our consideration of the Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Charter School's internal control over financial reporting and compliance.



ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
October 11, 2016

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## **Management's Discussion and Analysis**

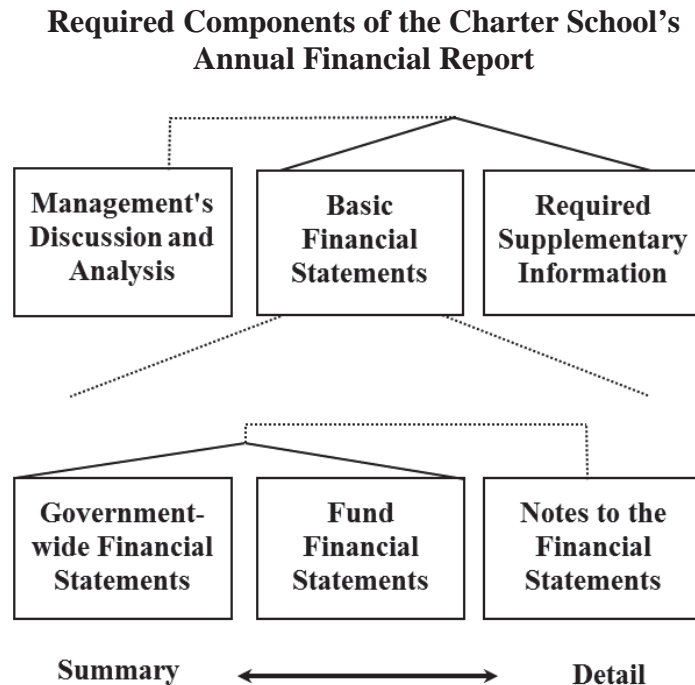
As management of the Nasha Shkola Charter School No. 4208 (the Charter School), Minnetonka, Minnesota, we offer readers of the Charter School's financial statements this narrative overview and analysis of the financial activities of the Charter School for the fiscal year ended June 30, 2016.

### **Financial Highlights**

- The liabilities and deferred inflows of resources of the Charter School exceeded assets and deferred outflows of resources at the close of the most recent fiscal year by \$364,810 .
- A deficit of \$381,257 (unrestricted net position) exists due to the long-term pension liabilities in accordance with GASB Statement No. 68.
- The Charter School's total net position decreased \$52,885 during the year as a result of expenditures in excess of revenues.
- As of the close of the current fiscal year, the Charter School's governmental funds reported a total ending fund balance of \$104,764, a decrease of \$32,451 in comparison with the prior year ending fund balance of \$137,215 due to an over accrual in the prior year of \$36,938, otherwise there would have been a slight increase in fund balance from the prior year of \$4,487.

## Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Charter School's basic financial statements. The Charter School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves. The following chart shows how the various parts of this annual report are arranged and related to one another:



The following chart summarizes the major features of the Charter School's financial statements, including the portion of the Charter School's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements:

### Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements
		Governmental Funds
Scope	Entire Charter School (except fiduciary funds)	The activities of the Charter School that are not fiduciary, such as special education and building maintenance
Required financial statements	<ul style="list-style-type: none"> <li>Statement of Net Position</li> <li>Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>Balance Sheet</li> <li>Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included
Type of inflow/out flow information	All revenues and expenditures during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

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

The *statement of net position* presents information on all of the Charter School’s assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Charter School is improving or deteriorating.

The *statement of activities* presents information showing how the Charter School’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements display functions of the Charter School that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the Charter School include administration, district support services, elementary and secondary regular instruction, special education instruction, instructional support services, pupil support services, sites and buildings, fiscal and other fixed cost programs, and interest on long-term debt.

The government-wide financial statements start on page 22 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Charter School, like other state and local government, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

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

The Charter School maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Food Service special revenue fund and Community Service fund, which are the three governmental funds.

The Charter School adopts an annual appropriated budget for its General, Food Service special revenue fund and Community Service fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with their respective budgets.

The basic governmental fund financial statements start on page 27 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements start on page 35 of this report.

**Other information.** The individual fund financial schedule that starts on page 63 presents budget and prior year comparative data for the General fund.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Charter School, liabilities and deferred inflows exceeded assets and deferred outflows by \$364,810 at the close of the most recent fiscal year.

A portion of the Charter School's net position (\$16,447) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment). The Charter School uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending.

### Nasha Shkola Charter School No. 4208's Net Position

	Governmental Activities		
	2016	2015	Increase (Decrease)
Assets			
Current and other assets	\$ 215,596	\$ 274,947	\$ (59,351)
Capital assets	16,447	20,987	(4,540)
Total assets	<u>232,043</u>	<u>295,934</u>	<u>(63,891)</u>
Deferred outflows of resources			
Deferred pension resources	<u>274,402</u>	<u>246,937</u>	<u>27,465</u>
Liabilities			
Current and other liabilities	110,832	147,519	(36,687)
Noncurrent liabilities	<u>710,286</u>	<u>549,177</u>	<u>161,109</u>
Total liabilities	<u>821,118</u>	<u>696,696</u>	<u>124,422</u>
Deferred inflows of resources			
Deferred pension resources	<u>50,137</u>	<u>158,100</u>	<u>(107,963)</u>
Net position			
Investment in capital assets	16,447	20,987	(4,540)
Unrestricted	<u>(381,257)</u>	<u>(332,912)</u>	<u>(48,345)</u>
Total net position	<u>\$ (364,810)</u>	<u>\$ (311,925)</u>	<u>\$ (52,885)</u>

At the end of the current fiscal year, the Charter School is able to report a positive balance in investment in capital assets, but unrestricted net position was negative due to the net pension liability related to the TRA and PERA defined contribution benefit plans.

