

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2022



CPAs | CONSULTANTS | WEALTH ADVISORS

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**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
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YEAR ENDED JUNE 30, 2022**

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INTRODUCTORY SECTION

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2022**

SCHOOL BOARD

| NAME | TERM ON BOARD EXPIRES | BOARD POSITION |
|------------------------|----------------------------------|-----------------------|
| Frank Ross | 6/30/22 | Chair |
| Claudia Gumbiner Hungs | 6/30/24 | Chair Elect |
| Becky Lund | 6/30/22 | Secretary |
| Sasha Ross | 6/30/24 | Treasurer |
| Nicholas LaRusso | 6/30/23 | Director |
| Melissa Hernandez | 6/30/23 | Director |
| Jennie Winter | 6/30/23 | Director |
| Diane Ruday | 6/30/23 | Director |
| Divya Karan | 6/30/22 | Director |

BUILDING COMPANY BOARD

| | |
|---------------|-----------|
| Scott Krizan | President |
| Ken Schlosser | Secretary |
| Jeff Ellerd | Treasurer |

ADMINISTRATION

| | |
|-------------------|------------------------|
| Dr. Brett Wedlund | Executive Director |
| Dr. Missy Johnson | Academic Director |
| Michael Pelofske | Upper School Principal |
| Brooke Tousignant | Lower School Principal |

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
Nova Classical Academy
Charter School No. 4098
St. Paul, Minnesota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Nova Classical Academy (the School), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Nova Classical Academy's basic financial statements as listed in the table of contents.

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 Nova Classical Academy, as of June 30, 2022, and the respective changes in financial position and budgetary comparison statements for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, effective July 1, 2021, the School adopted new accounting guidance for leases. The guidance requires lessees to recognize a right-to-use lease asset and corresponding lease liability for all leases with lease terms greater than twelve months. Our opinion is not modified with respect to this matter.

Prior Period Restatement

As discussed in Note 10 to the financial statements, the School restated the beginning fund balance of the food service fund to reflect unearned revenues and receivables related to previous student meal account balances which were not recognized in the prior year. The result was a decrease to beginning fund balance and the recognition of the related unearned revenues and receivables.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, TRA schedule of the school's proportionate share of the net pension liability, TRA schedule of school contributions, GERS schedule of the school's proportionate share of the net pension liability, and GERS schedule of school contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 Nova Classical Academy's basic financial statements. The Uniform Financial Accounting and Reporting Standards (UFARS) compliance table is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, Uniform Financial Accounting and Reporting Standards (UFARS) compliance table is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

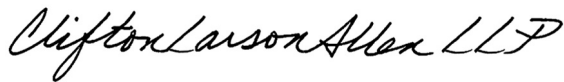
Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Members of the Board of Education
Nova Classical Academy
Charter School No. 4098

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2023, on our consideration of Nova Classical Academy'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 Nova Classical Academy'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 Nova Classical Academy's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Minneapolis, Minnesota
February 2, 2023

REQUIRED SUPPLEMENTARY INFORMATION

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

This section of Nova Classical Academy – Charter School No. 4098'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, 2022. Please read it in conjunction with the School's financial statements, which immediately follows this section. Certain comparative information between the current year (2021-2022) and the prior year (2020-2021) is required to be presented in the Management's Discussion and Analysis.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2021-2022 fiscal year include the following:

- Total General Fund revenues were \$11,439,091 as compared to \$10,934,452 of expenditures.
- Total fund balance of the General Fund increased by \$504,639.
- As of June 30, 2022, the Food Service fund had a fund balance of \$(12,335).
- As of June 30, 2022, the Community Service fund had a fund balance of \$176,105.
- Average number of students decreased by 18 from the prior year.
- Building Company revenues totaled \$1,445,547 as compared to expenditures of \$1,309,628. The building company also had other financing sources related to the issuance of refunding bonds totaling \$5,130,056 and other financing uses related to the refunded bond payments of \$5,130,000. This resulted in a Building Company increase in fund balance of \$135,975 and an ending fund balance in the Building Company Fund of \$2,683,843 as of June 30, 2022. This increase in fund balance was a result of the Building Company taking in more rent income than what was paid out in debt service and other miscellaneous building expenditures.

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.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

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, deferred outflows of resources, liabilities, and deferred inflows of resources – is one way to measure the School's financial health or *position*.

- Over time, increases or decreases in the School's net position 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 the School buildings and other facilities.

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

- *Governmental Activities* – All of the School's services are included here, including regular and special education, administration, food service, and community education. State and federal aids finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by debt covenants.
- The School establishes other accounts and funds to control and manage money for particular purposes (e.g., repaying its long-term debts).

