

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2019

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2019**

INTRODUCTORY SECTION

SCHOOL BOARD, ADMINISTRATION	1
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	2
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	15
STATEMENT OF ACTIVITIES	16
BALANCE SHEET – GOVERNMENTAL FUNDS	17
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	18
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS	19
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES	20
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET TO ACTUAL – GENERAL FUND	21
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET TO ACTUAL – FOOD SERVICE FUND	22
NOTES TO BASIC FINANCIAL STATEMENTS	23
REQUIRED SUPPLEMENTARY INFORMATION	
TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	44
TRA SCHEDULE OF SCHOOL CONTRIBUTIONS	45
GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	46
GERF SCHEDULE OF SCHOOL CONTRIBUTIONS	47

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

SUPPLEMENTARY INFORMATION

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	48
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OTHER REQUIRED REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	49
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	51
SCHEDULE OF FINDINGS AND RESPONSES	52

INTRODUCTORY SECTION

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2019**

SCHOOL BOARD

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Patrick Exner	June 2021	Board Chair
Abigail Hendricks	June 2020	Vice Chair
Antoinette Johns	June 2020	Secretary
Maren Rodriguez	June 2021	Community Member
John Groenke	June 2020	Community Member
Amir Orandi	June 2021	Community Member
Jonas Beugen	-	Ex-Officio

ADMINISTRATION

Jonas Beugen
Mohamed Selim

School Director
Assistant Director

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
Charter School No. 4239
Tesfa International School
Columbia Heights, Minnesota

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Report on Summarized Prior Year Information

We have previously audited Tesfa International School's June 30, 2018 financial statements of the governmental activities and each major fund, and we expressed an unmodified opinion on those audited financial statements in our report dated December 31, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Supplementary Information

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

The Uniform Financial Accounting and Reporting Standards compliance table is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Members of the Board of Education
Charter School No. 4239
Tesfa International School

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2019, on our consideration of Tesfa International School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Tesfa International School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tesfa International School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 3, 2019

REQUIRED SUPPLEMENTARY INFORMATION

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

This section of Tesfa International School – Charter School No. 4239's (the School) annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the School's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- § Total General Fund revenues were \$2,710,459 as compared to \$2,684,609 of expenditures.
- § Total net position of governmental activities at June 30, 2019 was \$(641,699).
- § The total fund balance of the General Fund increased from \$134,909 at June 30, 2018 to \$150,248 at the end of fiscal year 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

School-Wide Statements

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

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

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

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

- § *Governmental Activities* – Most of the School's basic services are included here, such as regular and special education, administration. State aid finances most of these activities.

Fund Financial Statements

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

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

The School has the following fund type:

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's *combined* net position was \$(641,699) and \$(796,205) on June 30, 2019 and 2018, respectively (see Table A-1).

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

	Governmental Activities as of June 30,		Percentage Change
	2019	2018	
Current and Other Assets	\$ 431,828	\$ 378,476	14.10 %
Capital Assets	43,471	75,047	(42.07)
Total Assets	<u>475,299</u>	<u>453,523</u>	4.80
Deferred Outflows of Resources	2,068,222	1,975,006	4.72
Current Liabilities	281,580	243,567	15.61
Net Pension Liability	1,160,692	2,590,889	(55.20)
Total Liabilities	<u>1,442,272</u>	<u>2,834,456</u>	(49.12)
Deferred Inflows of Resources	<u>1,742,948</u>	<u>390,278</u>	346.59
Net Position:			
Net Investment in Capital Assets	43,471	75,047	(42.07)
Unrestricted	<u>(685,170)</u>	<u>(871,252)</u>	21.36
Total Net Position	<u>\$ (641,699)</u>	<u>\$ (796,205)</u>	(19.41)

For the year ended June 30, 2019, the School reported an increase in net position of \$154,506.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

Changes in Net Position

The total cost of all programs and services including interest and fiscal charges was \$2,470,118 and \$3,262,044 for fiscal years 2019 and 2018, respectively. Total revenues exceeded expenses, increasing net position to a deficit balance of \$641,699 at June 30, 2019.