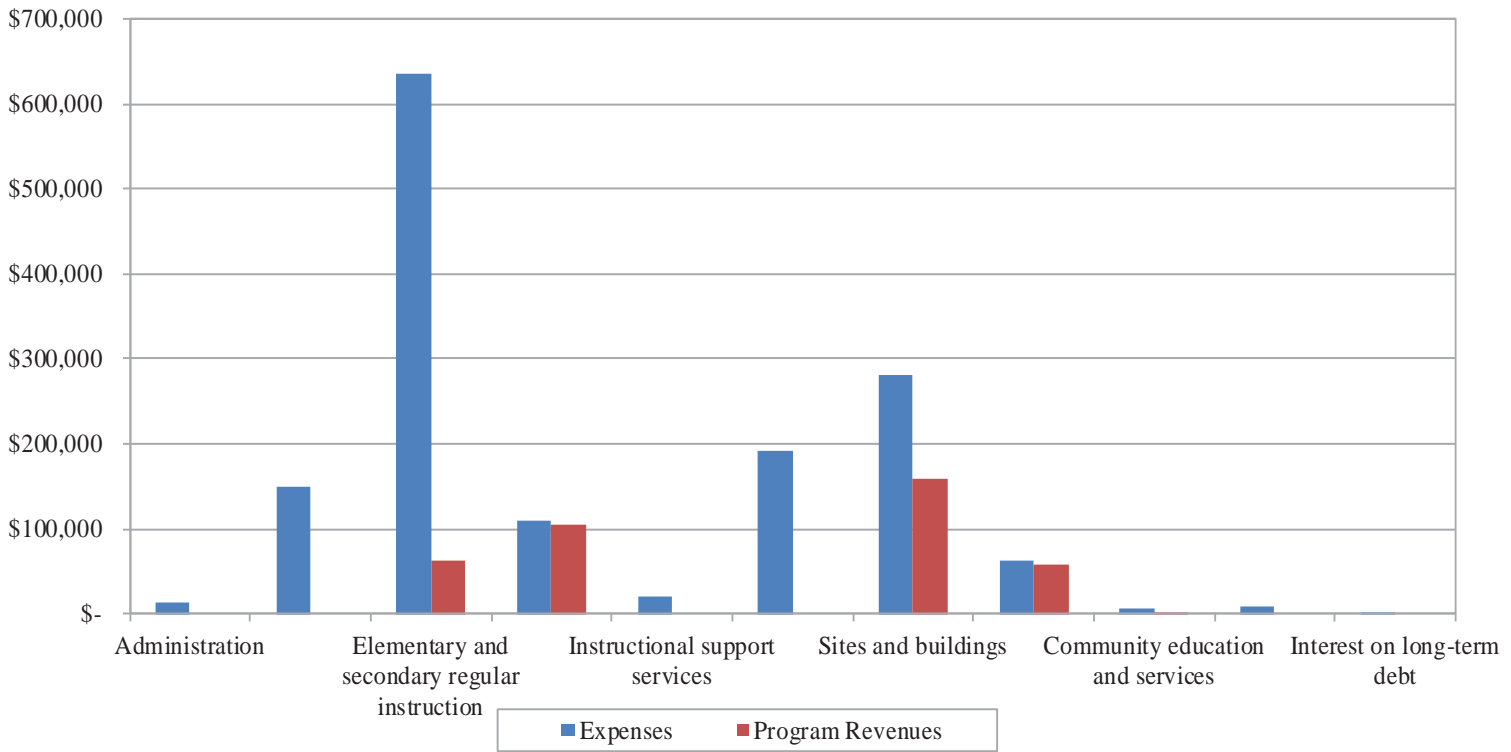
The Charter School's net position decreased \$52,885 during the current fiscal year. The following table summarizes the changes in net position.

### Nasha Shkola Charter School No. 4208's Changes in Net Position

	Governmental Activities		
	2016	2015	Increase (Decrease)
Revenues			
Program revenues			
Charges for services	\$ 8,784	\$ 18,894	\$ (10,110)
Operating grants and contributions	376,691	564,271	(187,580)
General revenues			
State aid-formula grants	1,026,764	1,207,772	(181,008)
Other general revenues	16,359	4,497	11,862
Total revenues	<u>1,428,598</u>	<u>1,795,434</u>	<u>(366,836)</u>
Expenses			
Administration	13,902	100,999	(87,097)
District support services	148,917	161,169	(12,252)
Elementary and secondary regular instruction	634,406	719,912	(85,506)
Special education instruction	109,721	79,518	30,203
Instructional support services	21,621	27,383	(5,762)
Pupil support services	192,820	194,277	(1,457)
Sites and buildings	280,998	280,833	165
Fiscal and other fixed cost programs	8,116	7,764	352
Food service	62,926	85,117	(22,191)
Community service	6,009	16,265	(10,256)
Interest on long-term debt	2,047	2,414	(367)
Total expenses	<u>1,481,483</u>	<u>1,675,651</u>	<u>(194,168)</u>
Change in net position	(52,885)	119,783	(172,668)
Net position, July 1	<u>(311,925)</u>	<u>(431,708)</u>	<u>119,783</u>
Net position, June 30	<u>\$ (364,810)</u>	<u>\$ (311,925)</u>	<u>\$ (52,885)</u>

- Total revenue decreased a total of \$366,836 due to a decrease in operating grants and contributions.
- Total expense decreased a total of \$194,168. The administration, elementary and secondary regular instruction, food service, and district support services had significant decreases of \$87,097, \$85,506, \$22,191, and \$12,252, respectively, whereas special education instruction had the most significant increase from the prior year of \$30,203.

## Expenses and Program Revenues



### Financial Analysis of the Government’s Funds

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

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

As of the end of the current fiscal year, the Charter School’s General fund reported an ending fund balance of \$104,764, a decrease of \$32,451 in comparison with the prior year. The decrease is due to an over accrual of state aids in the prior year.

As of the end of the current fiscal year, the Charter School’s Food Service special revenue reported an ending fund balance of zero after a transfer in from the General fund of \$5,199.

As of the end of the current fiscal year, the Charter School’s Community Service fund reported an ending fund balance of zero after a transfer in from the General fund of \$2,417.

### General Fund Budgetary Highlights

The Charter School’s original General fund budget called for an increase in fund balance of \$73,443, and the revised budget called for a increase in fund balance of \$33,003. Actual fund balance decreased \$32,451. Revenues were \$78,358 less than budget and expenditures were \$28,045 less than budget. Two significant expenditure variances included positive variances of \$18,168 in administration and \$5,552 in elementary and secondary regular instruction.

## Capital Asset and Debt Administration

**Capital assets.** The Charter School's investment in capital assets for its governmental activities as of June 30, 2016, amounts to \$16,447 (net of accumulated depreciation). This investment in capital assets includes computer equipment. The total depreciation for the year was \$4,332. The following is a schedule of capital assets as of June 30, 2016.

### Nasha Shkola Charter School No. 4208's Capital Assets (net of depreciation)

	Governmental Activities		
	2016	2015	Increase (Decrease)
Equipment	\$ 16,447	\$ 20,987	\$ (4,540)

Additional information on the Charter School's capital assets can be found in Note 3B on page 43 of this report.

**Noncurrent liabilities.** At the end of the current fiscal year, the Charter School had the following noncurrent liabilities outstanding.

### Nasha Shkola Charter School No. 4208's Noncurrent Liabilities

	Governmental Activities		
	2016	2015	Increase (Decrease)
Loans payable	\$ 38,858	\$ 50,986	\$ (12,128)
Pension liability	671,428	507,978	163,450
Total	\$ 710,286	\$ 558,964	\$ 151,322

The Charter's total long-term debt increased by \$151,322. The primary reason for the increase was due to a change in the pension liability valuation, increasing the net pension liability offset by a regular payment on the Charter's outstanding loan.