The School has one fund type:

- *Governmental Funds* – All of the School's 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 that explain the relationship (or differences) between them.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's combined net position was a deficit of \$4,216,158 on June 30, 2022 (see Table A-1).

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

| | Governmental Activities as of June 30, | | Percentage Change |
|----------------------------------|---|----------------|----------------------|
| | 2022 | 2021 | |
| Current and Other Assets | \$ 8,241,350 | \$ 7,677,520 | 7.34 % |
| Capital Assets | 15,980,586 | 16,340,132 | (2.20) |
| Total Assets | 24,221,936 | 24,017,652 | 0.85 |
| Deferred Outflows of Resources | 4,782,704 | 5,701,261 | (16.11) |
| Current Liabilities | 1,136,128 | 1,280,017 | (11.24) |
| Net Pension Liability | 3,743,400 | 6,443,274 | (41.90) |
| Long-Term Liabilities | 21,339,138 | 21,487,052 | (0.69) |
| Total Liabilities | 26,218,666 | 29,210,343 | (10.24) |
| Deferred Inflows of Resources | 7,002,132 | 5,368,667 | 30.43 |
| Net Position: | | | |
| Net Investment in Capital Assets | (170,102) | 101,258 | (267.99) |
| Restricted | 176,105 | 84,286 | 108.94 |
| Unrestricted | (4,222,161) | (5,045,641) | (16.32) |
| Total Net Position | \$ (4,216,158) | \$ (4,860,097) | (13.25) |

The School's deficit unrestricted net position relates primarily to the net effect of School's proportionate share of the net pension liabilities, deferred inflows of resources, and deferred outflows of resources of the unfunded liabilities for the two statewide pension plans in which it participates (TRA and PERA). TRA and PERA experienced large decreases in their actuarial determined net pension liabilities that were partially offset by large increases in deferred inflows of resources as well as decreases in deferred outflows of resources, in the School's fiscal year 2022 financial statements, due to changes in actuarial assumptions and plan investments doing well during the actuarial measurement period.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

Changes in Net Position

The School's total revenues were \$12,068,939 for the year ended June 30, 2022. While 67% of revenue was from unrestricted state aid, program related charges and operating grants accounted for 31% of the revenue for the 2021-2022 school year (see Figure A-1).