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

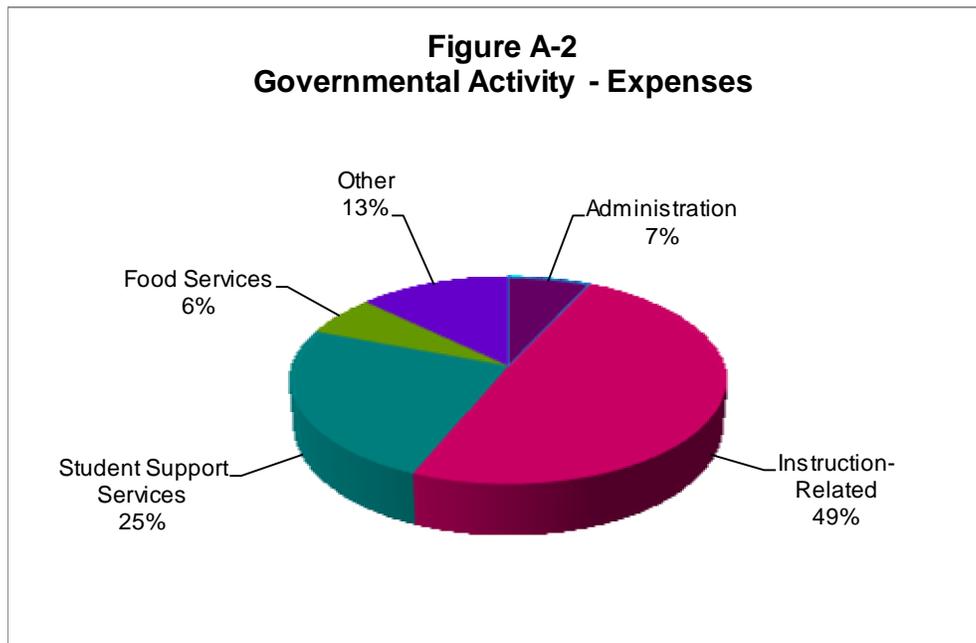
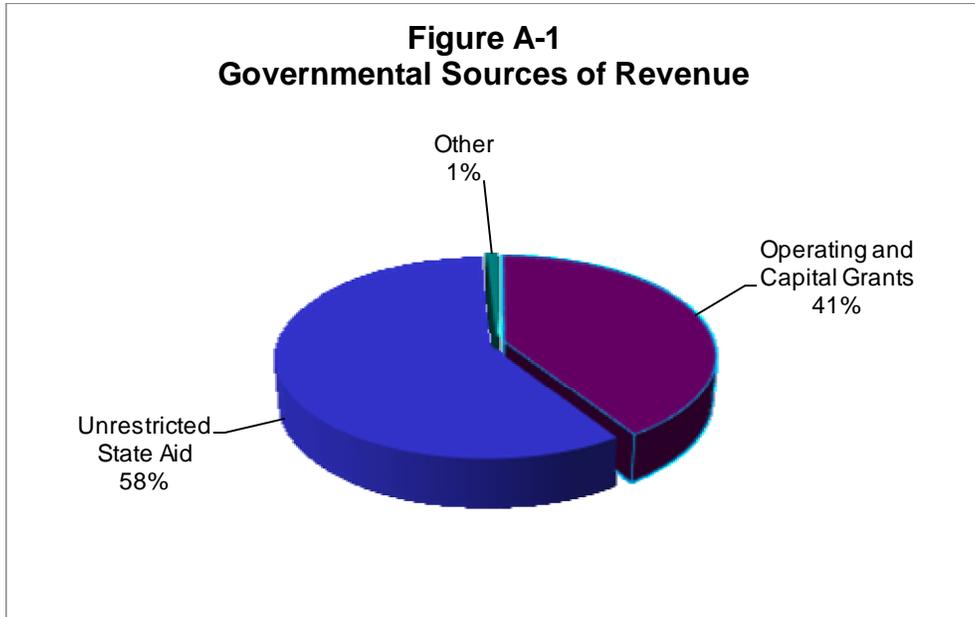
	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2019	2018	
Revenues			
<u>Program Revenues</u>			
Operating Grants and Contributions	\$ 1,072,907	\$ 862,442	24.40 %
<u>General Revenues</u>			
Unrestricted State Aid	1,531,341	1,588,107	(3.57)
Other	20,376	55,565	(63.33)
Total Revenues	<u>2,624,624</u>	<u>2,506,114</u>	4.73
Expenses			
Administration	171,619	342,707	(49.92)
District Support Services	234,252	435,032	(46.15)
Regular Instruction	630,105	1,196,968	(47.36)
Special Education Instruction	580,065	436,636	32.85
Instructional Support Services	7,756	15,402	(49.64)
Pupil Support Services	370,775	297,803	24.50
Sites and Buildings	306,897	376,373	(18.46)
Fiscal and Other Fixed Cost Programs	11,869	12,654	(6.20)
Food Service	156,780	148,469	5.60
Total Expenses	<u>2,470,118</u>	<u>3,262,044</u>	(24.28)
Change in Net Position	154,506	(755,930)	
Beginning Net Position	<u>(796,205)</u>	<u>(40,275)</u>	
Ending Net Position	<u>\$ (641,699)</u>	<u>\$ (796,205)</u>	

The School's total revenues were \$2,624,624 at June 30, 2019; an increase of \$118,510 from the prior year. Unrestricted state formula aid accounted for \$1,531,341 of total revenue for the year ended June 30, 2019, which amounted to 58% of the total revenues (see Figure A-1). Another 41% came from program revenue and the remainder of just over 1% from other general revenues.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

The cost of all *governmental* activities this year was \$2,470,118.

- § The federal government, restricted state sources, and private grant funds subsidized certain programs with grants and contributions (\$1,072,907).
- § The majority of remaining costs were paid for by unrestricted state aid.



**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

All governmental funds include not only funds received for the general operation of the School, which are used for classroom instruction, but also include resources from the entrepreneurial type fund of Food Service. Funding for the general operation of the School is controlled by the state and the School does not have the latitude to allocate money received in Food Service to enhance classroom instruction resources. The School cannot take funds from this restricted area and use the funds to hire teachers to enhance instruction.

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2019	2018		2019	2018	
Administration	\$ 171,619	\$ 342,707	(49.92)%	\$ 171,619	\$ 341,726	(49.78)%
District Support Services	234,252	435,032	(46.15)	234,252	434,995	(46.15)
Regular Instruction	630,105	1,196,968	(47.36)	518,329	1,020,394	(49.20)
Special Education Instruction	580,065	436,636	32.85	(32,541)	116,814	(127.86)
Instructional Support Services	7,756	15,402	(49.64)	7,756	15,402	(49.64)
Pupil Support Services	370,775	297,803	24.50	370,775	297,803	24.50
Sites and Buildings	306,897	376,373	(18.46)	101,118	147,510	(31.45)
Fiscal and Other Fixed Cost Programs	11,869	12,654	(6.20)	11,869	12,654	(6.20)
Food Service	156,780	148,469	5.60	14,034	12,304	14.06
Total	<u>\$ 2,470,118</u>	<u>\$ 3,262,044</u>	(24.28)	<u>\$ 1,397,211</u>	<u>\$ 2,399,602</u>	(41.77)

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds as well. At June 30, 2019, the School's governmental funds reported a combined fund balance of \$150,248.