Additional information on the Charter School's long-term liabilities can be found in Note 3E on page 44 of this report.

## Factors Bearing on the Charter School's Future

The School is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. The School is working on a strategic plan to help increase enrollment for fiscal year 2017 and beyond. One of the school's objectives is to work to re-negotiate our present lease arrangements by either reducing expenditures from \$225,000 for yearly rent to a fixed amount of \$175,000 for the final 2 years of the agreement. If this is accepted, the school will retain nearly \$200,000 in savings to assist with either relocation or remaining in the current facility and using the funds to expand the educational program either through additional staffing or infusion of additional programming. This year's enrollment has decreased nearly 10% from projections. This will affect the approved budget and revisions will need to be made. The School expects that state and federal aids received will support the planned level of expenditures for FY 17. The School will strive to maintain its initial commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

## Requests for Information

This financial report is designed to provide a general overview of the Charter School's finances for all those with an interest in the Charter School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the School Director of Nasha Shkola Charter School No. 4208, 3500 Williston Road, Minnetonka, Minnesota 55345.

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**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2016

NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 STATEMENT OF NET POSITION  
 JUNE 30, 2016

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and temporary investments	\$ 56,563
Due from Department of Education	99,036
Due from Federal government	33,287
Prepaid items	26,710
Capital assets	
Depreciable assets, net of accumulated depreciation	<u>16,447</u>
<b>TOTAL ASSETS</b>	<u>232,043</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred pension resources	<u>274,402</u>
<b>LIABILITIES</b>	
Accounts and other payables	29,769
Accrued salaries payable	81,063
Noncurrent liabilities	
Due within one year	12,000
Due in more than one year	<u>698,286</u>
<b>TOTAL LIABILITIES</b>	<u>821,118</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred pension resources	<u>50,137</u>
<b>NET POSITION</b>	
Investment in capital assets	16,447
Unrestricted	<u>(381,257)</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ (364,810)</u></u>

The notes to the financial statements are an integral part of this statement.

NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses) and Changes in Net position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Administration	\$ 13,902	\$ -	\$ -	\$ -	\$ (13,902)
District support services	148,917	-	-	-	(148,917)
Elementary and secondary regular instruction	634,406	-	62,033	-	(572,373)
Special education instruction	109,721	-	104,825	-	(4,896)
Community education and services	6,009	2,663	-	-	(3,346)
Instructional support services	21,621	-	-	-	(21,621)
Pupil support services	192,820	-	-	-	(192,820)
Sites and buildings	280,998	-	158,227	-	(122,771)
Food service	62,926	6,121	51,606	-	(5,199)
Fiscal and other fixed cost programs	8,116	-	-	-	(8,116)
Interest on long-term debt	2,047	-	-	-	(2,047)
<b>Total governmental activities</b>	<b>\$ 1,481,483</b>	<b>\$ 8,784</b>	<b>\$ 376,691</b>	<b>\$ -</b>	<b>(1,096,008)</b>
General revenues					
State aid-formula grants					1,026,764
Other general revenues					16,359
<b>Total general revenues</b>					<b>1,043,123</b>
Change in net position					(52,885)
Net position, July 1					(311,925)
Net position, June 30					<b>\$ (364,810)</b>

The notes to the financial statements are an integral part of this statement.

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**FUND FINANCIAL STATEMENTS**

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2016

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 MINNETONKA, MINNESOTA  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2016

	General	Food Service	Community Service	Total Governmental Funds
<b>ASSETS</b>				
Cash and temporary investments	\$ 55,945	\$ 484	\$ 134	\$ 56,563
Due from Department of Education	98,967	69	-	99,036
Due from Federal government	32,049	1,238	-	33,287
Prepaid items	26,710	-	-	26,710
<b>TOTAL ASSETS</b>	<b>\$ 213,671</b>	<b>\$ 1,791</b>	<b>\$ 134</b>	<b>\$ 215,596</b>
<b>LIABILITIES</b>				
Accounts and other payables	\$ 28,098	\$ 1,537	\$ 134	\$ 29,769
Accrued salaries payable	80,809	254	-	81,063
<b>TOTAL LIABILITIES</b>	<b>108,907</b>	<b>1,791</b>	<b>134</b>	<b>110,832</b>
<b>FUND BALANCES</b>				
Nonspendable prepaid items	26,710	-	-	26,710
Unassigned	78,054	-	-	78,054
<b>TOTAL FUND BALANCES</b>	<b>104,764</b>	<b>-</b>	<b>-</b>	<b>104,764</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 213,671</b>	<b>\$ 1,791</b>	<b>\$ 134</b>	<b>\$ 215,596</b>

The notes to the financial statements are an integral part of this statement.

NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 RECONCILIATION OF THE BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2016

Amounts reported for governmental activities in the statement of net position are different because

Total fund balances - governmental funds	\$	104,764
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>		
Cost of capital assets		24,637
Less: accumulated depreciation		(8,190)
<p>Noncurrent liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.</p>		
<p>Noncurrent liabilities at year-end consist of</p>		
Loans payable		(38,858)
Net pension liability		(671,428)
<p>Governmental funds do not report long-term amounts related to pensions.</p>		
Deferred outflow of pension resources		274,402
Deferred inflow of pension resources		(50,137)
		(364,810)
Total net position - governmental activities	\$	(364,810)

The notes to the financial statements are an integral part of this statement.



NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2016

	General	Food Service	Community Service	Total Governmental Funds
<b>REVENUES</b>				
Revenue from Federal sources	\$ 100,985	\$ 48,837	\$ -	\$ 149,822
Revenue from state sources	1,261,021	2,769	-	1,263,790
Other local and county revenue	6,202	6,121	2,663	14,986
<b>TOTAL REVENUES</b>	<b>1,368,208</b>	<b>57,727</b>	<b>2,663</b>	<b>1,428,598</b>
<b>EXPENDITURES</b>				
Current				
Administration	8,782	-	-	8,782
District support services	144,167	-	-	144,167
Elementary and secondary regular instruction	616,018	-	-	616,018
Special education instruction	107,455	-	-	107,455
Community education and services	-	-	5,080	5,080
Instructional support services	20,648	-	-	20,648
Pupil support services	192,684	-	-	192,684
Sites and buildings	280,998	-	-	280,998
Food service	-	62,926	-	62,926
Fiscal and other fixed cost programs	8,116	-	-	8,116
Debt service				
Principal	12,128	-	-	12,128
Interest and other charges	2,047	-	-	2,047
<b>TOTAL EXPENDITURES</b>	<b>1,393,043</b>	<b>62,926</b>	<b>5,080</b>	<b>1,461,049</b>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES</b>	<b>(24,835)</b>	<b>(5,199)</b>	<b>(2,417)</b>	<b>(32,451)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	5,199	2,417	7,616
Transfers out	(7,616)	-	-	(7,616)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(7,616)</b>	<b>5,199</b>	<b>2,417</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(32,451)</b>	<b>-</b>	<b>-</b>	<b>(32,451)</b>
<b>FUND BALANCES, JULY 1</b>	<b>137,215</b>	<b>-</b>	<b>-</b>	<b>137,215</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 104,764</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 104,764</b>

The notes to the financial statements are an integral part of this statement.

NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2016

Amounts reported for governmental activities in the statement of activities are different because

Net change in fund balances - total governmental funds	\$ (32,451)
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>	
Depreciation expense	(4,332)
Loss on disposal of assets	(208)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. The amounts below are the effects of these differences in the treatment of long-term debt and related items.</p>	
Principal repayments	12,128
<p>Long-term pension activity is not reported in governmental funds.</p>	
Pension expense	<u>(28,022)</u>
Change in net position of governmental activities	<u><u>\$ (52,885)</u></u>

The notes to the financial statements are an integral part of this statement.

NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2016

	General Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Revenue from Federal sources	\$ 60,100	\$ 104,066	\$ 100,985	\$ (3,081)
Revenue from state sources, net	1,428,519	1,334,100	1,261,021	(73,079)
Other local and county revenue	8,400	8,400	6,202	(2,198)
<b>TOTAL REVENUES</b>	<b>1,497,019</b>	<b>1,446,566</b>	<b>1,368,208</b>	<b>(78,358)</b>
<b>EXPENDITURES</b>				
Current				
Administration	13,000	26,950	8,782	18,168
District support services	141,899	140,099	144,167	(4,068)
Elementary and secondary regular instruction	656,661	621,570	616,018	5,552
Special education instruction	79,066	98,243	107,455	(9,212)
Instructional support services	21,500	22,851	20,648	2,203
Pupil support services	203,650	195,950	192,684	3,266
Sites and buildings	280,000	280,100	280,998	(898)
Fiscal and other fixed cost programs	11,800	11,800	8,116	3,684
Capital outlay				
Instructional support services	1,000	1,000	-	1,000
Debt service				
Principal	12,000	12,000	12,128	(128)
Interest and other charges	3,000	3,000	2,047	953
<b>TOTAL EXPENDITURES</b>	<b>1,423,576</b>	<b>1,413,563</b>	<b>1,393,043</b>	<b>20,520</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>73,443</b>	<b>33,003</b>	<b>(24,835)</b>	<b>(57,838)</b>
<b>OTHER FINANCING USES</b>				
Transfers out	-	-	(7,616)	(7,616)
<b>NET CHANGE IN FUND BALANCES</b>	<b>73,443</b>	<b>33,003</b>	<b>(32,451)</b>	<b>(65,454)</b>
<b>FUND BALANCES, JULY 1</b>	<b>137,215</b>	<b>137,215</b>	<b>137,215</b>	<b>-</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 210,658</b>	<b>\$ 170,218</b>	<b>\$ 104,764</b>	<b>\$ (65,454)</b>

The notes to the financial statements are an integral part of this statement.

NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 FOOD SERVICE AND COMMUNITY SERVICE SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2016

	Food Service Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Revenue from Federal sources	\$ 57,750	\$ 57,750	\$ 48,837	\$ (8,913)
Revenue from state sources, net	6,450	6,450	2,769	(3,681)
Other local and county revenue	12,400	12,400	6,121	(6,279)
<b>TOTAL REVENUES</b>	<b>76,600</b>	<b>76,600</b>	<b>57,727</b>	<b>(18,873)</b>
EXPENDITURES				
Current				
Community education and services	-	-	-	-
Food service	81,100	76,600	62,926	13,674
<b>TOTAL EXPENDITURES</b>	<b>81,100</b>	<b>76,600</b>	<b>62,926</b>	<b>13,674</b>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(4,500)	-	(5,199)	(5,199)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	5,199	5,199
Transfers out	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>-</b>	<b>5,199</b>	<b>5,199</b>
NET CHANGE IN FUND BALANCES	(4,500)	-	-	-
FUND BALANCES, JULY 1	-	-	-	-
FUND BALANCES, JUNE 30	<u>\$ (4,500)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

Community Service Fund

Budgeted Amounts		Actual Amounts	Variance with Final Budget
Original	Final		
\$ -	\$ -	\$ -	\$ -
-	-	-	-
550	1,000	2,663	1,663
550	1,000	2,663	1,663
8,609	9,650	5,080	4,570
-	-	-	-
8,609	9,650	5,080	4,570
(8,059)	(8,650)	(2,417)	6,233
10,750	8,650	2,417	(6,233)
(2,691)	-	-	-
8,059	8,650	2,417	(6,233)
-	-	-	-
-	-	-	-
\$ -	\$ -	\$ -	\$ -

The notes to the financial statements are an integral part of this statement.

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NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

Nasha Shkola Charter School No. 4208 (the Charter School), Minnetonka, Minnesota was incorporated as a non-profit corporation under section 501(c)3 of the Internal Revenue Code of 1954, for the purpose of providing educational services to individuals in kindergarten through grade 8 who are bilingual in Russian and English. The Charter School has been authorized, as defined in Minnesota statute 124d, by Innovative Quality Schools. The Charter School is governed by a maximum nine member Board of Education. The Charter School has considered all potential units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Charter School are such that exclusion would cause the Charter School's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The Charter School has no component units that meet the GASB criteria.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Charter School.

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

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

**C. Measurement focus, basis of accounting and financial statement presentation**

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota statutes and accounting principles generally accepted in the United States of America. Minnesota statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure was made. Other revenue is considered available if collected within one year.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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

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

This preparation of the basic financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumption that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***Description of funds***

The Charter School funds have been established by the State of Minnesota Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in the report are as follows:

***Major governmental funds***

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

The *Food Service special revenue fund* is used to account for food service revenue and expenditures. The primary revenue source is intergovernmental revenue from state and federal sources that are restricted for food service operations.

The *Community Service special revenue fund* is used to account for service provided to students for after school care programs. Revenues recorded in this fund include fees charged for after school programs.

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



NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position/fund balance**

*Deposits and investments*

The Charter School's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Charter School may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, rated in one of the two highest rating categories by a statistical rating agency, and have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed Investment Contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The Charter School currently does not have any student activity accounts.

*Accounts receivable*

Accounts receivable include amounts billed for services provided before year end.