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

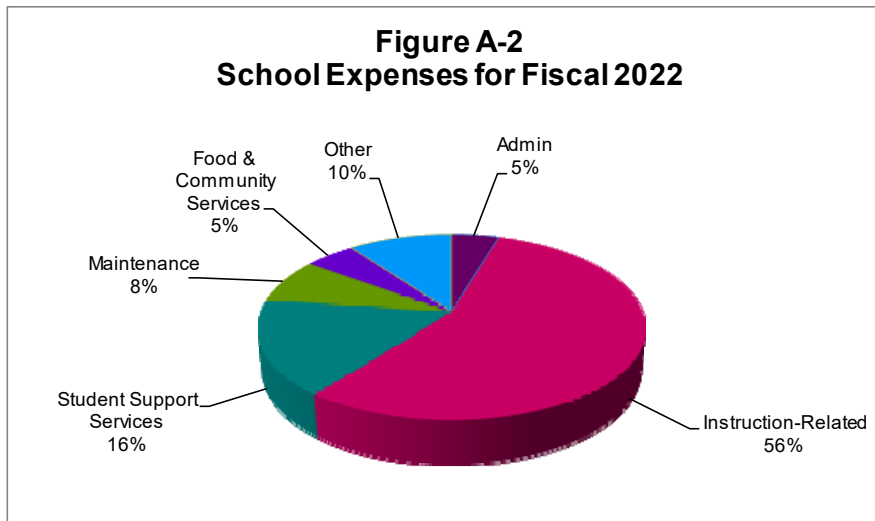
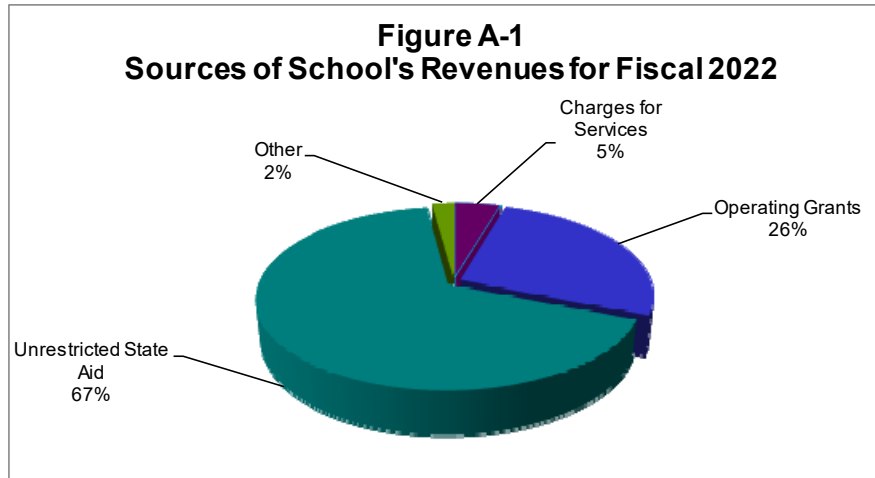
| | Governmental Activities for the Fiscal Year Ended June 30, | | Percentage Change |
|---|---|----------------|----------------------|
| | 2022 | 2021 | |
| Revenues | | | |
| <u>Program Revenues</u> | | | |
| Charges for Services | \$ 546,765 | \$ 183,424 | 198.09 % |
| Operating Grants and Contributions | 3,200,195 | 3,051,219 | 4.88 |
| <u>General Revenues</u> | | | |
| Unrestricted State Aid | 8,065,220 | 8,095,845 | (0.38) |
| Investment Earnings | 5,296 | 6,005 | (11.81) |
| Debt Forgiveness | - | 1,212,200 | (100.00) |
| Other | 251,463 | 167,502 | 50.13 |
| Total Revenues | 12,068,939 | 12,716,195 | (5.09) |
| Expenses | | | |
| Administration | 531,105 | 520,358 | 2.07 |
| District Support Services | 1,224,961 | 1,222,863 | 0.17 |
| Regular Instruction | 5,089,967 | 5,767,449 | (11.75) |
| Special Education Instruction | 1,298,143 | 1,300,993 | (0.22) |
| Instructional Support Services | 20,854 | 14,240 | 46.45 |
| Pupil Support Services | 629,207 | 576,351 | 9.17 |
| Sites and Buildings | 878,877 | 783,307 | 12.20 |
| Fiscal and Other Fixed Cost Programs | 65,115 | 59,811 | 8.87 |
| Food Service | 445,946 | 105,145 | 324.12 |
| Community Service | 120,543 | 192,979 | (37.54) |
| Interest and Fiscal Charges on Long-Term Liabilities | 1,095,720 | 1,137,940 | (3.71) |
| Total Expenses | 11,400,438 | 11,681,436 | (2.41) |
| Change in Net Position | 668,501 | 1,034,759 | |
| Beginning Net Position | (4,860,097) | (5,894,856) | |
| Prior Period Adjustment | (24,562) | - | |
| Beginning Net Position, as Restated | (4,884,659) | (5,894,856) | |
| Ending Net Position | \$ (4,216,158) | \$ (4,860,097) | |

The total cost of all programs and services was \$11,400,438. Revenues exceeded expenses, increasing net position by \$668,501 from the prior year. The majority of the net deficit ending net position related to the School's proportionate share of the net pension liabilities, deferred inflows of resources, and deferred outflows of resources of the unfunded liabilities for the two statewide pension plans in which it participates (TRA and PERA) that are recorded in accordance with GASB Statement No. 68.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

The cost of all governmental activities this year was \$11,400,438.

- Most of the School's costs were paid for through unrestricted State aid (67%).
- Grants, charges for services, and other revenues paid for the other 33% of the School's costs.



**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

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

| | Total Cost of Services | | Percentage Change | Net Cost of Services | | Percentage Change |
|--------------------------------------|------------------------|----------------------|----------------------|----------------------|---------------------|----------------------|
| | 2022 | 2021 | | 2022 | 2021 | |
| Administration | \$ 531,105 | \$ 520,358 | 2.07 % | \$ 529,015 | \$ 518,492 | 2.03 % |
| District Support Services | 1,224,961 | 1,222,863 | 0.17 | 1,184,529 | 1,217,971 | (2.75) |
| Regular Instruction | 5,089,967 | 5,767,449 | (11.75) | 4,890,031 | 5,569,576 | (12.20) |
| Special Education Instruction | 1,298,143 | 1,300,993 | (0.22) | 13,063 | (55,236) | (123.65) |
| Instructional Support Services | 20,854 | 14,240 | 46.45 | 20,854 | 14,199 | 46.87 |
| Pupil Support Services | 629,207 | 576,351 | 9.17 | 629,207 | 573,754 | 9.66 |
| Sites and Buildings | 878,877 | 783,307 | 12.20 | 437,582 | 343,218 | 27.49 |
| Fiscal and Other Fixed Cost Programs | 65,115 | 59,811 | 8.87 | 65,115 | 59,811 | 8.87 |
| Food Service | 445,946 | 105,145 | 3.24 | 1,161 | 70,797 | (0.98) |
| Community Service | 120,543 | 192,979 | (0.38) | (117,079) | 134,211 | (1.87) |
| Interest and Fiscal Charges on | | | | | | |
| Long-Term Liabilities | 1,095,720 | 1,137,940 | (3.71) | - | - | N/A |
| Total | <u>\$ 11,400,438</u> | <u>\$ 11,681,436</u> | (2.41) | <u>\$ 7,653,478</u> | <u>\$ 8,446,793</u> | (9.39) |

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students from Kindergarten through Grade 12, including transportation, capital outlay projects and facility maintenance and leases.