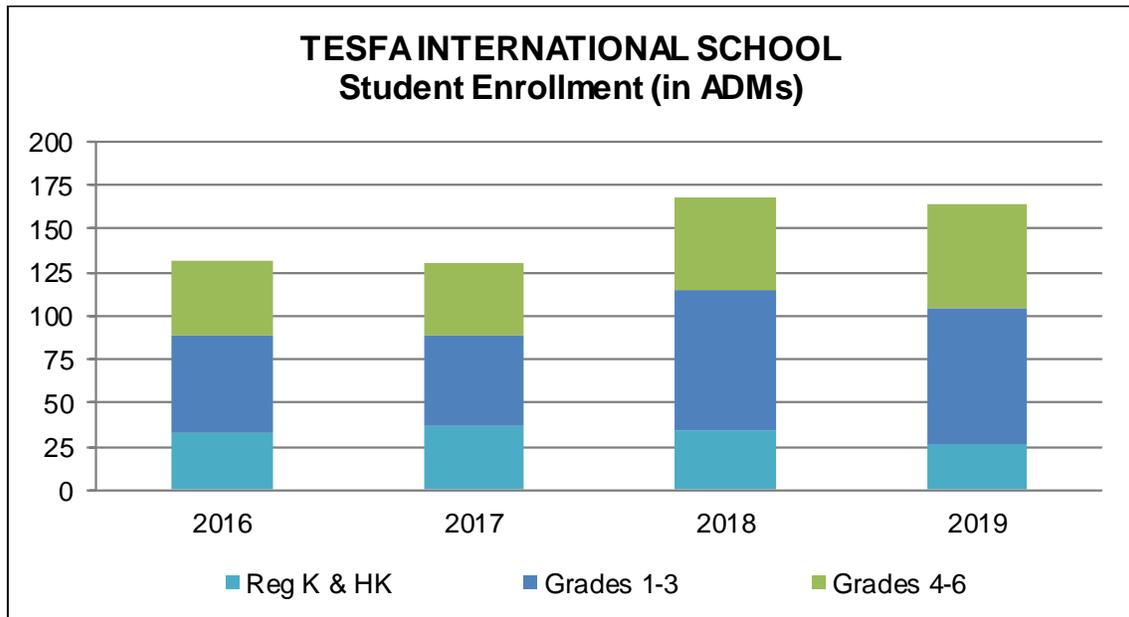
Revenues and other financing sources for the School's governmental funds were \$2,863,716 while total expenditures and other financing uses were \$2,848,377. This resulted in an increase to the combined fund balance over the prior year of \$15,339.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

ENROLLMENT

Enrollment is a critical factor in determining revenue with the predominant levels of General Fund revenue being determined by enrollment. The following chart shows the number of students over the last three years.

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



While fiscal 2019 had a very slight decline, it is anticipated the enrollment will increase during the next several years.

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 6. Approximately 90% of the General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 68% of personnel expenditures, with the remainder covered through the State's tuition billing system.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

	Year Ended		Change	
	June 30, 2019	June 30, 2018	Increase (Decrease)	Percent Change
Local Sources:				
Other	\$ 20,376	\$ 55,565	\$ (35,189)	(63.3)%
State Sources	2,558,752	2,123,916	434,836	20.5
Federal Sources	131,331	186,043	(54,712)	(29.4)
Total General Fund Revenue	<u>\$ 2,710,459</u>	<u>\$ 2,365,524</u>	<u>\$ 344,935</u>	14.6

Total General Fund Revenue increased by \$344,935 from the previous year. This increase is primarily due to an increase in the general education aid formula improvement provided by the Legislature as well as an increase special education funding received from the state of Minnesota.

Basic general education revenue is determined by multiple complex state formulas, largely enrollment driven, and consists of a specified minimum amount with variables such as socioeconomic indicators driving additional funding. For Minnesota charter schools the majority of all funding is made up of general education aid, special education aid and charter school lease aid. Other revenue consists of federal and private grant funding that is often expenditure driven.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Change	
	June 30, 2019	June 30, 2018	Increase (Decrease)	Percent Change
Salaries	\$ 1,258,070	\$ 1,133,440	\$ 124,630	11.0 %
Employee Benefits	413,162	355,174	57,988	16.3
Purchased Services	899,264	981,570	(82,306)	(8.4)
Supplies and Materials	52,406	68,594	(16,188)	(23.6)
Capital Expenditures	28,148	4,276	23,872	558.3
Other Expenditures	33,559	32,161	1,398	4.3
Total General Fund Expenditures	<u>\$ 2,684,609</u>	<u>\$ 2,575,215</u>	<u>\$ 109,394</u>	4.2

Total General Fund Expenditures increased by a net of \$109,394 from the previous year. A majority of this increase was related to salary and employee benefit cost increases to accommodate increased enrollment.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

In 2018-19, General Fund revenues exceeded expenditures and other financing uses by \$15,339. The total fund balance increased from \$134,909 at June 30, 2018 to \$150,248 at June 30, 2019. The fund balance is the single best measure of overall financial health, and the total fund balance at June 30, 2019, represents 5.6% of annual expenditures.

OTHER MAJOR FUNDS

Expenditures exceeded revenues in the Food Service Fund by \$10,511, resulting in a fund balance of \$-0- at June 30, 2019 after a transfer from the General Fund in the amount of \$10,511. This fund balance is required to be zero or a positive fund balance.