*Prepaid items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Capital assets*

Capital assets include property, plant, equipment and infrastructure assets (e.g., roads, parking lots, sidewalks, and similar items). Capital assets are defined by the Charter School as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Equipment of the Charter School are depreciated using the straight-line method over the following estimated useful lives:

Assets	Useful Lives in Years
Equipment	5 - 20

The School does not own any buildings or related infrastructure.

*Deferred outflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

*Compensated absences*

Teachers are not eligible to accrue vacation pay and the amounts accrued to the eligible salaried employees are insignificant. All employees are entitled to ten days of sick pay per year. Sick leave may not be accrued and will not be paid out for any reason if not used within one school year.

*Long-term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. The Charter School currently has one long-term loan outstanding totaling \$38,858 which will mature in fiscal year 2019. The General fund is typically used to retire long-term debt in the governmental funds.

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Pensions*

Teachers Retirement Association (TRA)

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. Additional information can be found in Note 6.

Public Employees Retirement Association (PERA)

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

*Deferred inflows of resources*

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Charter School has one type of item, which arises only under a full accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position of the government-wide statements and results from actuarial calculations.

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Fund balance***

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

*Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

*Restricted* - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by Minnesota statutory provisions.

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

*Assigned* - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Board of Education itself or by an official to which the governing body delegates the authority. The Board of Education chose not to pass a resolution authorizing anyone to assign fund balances and their intended uses.

*Unassigned* - The residual classification for the General fund and also negative residual amounts in other funds.

The Charter School considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the Charter School would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

***Net position***

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

- a. Investment in capital assets - Consists of capital assets, net of accumulated depreciation.
- b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position that do not meet the definition of "restricted" or "investment in capital assets".

When both restricted and unrestricted resources are available for use, it is the Charter School's policy to use restricted resources first, then unrestricted resources as they are needed.

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgetary information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General fund, Food Service and Community Service special revenue funds. All annual appropriations lapse at fiscal year-end.

Budgets are prepared for Charter School funds on the same basis and using the same accounting practices that are used in accounting and preparing financial statements for the General, Food Service and Community Service special revenue funds.

The Charter School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the budget is prepared by the Administrator to be adopted by the Board of Education.
2. Budgets for the General fund and Food Service special revenue fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
3. Budgeted amounts are as originally adopted, or as amended.
4. Budget appropriations lapse at year end.
5. The legal level of control is the fund level.
6. The Charter School does not use encumbrance accounting.

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the Charter School's deposits and investments may not be returned or the Charter School will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the Board of Education, the Charter School maintains deposits at those depository banks, all of which are members of the Federal Reserve System.

Minnesota statutes require that all Charter School deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the Charter School.

At year end, the Charter School's carrying amount of deposits was \$56,563, and the bank balance was \$63,843. The bank balance was fully covered by federal depository insurance.

NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2016

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**B. Capital assets**

Capital asset activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets being depreciated				
Equipment and furniture	\$ 25,157	\$ -	\$ (520)	\$ 24,637
Less accumulated depreciation for				
Equipment and furniture	<u>(4,170)</u>	<u>(4,332)</u>	<u>312</u>	<u>(8,190)</u>
Governmental activities capital assets, net	<u>\$ 20,987</u>	<u>\$ (4,332)</u>	<u>\$ (208)</u>	<u>\$ 16,447</u>

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

<b>Governmental activities</b>		
Elementary and secondary regular instruction		\$ 4,022
Instructional support services		<u>310</u>
Total depreciation expense - governmental activities		<u>\$ 4,332</u>

**C. Interfund transfer**

The General fund transferred out a total of \$7,616, with \$5,199 going to the Food Service special revenue fund and \$2,417 going to the Community Service special revenue fund to eliminate the year end deficit fund balances.

**D. Operating leases**

The Charter School signed a lease agreement with the Minnesota Conference Association of Seventh-day Adventists for classroom and administrative space, for a five year period commencing on July 1, 2014. The lease requires a minimum annual lease payment amount but the lease costs may be higher if the number of pupil units served time \$1,460 is greater than the minimum required lease payments. The lease expense was \$215,000 for the year ended June 30, 2016.

Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 225,000
2018	250,000
2019	<u>300,000</u>
Total minimum lease payments	<u>\$ 775,000</u>

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**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**E. Long-term liabilities**

Loans payable

The Charter School entered into a loan payable with Gedaly Meerovich for various School needs on February 15, 2012. The loan terms state the draws may not exceed \$130,000 in the life of the loan. Further details of the loan are as follows:

Description	Amount Issued	Interest Rate	Issue Date	Maturity Date	Balance at Year End
Gedaly Meerovich	\$ 72,750	4.50 %	02/15/12	08/15/20	<u>\$ 38,858</u>

Annual debt service requirements to maturity for the loans payable are as follows:

Year Ending June 30,	<b>Loans Payable</b>		
	Principal	Interest	Total
2017	\$ 12,000	\$ 1,017	\$ 13,017
2018	13,000	1,017	14,017
2019	13,858	386	14,244
Total	<u>\$ 38,858</u>	<u>\$ 2,420</u>	<u>\$ 41,278</u>

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Loans payable	\$ 50,986	\$ -	\$ (12,128)	\$ 38,858	\$ 12,000
Pension liability					
TRA	474,617	150,168	-	624,785	-
PERA	33,361	13,282	-	46,643	-
Governmental activity long-term liabilities	<u>\$ 558,964</u>	<u>\$ 163,450</u>	<u>\$ (12,128)</u>	<u>\$ 710,286</u>	<u>\$ 12,000</u>



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**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**F. Short-term indebtedness**

The Charter School has a line of credit agreement with Venture Bank to assist with the timing of cash flows. The line of credit was issued with a maximum amount of \$80,000 and an interest rate of 5.50 percent. For the year ended June 30, 2016, the Charter School had no amount drawn on the line of credit.

**Note 4: OTHER INFORMATION**

**A. Risk management**

The Charter School is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the Charter School carries commercial insurance. Settled claims have not exceeded this commercial coverage for the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The Charter School's management is not aware of any incurred but not reported claims.

**B. Economic dependency**

The Charter School has a significant amount of revenue (88 percent) coming from the State of Minnesota.

**C. Income taxes**

The Charter School is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Charter School also qualifies as a tax-exempt organization under applicable statutes of the State of Minnesota.

The Charter School has evaluated and determined that there are no uncertain tax positions as of June 30, 2016. The Charter School's tax returns are subject to possible examination by the taxing authorities.

**Note 5: COMMITMENTS AND CONTINGENCIES**

**A. Federal and state programs**

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

**B. Penalties**

During the previous fiscal years, the Charter School failed to file timely 990 tax returns due to a misunderstandings between previous management and previous auditors. Because of this, there is an outstanding penalty amount of approximately \$67,000 due to the IRS. The liability is currently in negotiations with the IRS and as of June 30, 2016, the Charter School is anticipating the penalty to be waived and is awaiting an outcome on negotiations.

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**Note 6: DEFINED BENEFIT PENSION PLANS - STATEWIDE**

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

Disclosures relating to these plans follow:

**A. Teachers Retirement Association (TRA)**

**1. Plan description**

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

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

**2. Benefits provided**

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

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

<b>Tier I:</b>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	1st ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

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**Note 6: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

With these provisions:

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

**or**

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

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans, which 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 also eligible for a refund of their employee contributions plus interest.

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

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**Note 6: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

**3. Contribution rate**

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

Plan	Ending June 30, 2015		Ending June 30, 2016	
	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.50%
Coordinated	7.50%	7.50%	7.50%	7.50%

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 340,207,590
Deduct employer contributions not related to future contribution efforts	(704,635)
Deduct TRA's contributions not included in allocation	<u>(435,999)</u>
Total employer contributions	339,066,956
Total non-employer contributions	<u>41,587,410</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 380,654,366</u></u>

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

**4. Merger of Duluth Teacher's Retirement Fund Association (DTRFA)**

Legislation enacted in 2014 merged the Duluth Teachers Retirement Fund Association (DTRFA) with TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	6/30/2014 CAFR	Restated
Total pension liability (a)	\$ 24,901,612,000	\$ 25,299,564,000
Plan fiduciary net position (b)	<u>20,293,684,000</u>	<u>20,519,756,000</u>
Net pension liability (a-b)	<u><u>\$ 4,607,928,000</u></u>	<u><u>\$ 4,779,808,000</u></u>

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**Note 6: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

**5. Actuarial assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability		
Actuarial Information		
Measurement Date		June 30, 2015
Valuation Date		July 1, 2015
Experience Study		October 30, 2009
Actuarial Cost Method		Entry Age Normal
Actuarial Assumptions		
Investment Rate of Return		8.00%
Wage Inflation		3.00%
Projected Salary Increase	3.50 - 12.00% - based on years of service	
Cost of Living Adjustment		2.00%
Mortality Assumption		
Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years.	
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.	
Post-disability	RP 2000 disabled retiree mortality, without adjustment.	

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005, to June 30, 2009, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.00
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Unallocated cash	2.00	0.50
Total	100.00 %	

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**Note 6: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

**6. Discount rate**

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2016 contribution rate, contributions from charter schools 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 available to make all projected future benefit payments of current active and inactive employees. 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.

**7. Net pension liability**

On June 30, 2016 the Charter School reported a liability of \$624,785 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Charter School's proportion of the net pension liability was based on the Charter School's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The Charter School's proportionate share was 0.0101 percent at the end of the measurement period and 0.0103 percent for the beginning of the year.

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

Charter School's proportionate share of net pension liability	\$ 624,785
State's proportionate share of net pension liability associated with the Charter School	76,373

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer. Section C contains the rate information.

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to increase from 2.0 percent annually with no increase to 2.5 percent as projected. The prior year valuation assumed a 2.5 percent increase commencing July 1, 2034.

For the year ended June 30, 2016 the charter school recognized negative pension expense of \$10,804.

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**Note 6: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

On June 30, 2016 the Charter School had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 32,636	\$ -
Changes in actuarial assumptions	47,409	-
Net difference between projected and actual earnings on plan investments	-	47,785
Changes in proportion	139,940	-
Contributions to TRA subsequent to the measurement date.	34,016	-
	<u>254,001</u>	<u>47,785</u>
Total	<u>\$ 254,001</u>	<u>\$ 47,785</u>

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

2017	\$ 34,419
2018	34,419
2019	34,419
2020	61,434
2021	7,509

**8. Pension liability sensitivity**

The following presents the charter school's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent as well as the liability measured using one percent lower and one percent higher.

Charter School proportionate share of NPL		
1 Percent Decrease (7.00%)	Current (8.00%)	1 Percent Increase (9.00%)
\$ 951,003	\$ 624,785	\$ 352,546

**9. Pension plan fiduciary net position**

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

**B. Public Employees Retirement Association (PERA)**

**1. Plan description**

The Charter School participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

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**Note 6: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

General Employees Retirement Plan (GERF)

All full-time and certain part-time employees of the Charter School, other than teachers, are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**2. *Benefits provided***

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

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 percent funded, or have fallen below 80 percent, are given 1 percent increases.

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.

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 PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

**3. *Contributions***

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF contributions

Basic Plan members and Coordinated Plan members are required to contribute 9.10 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2015. Coordinated Plan members contributed 6.50 percent of pay in 2016. In calendar year 2015, the Charter School was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.50 percent for Coordinated Plan members. The Charter School's contributions to the GERF for the years ended June 30, 2016, 2015, and 2014 were \$6,437, \$3,903, and \$2,654, respectively. The Charter School's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.



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**Note 6: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

**4. Pension costs**

At June 30, 2016 the Charter School reported a liability of \$46,643 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Charter School's proportion of the net pension liability was based on the Charter School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the Charter School's proportion was 0.0009 percent, which was an increase of 0.0002 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the Charter School recognized pension expense of \$32,457 for its proportionate share of GERF's pension expense.

At June 30, 2016 the Charter School reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 337	\$ 2,352
Changes in actuarial assumptions	3,000	-
Net difference between projected and actual earnings on plan investments	2,511	-
Changes in proportion	8,116	-
Contributions to GERF subsequent to the measurement date.	6,437	-
Total	\$ 20,401	\$ 2,352

Deferred outflows of resources totaling \$6,437 related to pensions resulting from Charter School contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2017	\$ 4,060
2018	4,060
2019	2,391
2020	1,101

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**Note 6: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

**5. Actuarial assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

There were no changes in actuarial assumptions in 2015.