General Fund Budgetary Highlights

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

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

Total General Fund revenues were \$5,935 (or 0.22%) higher than the final amended budget. Total General Fund expenditures were less than the final amended budget by \$23,039 (or 0.85%). While the School's final budget for the General Fund anticipated that expenditures would exceed revenues by \$3,124, the actual result for the year shows a net increase in fund balance of \$15,339, which is net variance of \$18,463.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of the fiscal year on June 30, 2019, the School had invested \$162,692 in capital assets (see Table A-7). (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year ended June 30, 2019 was \$31,576.

**Table A-7
Capital Assets**

	<u>2019</u>	<u>2018</u>	<u>Percentage Change</u>
Equipment	\$ 162,692	\$ 162,692	-
Less: Accumulated Depreciation	<u>(119,221)</u>	<u>(87,645)</u>	36.0
Total District Capital Assets	<u><u>\$ 43,471</u></u>	<u><u>\$ 75,047</u></u>	(42.1)

Long-Term Liabilities

At year-end, the School had no long-term liabilities other than \$1,160,692 for its proportionate share of the net pension liability of TRA and PERA.

FACTORS BEARING ON THE 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. It is imperative that the School's financial management develop budgets with a surplus to be added to the unassigned fund balance in order to meet their fund balance policy requirements.

The School will strive to maintain its commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our constituents, state oversight agencies, lenders, customers, legislative leaders, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration Office, Tesfa International School, 1555 40th Avenue NE, Columbia Heights, Minnesota 55421.

BASIC FINANCIAL STATEMENTS

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
STATEMENT OF NET POSITION
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Governmental Activities	
	2019	2018
ASSETS		
Cash and Investments	\$ 39,575	\$ 10,917
Receivables:		
Other Governments	368,206	328,239
Other	-	3,094
Prepaid Items	24,047	36,226
Capital Assets:		
Other Capital Assets, Net of Depreciation	43,471	75,047
Total Assets	475,299	453,523
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pensions	2,068,222	1,975,006
 LIABILITIES		
Short-Term Borrowing	100,000	75,000
Salaries Payable	151,323	133,323
Accounts and Contracts Payable	30,257	35,244
Long-Term Liabilities:		
Net Pension Liability	1,160,692	2,590,889
Total Liabilities	1,442,272	2,834,456
 DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Pensions	1,742,948	390,278
 NET POSITION		
Investment in Capital Assets	43,471	75,047
Unrestricted	(685,170)	(871,252)
Total Net Position	\$ (641,699)	\$ (796,205)

See accompanying Notes to Basic Financial Statements.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

Functions	2019			2018	
	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position Total Governmental Activities	Net (Expense) Revenue and Change in Net Position Total Governmental Activities	Net (Expense) Revenue and Change in Net Position Total Governmental Activities
GOVERNMENTAL ACTIVITIES					
Administration	\$ 171,619	\$ -	\$ (171,619)	\$ (341,726)	
District Support Services	234,252	-	(234,252)	(434,995)	
Regular Instruction	630,105	111,776	(518,329)	(1,020,394)	
Special Education Instruction	580,065	612,606	32,541	(116,814)	
Instructional Support Services	7,756	-	(7,756)	(15,402)	
Pupil Support Services	370,775	-	(370,775)	(297,803)	
Sites and Buildings	306,897	205,779	(101,118)	(147,510)	
Fiscal and Other Fixed Cost Programs	11,869	-	(11,869)	(12,654)	
Food Service	156,780	142,746	(14,034)	(12,304)	
Total School District	<u>\$ 2,470,118</u>	<u>\$ 1,072,907</u>	(1,397,211)	(2,399,602)	
GENERAL REVENUES					
			1,531,341	1,588,107	
			20,376	55,565	
			<u>1,551,717</u>	<u>1,643,672</u>	
CHANGE IN NET POSITION					
			154,506	(755,930)	
			(796,205)	(40,275)	
NET POSITION - ENDING					
			<u>\$ (641,699)</u>	<u>\$ (796,205)</u>	

See accompanying Notes to Basic Financial Statements.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Major Funds		Total Governmental Funds	
	General	Food Service	2019	2018
ASSETS				
Cash	\$ 25,266	\$ 14,309	\$ 39,575	\$ 10,917
Receivables:				
Due from Minnesota Department of Education	342,751	-	342,751	321,415
Due from Federal through Minnesota Department of Education	24,352	1,103	25,455	6,824
Other Receivables	-	-	-	3,094
Prepays	24,047	-	24,047	36,226
Total Assets	<u>\$ 416,416</u>	<u>\$ 15,412</u>	<u>\$ 431,828</u>	<u>\$ 378,476</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Short-Term Borrowing	\$ 100,000	\$ -	\$ 100,000	\$ 75,000
Salaries Payable	89,260	-	89,260	108,211
Payroll Deductions and Employer Contributions Payable	62,063	-	62,063	25,112
Accounts and Contracts Payable	14,845	15,412	30,257	35,244
Total Liabilities	<u>266,168</u>	<u>15,412</u>	<u>281,580</u>	<u>243,567</u>
Fund Balance:				
Nonspendable:				
Prepays	24,047	-	24,047	36,226
Unassigned	126,201	-	126,201	98,683
Total Fund Balance	<u>150,248</u>	<u>-</u>	<u>150,248</u>	<u>134,909</u>
Total Liabilities and Fund Balance	<u>\$ 416,416</u>	<u>\$ 15,412</u>	<u>\$ 431,828</u>	<u>\$ 378,476</u>

See accompanying Notes to Basic Financial Statements.

**TESFA INTERNATIONAL SCHOOL
 CHARTER SCHOOL NO. 4239
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2019
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
Total Fund Balance for Governmental Funds	\$ 150,248	\$ 134,909
<p>Total net position reported for governmental activities in the statement of net position is different because:</p> <p>Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:</p>		
Equipment, Net of Accumulated Depreciation	43,471	75,047
<p>The School's Net Pension Liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:</p>		
Net Pension Liability	(1,160,692)	(2,590,889)
Deferred Inflows of Resources - Pensions	(1,742,948)	(390,278)
Deferred Outflows of Resources - Pensions	2,068,222	1,975,006
Total Net Position of Governmental Activities	\$ (641,699)	\$ (796,205)

See accompanying Notes to Basic Financial Statements.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

	Major Funds		Total Governmental Funds	
	General	Food Service	2019	2018
REVENUES				
Local Sources:				
Other	\$ 20,376	\$ 22	\$ 20,398	\$ 55,565
State Sources	2,558,752	3,081	2,561,833	2,127,073
Federal Sources	131,331	139,643	270,974	319,051
Total Revenues	<u>2,710,459</u>	<u>142,746</u>	<u>2,853,205</u>	<u>2,501,689</u>
EXPENDITURES				
Current:				
Administration	274,498	-	274,498	243,414
District Support Services	227,013	-	227,013	378,674
Elementary and Secondary Regular Instruction	865,493	-	865,493	872,843
Special Education Instruction	604,267	-	604,267	375,696
Instructional Support Services	7,756	-	7,756	15,402
Pupil Support Services	360,228	-	360,228	297,803
Sites and Buildings	305,337	-	305,337	374,453
Fiscal and Other Fixed Cost Programs	11,869	-	11,869	12,654
Food Service	-	153,257	153,257	148,469
Capital Outlay	28,148	-	28,148	4,276
Total Expenditures	<u>2,684,609</u>	<u>153,257</u>	<u>2,837,866</u>	<u>2,723,684</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	25,850	(10,511)	15,339	(221,995)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	10,511	10,511	12,304
Transfers Out	(10,511)	-	(10,511)	(12,304)
Total Other Financing Sources (Uses)	<u>(10,511)</u>	<u>10,511</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	15,339	-	15,339	(221,995)
FUND BALANCE				
Beginning of Year	134,909	-	134,909	356,904
End of Year	<u>\$ 150,248</u>	<u>\$ -</u>	<u>\$ 150,248</u>	<u>\$ 134,909</u>

See accompanying Notes to Basic Financial Statements.

**TESFA INTERNATIONAL SCHOOL
 CHARTER SCHOOL NO. 4239
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGE IN FUND BALANCE
 GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2019
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

	2019	2018
Net Change in Fund Balance - Total Governmental Funds	\$ 15,339	\$ (221,995)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount by which depreciation exceeded capital outlays in the current period is:

Capital Outlays	-	4,276
Depreciation Expense	(31,576)	(31,148)

Pension expenditures in the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources.

	170,743	(507,063)
Total	\$ 154,506	\$ (755,930)

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Other	\$ 3,000	\$ 3,214	\$ 20,376	\$ 17,162
State Sources	2,601,654	2,564,208	2,558,752	(5,456)
Federal Sources	114,200	137,102	131,331	(5,771)
Total Revenues	<u>2,718,854</u>	<u>2,704,524</u>	<u>2,710,459</u>	<u>5,935</u>
EXPENDITURES				
Current:				
Administration	369,488	260,434	274,498	14,064
District Support Services	196,000	225,926	227,013	1,087
Elementary and Secondary Regular Instruction	943,486	893,426	865,493	(27,933)
Special Education Instruction	306,473	625,743	604,267	(21,476)
Instructional Support Services	20,000	-	7,756	7,756
Pupil Support Services	441,001	354,382	360,228	5,846
Sites and Buildings	319,348	304,853	305,337	484
Fiscal and Other Fixed Cost Programs	13,500	14,843	11,869	(2,974)
Capital Outlay	27,100	28,041	28,148	107
Total Expenditures	<u>2,636,396</u>	<u>2,707,648</u>	<u>2,684,609</u>	<u>(23,039)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	82,458	(3,124)	25,850	28,974
OTHER FINANCING USES				
Transfers Out	-	-	(10,511)	(10,511)
NET CHANGE IN FUND BALANCE	<u>\$ 82,458</u>	<u>\$ (3,124)</u>	15,339	<u>\$ 18,463</u>
FUND BALANCE				
Beginning of Year			<u>134,909</u>	
End of Year			<u>\$ 150,248</u>	

See accompanying Notes to Basic Financial Statements.

**TESFA INTERNATIONAL SCHOOL
 CHARTER SCHOOL NO. 4239
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET TO ACTUAL
 FOOD SERVICE FUND
 YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
State Sources	\$ -	\$ 3,300	\$ 3,081	\$ (219)
Federal Sources	126,825	134,398	139,643	5,245
Total Revenues	<u>126,825</u>	<u>137,698</u>	<u>142,746</u>	<u>5,048</u>
EXPENDITURES				
Current:				
Food Service	<u>140,175</u>	<u>132,118</u>	<u>153,257</u>	<u>21,139</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	(13,350)	5,580	(10,511)	(16,091)
OTHER FINANCING SOURCES				
Transfers In	<u>12,000</u>	<u>-</u>	<u>10,511</u>	<u>10,511</u>
NET CHANGE IN FUND BALANCE				
	<u>\$ (1,350)</u>	<u>\$ 5,580</u>	<u>-</u>	<u>\$ (5,580)</u>
FUND BALANCE				
Beginning of Year			<u>-</u>	
End of Year			<u>\$ -</u>	

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Tesfa International School No. 4239 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

Charter School No. 4239, also known as Tesfa International School (the School), is a nonprofit corporation that was formed, and began operating, on August 25, 2014, in accordance with Minnesota Statutes. The School is authorized by Volunteers of America-Minnesota under the terms of an authorizer agreement extending through fiscal year 2021. The governing body consists of a board of directors composed of a Chair, Secretary, and such other officers as the Board of Education shall determine from time to time.