The long-term expected rate of return on pension plan investments is 7.9 percent. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.00
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Cash	2.00	0.50
	<hr/>	
Total	<u>100.00 %</u>	

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**Note 6: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

**6. Discount rate**

The discount rate used to measure the total pension liability was 7.9 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

**7. Pension liability sensitivity**

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

Charter School proportionate share of NPL		
1 Percent Decrease (6.90%)	Current (7.90%)	1 Percent Increase (8.90%)
\$ 73,339	\$ 46,643	\$ 24,596

**8. Pension plan fiduciary net position**

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or (800) 652-9026.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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FOR THE YEAR ENDED  
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 FOR THE YEAR ENDED JUNE 30, 2016

**Schedule of employer's share of TRA net pension liability**

Required Supplementary Information							
Year	Charter School's Proportion of the Net Pension Liability	Charter School's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the Charter School (b)	Total (a+b)	Charter School's Covered Payroll (c)	Charter School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0101 %	\$ 624,785	\$ 76,373	\$ 701,158	\$ 512,667	121.9 %	76.8 %
2014	0.0103	474,617	33,314	507,931	471,557	100.6	81.5

**Schedule of employer's TRA contributions**

Required Supplementary Information					
Year	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Charter School's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 34,016	\$ 34,016	\$ -	\$ 453,547	7.5 %
2015	38,450	38,450	-	512,667	7.5
2014	33,009	33,009	-	471,557	7.0

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 FOR THE YEAR ENDED JUNE 30, 2016

**Schedule of employer's share of PERA net pension liability**

Year	Required Supplementary Information						
	Charter School's Proportion of the Net Pension Liability	Charter School's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the Charter School (b)	Total (a+b)	Charter School's Covered Payroll (c)	Charter School's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0009 %	\$ 46,643	\$ -	\$ 46,643	\$ 52,922	88.1 %	78.2 %
2014	0.0007	33,361	-	33,361	37,914	88.0	78.7

**Schedule of employer's PERA contributions**

Year	Required Supplementary Information				
	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Charter School's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
2016	\$ 6,437	\$ 6,437	\$ -	\$ 85,827	7.50 %
2015	3,903	3,903	-	52,922	7.38
2014	2,654	2,654	-	37,914	7.00

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**INDIVIDUAL FUND SCHEDULE AND TABLE**

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2016

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NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 GENERAL FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES  
 FOR THE YEAR ENDED JUNE 30, 2016  
 (With comparative actual amounts for the year ended June 30, 2015)

	2016			Variance with Final Budget	2015
	Budgeted Amounts		Actual Amounts		Actual
	Original	Final			Amounts
<b>REVENUES</b>					
Revenue from Federal sources	\$ 60,100	\$ 104,066	\$ 100,985	\$ (3,081)	\$ 268,280
Revenue from state sources, net	1,428,519	1,334,100	1,261,021	(73,079)	1,448,883
Other local and county revenue	8,400	8,400	6,202	(2,198)	4,687
<b>TOTAL REVENUES</b>	<b>1,497,019</b>	<b>1,446,566</b>	<b>1,368,208</b>	<b>(78,358)</b>	<b>1,721,850</b>
<b>EXPENDITURES</b>					
Current					
Administration					
Salaries	-	-	-	-	60,512
Fringe benefits	-	-	-	-	25,908
Supplies and materials	-	-	65	(65)	-
Other	13,000	26,950	8,717	18,233	12,649
<b>Total administration</b>	<b>13,000</b>	<b>26,950</b>	<b>8,782</b>	<b>18,168</b>	<b>99,069</b>
District support services					
Salaries	20,500	21,875	29,373	(7,498)	38,038
Fringe benefits	28,579	22,314	4,379	17,935	25,928
Purchased services	84,320	87,810	99,851	(12,041)	74,926
Supplies and materials	7,500	8,100	9,578	(1,478)	16,916
Other	1,000	-	986	(986)	4,148
<b>Total district support services</b>	<b>141,899</b>	<b>140,099</b>	<b>144,167</b>	<b>(4,068)</b>	<b>159,956</b>
Elementary and secondary regular instruction					
Salaries	521,583	490,656	487,016	3,640	417,039
Fringe benefits	104,878	94,840	102,367	(7,527)	77,657
Purchased services	18,702	31,091	21,902	9,189	27,672
Supplies and materials	11,498	4,983	4,554	429	154,414
Other	-	-	179	(179)	-
<b>Total elementary and secondary regular instruction</b>	<b>656,661</b>	<b>621,570</b>	<b>616,018</b>	<b>5,552</b>	<b>676,782</b>
Special education instruction					
Salaries	44,000	29,500	33,564	(4,064)	43,000
Fringe benefits	11,666	-	7,381	(7,381)	10,876
Purchased services	19,300	49,891	64,216	(14,325)	20,260
Supplies and materials	4,100	18,852	2,294	16,558	4,011
<b>Total special education instruction</b>	<b>79,066</b>	<b>98,243</b>	<b>107,455</b>	<b>(9,212)</b>	<b>78,147</b>

NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 GENERAL FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CONTINUED  
 FOR THE YEAR ENDED JUNE 30, 2016  
 (With comparative actual amounts for the year ended June 30, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
<b>EXPENDITURES - CONTINUED</b>					
Current - continued					
Instructional support services					
Salaries	\$ -	\$ -	\$ -	\$ -	\$ 7,838
Fringe benefits	-	-	-	-	1,187
Purchased services	19,500	19,751	17,426	2,325	19,409
Supplies and materials	2,000	3,100	3,222	(122)	251
	<u>21,500</u>	<u>22,851</u>	<u>20,648</u>	<u>2,203</u>	<u>28,685</u>
Total instructional support services					
	21,500	22,851	20,648	2,203	28,685
Pupil support services					
Purchased services	203,650	195,950	192,684	3,266	188,259
Supplies and materials	-	-	-	-	14
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14</u>
Total pupil support services					
	203,650	195,950	192,684	3,266	188,273
Sites and buildings					
Purchased services	280,000	280,100	280,990	(890)	268,875
Supplies and materials	-	-	8	(8)	3,384
	<u>-</u>	<u>-</u>	<u>8</u>	<u>(8)</u>	<u>3,384</u>
Total sites and buildings					
	280,000	280,100	280,998	(898)	272,259
Fiscal and other fixed cost programs					
Purchased services	11,800	11,800	8,116	3,684	7,764
	<u>11,800</u>	<u>11,800</u>	<u>8,116</u>	<u>3,684</u>	<u>7,764</u>
Total current expenditures					
	1,407,576	1,397,563	1,378,868	18,695	1,510,935
Capital outlay					
Elementary and secondary regular instruction					
	-	-	-	-	45,201
Instructional support services	1,000	1,000	-	1,000	3,752
	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>	<u>3,752</u>
Total capital outlay					
	1,000	1,000	-	1,000	48,953
Debt service					
Principal	12,000	12,000	12,128	(128)	12,000
Interest and other charges	3,000	3,000	2,047	953	2,414
	<u>3,000</u>	<u>3,000</u>	<u>2,047</u>	<u>953</u>	<u>2,414</u>
Total debt service					
	15,000	15,000	14,175	825	14,414
<b>TOTAL EXPENDITURES</b>					
	<u>1,423,576</u>	<u>1,413,563</u>	<u>1,393,043</u>	<u>20,520</u>	<u>1,574,302</u>