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

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

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

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

The School-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government entity as a whole. These statements include all the financial activities of the School.

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

The School applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the School-wide financial statements.

Separate Fund financial statements are provided for the governmental funds.

D. Measurement Focus and Basis of Accounting

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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

1. Revenue Recognition

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

2. Recording of Expenditures

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

Description of Funds

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Major Governmental Fund

General Fund

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

Food Service Fund

The Food Service fund accounts for all activity related to the food service program. Primary revenue sources in the Food Service Fund are state and federal aids. The Food Service Fund also receives funds via a transfer from the General Fund.

E. Income Taxes

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

F. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

G. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with GAAP. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund and the Food Service Special Revenue Fund. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgeting (Continued)

Procedurally, in establishing the budgetary data reflected in these financial statements, the Director submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board. Budget amounts include mid-year budget amendments that changed revenues and expenditures as follows:

	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
<u>Revenues</u>			
General Fund	\$ 2,718,854	\$ (14,330)	\$ 2,704,524
Special Revenue Fund:			
Food Service Fund	126,825	10,873	137,698
<u>Expenditures</u>			
General Fund	\$ 2,636,396	\$ 71,252	\$ 2,707,648
Special Revenue Fund:			
Food Service Fund	140,175	(8,057)	132,118

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

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

H. Cash and Investments

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Accounts Receivable

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

J. Prepaid Items

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

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The School maintains a threshold of \$2,500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the School-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 7 years for furniture, fixtures, and equipment.

L. Deferred Outflows/Inflows of Resources

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

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Pensions

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

N. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance related to prepaids, inventories, and long-term receivables. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the School Board. The School Board by majority vote, may assign fund balances to be used for specific purposes. Unassigned fund balances are considered the remaining amounts.

Although the School Board has not adopted a spending prioritization policy for restricted fund balance, the School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted fund balance is available. The default spending priority per GASB Statement No. 54 for unrestricted fund balance is when an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts. The School's policy is to maintain an unassigned fund balance that is no less than 10% and no more than 20% of the annual revenues in the General Fund.

O. Risk Management

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

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Net Position

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

Q. Summarized Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

NOTE 2 DEPOSITS

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

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

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

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The School's deposits in banks at June 30, 2019 in the amount of \$42,899 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 STEWARDSHIP AND ACCOUNTABILITY

Actual expenditures exceeded the budgeted amounts at June 30, 2019 as follows:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Fund:			
Food Service Fund	\$ 132,118	\$ 153,257	\$ 21,139

The overages were considered by School management to be the result of necessary expenditures critical to operations and were approved by the Board.

NOTE 4 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Being Depreciated:				
Equipment, Furniture, and Fixtures	\$ 162,692	\$ -	\$ -	\$ 162,692
Accumulated Depreciation for:				
Equipment, Furniture, and Fixtures	<u>(87,645)</u>	<u>(31,576)</u>	<u>-</u>	<u>(119,221)</u>
Governmental Activities Capital Assets, Net	<u>\$ 75,047</u>	<u>\$ (31,576)</u>	<u>\$ -</u>	<u>\$ 43,471</u>

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

Governmental Activities	
District Support Services	\$ 1,291
Elementary and Secondary Regular Instruction	30,285
Total Depreciation Expense, Governmental Activities	<u>\$ 31,576</u>

NOTE 5 SHORT-TERM DEBT

The School entered into a \$100,000 line of credit agreement with Propel Nonprofits (formerly Nonprofits Assistance Fund) in February 2019 to meet short-term working capital needs. The line of credit agreement has an interest rate of 6.5% and matures October 31, 2019. Principal payments of \$50,000 are due on August 31, 2019 and September 30, 2019 with the remaining principal and accrued interest due on October 31, 2019. The line of credit is secured by a security agreement dated February 15th, 2019. At June 30, 2019, the School also had a \$100,000 line of credit agreement with the same terms. Borrowing activity under these agreements was as follows for the fiscal year:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2019</u>
Line of Credit	<u>\$ 75,000</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 100,000</u>

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 INTERFUND TRANSFERS

The School's Food Service Fund incurred an operating deficit of \$10,511 that was eliminated through a transfer from the General Fund at June 30, 2019. Under state accounting guidelines the School is required to eliminate such a deficit either through operations or through a fund balance transfer from the General Fund during the next fiscal year.

	Transfers In	Transfers Out
General Fund	\$ -	\$ 10,511
Special Revenue Fund:		
Food Service Fund	10,511	-
Total	\$ 10,511	\$ 10,511

NOTE 7 DEFINED BENEFIT PENSION PLANS

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

A. Plan Description

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

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

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

2. Teachers Retirement Fund (TRA)

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

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

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

B. Benefits Provided

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

PERA: Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Benefits Provided (Continued)

1. GERF Benefits

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

2. TRA Benefits

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

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

Tier 1 Benefits

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

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0% per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Or with the following provisions:

Tier II Benefits

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

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

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

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

C. Contributions

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

1. GERF Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2019. In fiscal year 2019, the School was required to contribute 7.5% for Coordinated Plan members. The School's contributions to the General Employees Fund for the plan's fiscal year ended June 30, 2019 were \$20,879. The School's contributions were equal to the required contributions for each year as set by state statute.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Continued)

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for fiscal year 2019 were:

	2019	
	Employee	Employer
Basic	11.00%	11.70%
Coordinate	7.50%	7.71%

The School's contributions to TRA for the plan's fiscal year ended June 30, 2019 were \$61,568. The School's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. GERS Pension Costs

At June 30, 2019, the School reported a liability of \$227,451 for its proportionate share of the General Employees Fund's net pension liability. The School's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the School totaled \$7,576, for a total net pension liability of \$235,027 associated with the School. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportionate share of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the School's proportionate share was 0.0041% which was an increase of 0.0001% from its proportionate share measured as of June 30, 2017.

For the year ended June 30, 2019, the School recognized pension expense of \$68,121 for its proportionate share of the General Employees Fund's pension expense. In addition, the School recognized an additional \$1,767 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs

At June 30, 2019, the School reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 6,020	\$ 6,634
Changes in Actuarial Assumptions	21,727	25,557
Net Difference Between Projected and Actual Earnings on Plan Investments	-	28,271
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	90,668	-
District Contributions Subsequent to the Measurement Date	26,683	-
Total	<u>\$ 145,098</u>	<u>\$ 60,462</u>

A total of \$26,683 reported as deferred outflows of resources related to pensions resulting from 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, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ 59,649
2021	19,939
2022	(16,885)
2023	(4,750)
2024	-
Thereafter	-

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs

At June 30, 2019, the School reported a liability of \$933,241 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the state of Minnesota, city of Minneapolis, and Minneapolis School District. The School's proportionate share was .0149% at the end of the measurement period and .0117% for the beginning of the period.

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

Description	Amount
School's Proportionate Share of the TRA Net Pension Liability	\$ 933,241
State's Proportionate Share of the Net Pension Liability Associated with the School	87,927

For the year ended June 30, 2019, the School recognized negative pension expense of \$156,873. It also recognized \$61,195 as a decrease to pension expense and negative grant revenue for the support provided by direct aid.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 9,954	\$ 18,822
Changes in Actuarial Assumptions	1,204,987	1,591,293
Net Difference Between Projected and Actual Earnings on Plan Investments	-	72,371
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	632,433	-
District Contributions Subsequent to the Measurement Date	75,750	-
Total	<u>\$ 1,923,124</u>	<u>\$ 1,682,486</u>

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

Of the resources related to pensions resulting from School contributions to TRA subsequent to the measurement date, \$75,750 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ 262,451
2021	214,476
2022	155,289
2023	(282,720)
2024	(184,608)
Thereafter	-

E. Actuarial Assumptions

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

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

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

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

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

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

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

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

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

- The single discount rate was changed from 5.12% to 7.5%.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36 %	5.10 %
International Stocks	17	5.30
Bonds (Fixed Income)	20	0.75
Alternative Assets (Private Markets)	25	5.90
Cash	2	-
Totals	<u>100 %</u>	

F. Discount Rate

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

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

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

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

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.50%	7.50%	8.50%
School's Proportionate Share of the GERF Net Pension Liability	\$ 369,637	\$ 227,451	\$ 110,081
<u>TRA Discount Rate</u>	6.50%	7.50%	8.50%
School's Proportionate Share of the TRA Net Pension Liability	\$ 1,485,205	\$ 933,241	\$ 482,653

H. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary's net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

Detailed information about TRA's fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

NOTE 8 COMMITMENTS AND CONTINGENCIES

A. Federal Grants

Amounts received or receivable from federal 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.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Lease Commitments and Terms

In April 2017, the School entered into a lease agreement with First Lutheran Church of Columbia Heights for educational space located in Columbia Heights, Minnesota commencing July 1, 2017. The term of the original lease agreement was for 24 months covering the period July 1, 2017 through June 30, 2019. The lease was extended to cover the additional three-year period July 1, 2019 through June 30, 2022. The School is also responsible for its share of operating costs. The total amount of rent owed under the terms of the lease agreement for fiscal 2019 was \$240,282.

Future minimum rental payments required under the operating lease are as follows:

<u>Year Ending June 30,</u>	<u>Schedule of Minimum Base Rents</u>
2020	\$ 249,660
2021	262,800
2022	275,940
Total	<u>\$ 788,400</u>

For fiscal 2019, the School qualified for state charter school lease aid of \$215,719, based on a statutory cap equal to \$1,314 per ADM served. The lease aid may be prorated if the statewide appropriation is insufficient to fully pay the amounts owed.

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

REQUIRED SUPPLEMENTARY INFORMATION

TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST FOUR MEASUREMENT PERIODS*

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

	Measurement Date June 30,			
	2018	2017	2016	2015
School's Proportion of the Net Pension Liability	0.0149%	0.0117%	0.0112%	0.0012%
School's Proportionate Share of the Net Pension Liability	\$ 933,241	\$ 2,335,532	\$ 2,671,467	\$ 74,323
State's Proportionate Share of the Net Pension Liability Associated with School	87,927	225,223	267,619	8,786
Total	<u>\$ 1,021,168</u>	<u>\$ 2,560,755</u>	<u>\$ 2,939,086</u>	<u>\$ 83,109</u>
School's Covered Payroll	\$ 951,960	\$ 641,587	\$ 583,893	\$ 1,757,213
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	98.03%	364.02%	457.53%	4.23%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.07%	51.57%	44.88%	76.80%

*Ten years of data will eventually be presented as it becomes available.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
TRA SCHEDULE OF SCHOOL CONTRIBUTIONS
LAST FIVE FISCAL YEARS***

TRA Schedule of School Contributions

	Fiscal Year Ended June 30,				
	2019	2018	2017	2016	2015
Statutorily Required Contribution	\$ 61,568	\$ 71,397	\$ 48,119	\$ 43,792	\$ 4,719
Contributions in Relation to the Statutorily Required Contribution	(61,568)	(71,397)	(48,119)	(43,792)	(4,719)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 820,907	\$ 951,960	\$ 641,587	\$ 583,893	\$ 62,920
Contributions as a Percentage of Covered Payroll	7.71%	7.50%	7.50%	7.50%	7.50%

*Ten years of data will eventually be presented as it becomes available.