NASHA SHKOLA  
 CHARTER SCHOOL NO. 4208  
 MINNETONKA, MINNESOTA  
 GENERAL FUND  
 SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CONTINUED  
 FOR THE YEAR ENDED JUNE 30, 2016  
 (With comparative actual amounts for the year ended June 30, 2015)

	2016				2015
	Budgeted Amounts		Actual Amounts	Variance with Final Budget	Actual Amounts
	Original	Final			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ 73,443	\$ 33,003	\$ (24,835)	\$ (57,838)	\$ 147,548
OTHER FINANCING SOURCES (USES)					
Transfers out	-	-	(7,616)	(7,616)	(27,216)
NET CHANGE IN FUND BALANCES	73,443	33,003	(32,451)	(65,454)	120,332
FUND BALANCES, JULY 1	137,215	137,215	137,215	-	16,883
FUND BALANCES, JUNE 30	<u>\$ 210,658</u>	<u>\$ 170,218</u>	<u>\$ 104,764</u>	<u>\$ (65,454)</u>	<u>\$ 137,215</u>

**Fiscal Compliance Report - 6/30/2016**  
**District: NASHA SHKOLA CHARTER SCH (4208-7)**

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$1,368,208	<u>\$1,368,205</u>	<u>\$3</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$1,393,043	<u>\$1,393,039</u>	<u>\$4</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$26,710	<u>\$26,710</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$0	<u>\$0</u>	<u>\$0</u>	4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.05 Deferred Maintenance	\$0	<u>\$0</u>	<u>\$0</u>	4.09 Alternative Facility Program	\$0	<u>\$0</u>	<u>\$0</u>
4.06 Health and Safety	\$0	<u>\$0</u>	<u>\$0</u>	4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.09 Alternative Facility Program	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>	<b>07 DEBT SERVICE</b>			
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.23 Certain Teacher Programs	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.24 Operating Capital	\$0	<u>\$0</u>	<u>\$0</u>	<i>Non Spendable:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted / Reserved:</i>			
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>	4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.41 Basic Skills Programs	\$0	<u>\$0</u>	<u>\$0</u>	<b>08 TRUST</b>			
4.45 Career Tech Programs	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.49 Safe School Crime - Crime Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net\$0 Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	<u>\$0</u>	<b>20 INTERNAL SERVICE</b>			
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net\$0 Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>	<b>25 OPEB REVOCABLE TRUST</b>			
<i>Restricted:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Committed:</i>				4.22 Unassigned Fund Balance (Net\$0 Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.18 Committed for Separation	\$0	<u>\$0</u>	<u>\$0</u>	<b>45 OPEB IRREVOCABLE TRUST</b>			
4.61 Committed Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
<i>Assigned:</i>				Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.62 Assigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				
<i>Unassigned:</i>							
4.22 Unassigned Fund Balance	\$78,054	<u>\$78,054</u>	<u>\$0</u>				
<b>02 FOOD SERVICES</b>							
Total Revenue	\$57,727	<u>\$57,726</u>	<u>\$1</u>				
Total Expenditures							

	\$62,926	<u>\$62,925</u>	<u>\$1</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

**04 COMMUNITY SERVICE**

Total Revenue	\$2,663	<u>\$2,662</u>	<u>\$1</u>
Total Expenditures	\$5,080	<u>\$5,079</u>	<u>\$1</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.31 Community Education	\$0	<u>\$0</u>	<u>\$0</u>
4.32 E.C.F.E	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
4.44 School Readiness	\$0	<u>\$0</u>	<u>\$0</u>
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
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**47 OPEB DEBT SERVICE**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

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**OTHER REQUIRED REPORTS**

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

Members of the Board of Education  
Nasha Shkola Charter School No. 4208  
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 and each major fund of Nasha Shkola Charter School No. 4208 (the Charter School) as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2016.

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

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

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 communication is not suitable for any other purpose.

ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
October 11, 2016



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*

Members of the Board of Education  
Nasha Shkola Charter School No. 4208  
Minnetonka, Minnesota

**Report on the Financial Statements**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Nasha Shkola Charter School No. 4208 (the Charter School), Minnetonka, Minnesota as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Charter School's basic financial statements and have issued our report thereon dated October 11, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

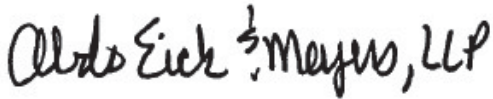
As part of obtaining reasonable assurance about whether the Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Responses as item 2016-001.

### **The Charter School's Response to the Finding**

The Charter School's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Charter School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



ABDO, EICK & MEYERS, LLP  
Minneapolis, Minnesota  
October 11, 2016

NASHA SHKOLA  
CHARTER SCHOOL NO. 4208  
MINNETONKA, MINNESOTA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2016

Finding      Description

**2016-001**    **Late filing of tax form 990**

*Condition:*            During our audit it came to our attention that the Charter School filed their 990 tax return past the due date in previous years.

*Criteria:*              In accordance with the Internal Revenue Code Title 26 Section 6033, organizations exempt from taxation under section 501(a), except those specifically excluded, must file annual information returns timely.

According to Internal Revenue Code Section 6652, failure to file information returns may result in a penalty of \$100 a day for each day late up to a maximum of \$50,000.

*Cause:*                The Charter School was unable to file the returns by the deadline under section 501(a). This was due to a mix up between the previous management company and the previous auditors.

*Effect:*                Due to the untimely filing of the returns, the IRS has assessed a penalty on the school.

*Recommendation:*   We recommend that the Charter School oversee the process to ensure the form gets completed timely in the future.

*Management response:*

Management is aware of the situation and has filed the prior returns as of May 2016.



A Charter School Of Russian Language and Culture

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952-746-1880 · 3500 Williston Road, Minnetonka, Minnesota 55345 · www.NashaShkolaMN.org

## **CORRECTIVE ACTION PLAN**

The following is our response to findings in the audit as of June 30, 2016.

### **FINDING 2016-001**

In accordance with the Internal Revenue Code Title 26 Section 6033, organizations exempt from taxation under section 501(a), except those specifically excluded, must file annual information returns timely. According to Internal Revenue Code Section 6652, failure to file information returns may result in a penalty of \$100 a day for each day late up to a maximum of \$50,000.

### **CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

2. Action Planned in Response to Finding:

The Charter School will monitor the status of the yearly return in future years.

3. Official Responsible for Ensuring CAP:

Paul Kinsley, the Executive Director, would be responsible for monitoring the status during the year.

4. Planned Completion Date for CAP:

During fiscal year 2017.

5. Plan to Monitor Completion of CAP:

Monitored by the Executive Director and the School Board.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Kinsley".

Paul Kinsley  
School Director