**TESFA INTERNATIONAL SCHOOL
 CHARTER SCHOOL NO. 4239
 GERS SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 LAST THREE MEASUREMENT PERIODS***

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

	Measurement Date June 30,		
	2018	2017	2016
School's Proportion of the Net Pension Liability	0.0041%	0.0040%	0.0019%
School's Proportionate Share of the Net Pension Liability	\$ 227,451	\$ 255,357	\$ 154,271
State's Proportionate Share of the Net Pension Liability Associated with School	7,576	3,239	1,989
Total	<u>\$ 235,027</u>	<u>\$ 258,596</u>	<u>\$ 156,260</u>
School's Covered Payroll	\$ 256,467	\$ 259,093	\$ 117,293
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	88.69%	98.56%	131.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.53%	75.90%	68.90%

*Ten years of data will eventually be presented as it becomes available.

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
GERF SCHEDULE OF SCHOOL CONTRIBUTIONS
LAST FOUR FISCAL YEARS***

GERF Schedule of School Contributions

	Fiscal Year Ended June 30,			
	2019	2018	2017	2016
Statutorily Required Contribution	\$ 20,879	\$ 19,235	\$ 19,432	\$ 8,797
Contributions in Relation to the Statutorily Required Contribution	(20,879)	(19,235)	(19,432)	(8,797)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School's Covered Payroll	\$ 278,387	\$ 256,467	\$ 259,093	\$ 117,293
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%

*Ten years of data will eventually be presented as it becomes available.

SUPPLEMENTARY INFORMATION

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. 4239
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2019**

	AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND			
Total Revenue	\$ 2,710,459	\$ 2,710,459	\$ -
Total Expenditures	2,684,609	2,684,608	1
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	24,047	24,047	-
<i>Restricted:</i>			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health and Safety	-	-	-
407 Capital Project Levy	-	-	-
408 Cooperative Programs	-	-	-
413 Projects Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	-	-	-
426 \$25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State-Approved Alternative Programs	-	-	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluations	-	-	-
441 Basic Skills Programs	-	-	-
445 Career and Technical Programs	-	-	-
448 Achievement and Integration	-	-	-
449 Sage Schools Crime Levy	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-
453 Unfunded Severance & Retirement Levy	-	-	-
464 Restricted Fund Balance	-	-	-
<i>Committed:</i>			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	-	-	-
<i>Assigned:</i>			
462 Assigned Fund Balance	-	-	-
<i>Unassigned:</i>			
422 Unassigned Fund Balance	126,201	126,201	-
02 FOOD SERVICE			
Total Revenue	142,746	142,747	(1)
Total Expenditures	153,257	153,257	-
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>			
452 OPEB Liability Not Held in Trust	-	-	-
464 Restricted Fund Balance	-	-	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-

OTHER REQUIRED REPORTS



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

Board of Education
Charter School No. 4239
Tesfa International School
Columbia Heights, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Tesfa International School, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Tesfa International School's basic financial statements, and have issued our report thereon dated December 3, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Tesfa International 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 Tesfa International School's internal control. Accordingly, we do not express an opinion on the effectiveness of Tesfa International 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 Tesfa International School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Tesfa International 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 Tesfa International School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 3, 2019



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Charter School No. 4239
Tesfa International School
Columbia Heights, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Tesfa International School as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Tesfa International School's basic financial statements, and have issued our report thereon dated December 3, 2019.

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

In connection with our audit, nothing came to our attention that caused us to believe that the School failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*, except as described in the Schedule of Findings and Responses as item 2019-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we have performed additional procedures; other matters may have come to our attention regarding the School's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The School's written response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The 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.

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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 3, 2019

**TESFA INTERNATIONAL SCHOOL
CHARTER SCHOOL NO. NO. 4239
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2019**

FINDINGS AND RESPONSES – MINNESOTA LEGAL COMPLIANCE

CURRENT YEAR

Finding 2019-001

Lack of Prompt Payment of Bills

Criteria or specific requirement: Minnesota Statutes requires charter schools to pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period, defined as within 35 days from the date of receipt for charter schools which have regularly scheduled meetings at least once a month.

Condition: We noted disbursements out of our sample that were not paid by the School within this standard payment period.

Cause: Invoices were not processed through the School's approval and accounts payable process in time to be paid within the standard payment period.

Effect: The School was not in compliance with state statutes related to payment of local government bills.

Recommendation: We recommend the School make every effort possible to ensure that invoices are approved and sent to accounts payable for payment in a timely manner.

Management Response: There is no disagreement with this finding.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The School will review their controls and procedures over the accounts payable process, and ensure that invoices are paid within the standard payment period.

Official Responsible for Ensuring CAP:

The School Director is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The planned completion date is June 30, 2019.

Plan to Monitor Completion of CAP:

The School Board will be monitoring this corrective action plan.