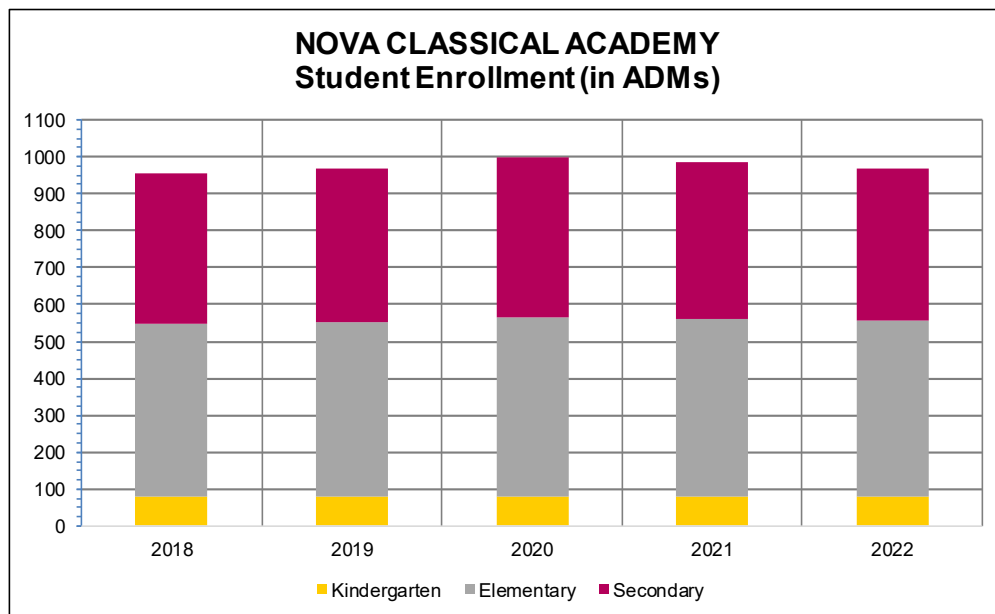
General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. The General Fund state revenue source includes general education aid of 74%, facility lease aid of 13%, and special education aid of 11%.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

ENROLLMENT

Enrollment is a critical factor in determining revenue. The following chart shows that the number of students has increased over the past five years as a full K-12 program. The School's ADM will continue to grow but at a slower pace as enrollment in the upper grades increases in order to create financial stability for the School.

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



**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

| | Year Ended | | Change | |
|-----------------------------|----------------------|----------------------|------------------------|-------------------|
| | June 30, 2022 | June 30, 2021 | Increase (Decrease) | Percent Change |
| Local Sources: | | | | |
| Earnings and Investments | \$ 4,792 | \$ 5,868 | \$ (1,076) | (18.34)% |
| Other | 452,029 | 264,742 | 187,287 | 70.7 |
| State Sources | 10,803,651 | 10,695,583 | 108,068 | 1.0 |
| Federal Sources | 178,619 | 428,888 | (250,269) | (58.4) |
| Total General Fund Revenues | <u>\$ 11,439,091</u> | <u>\$ 11,395,081</u> | <u>\$ 44,010</u> | 0.4 |

Total General Fund Revenue increased by \$44,010 or 0.4% from the previous year. Basic general education revenue is determined by a state formula and is largely enrollment driven. The School's revenue in 2021-2022 increased from 2020-2021 due primarily to the 2.45% increase in the general education formula aid, increases in state special education revenues related to the related increased expenditures, and increases in other local revenues with students coming back onsite from the remote learning that occurred in 2021-2022 due to the COVID-19 pandemic. The decrease in federal aid partially offset the noted increases due to more COVID-19 pandemic related grants being expended in the prior fiscal year.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

| | Year Ended | | Change | |
|---------------------------------|----------------------|----------------------|------------------------|-------------------|
| | June 30, 2022 | June 30, 2021 | Increase (Decrease) | Percent Change |
| Salaries | \$ 5,405,028 | \$ 5,629,415 | \$ (224,387) | (3.99)% |
| Employee Benefits | 1,344,547 | 1,402,691 | (58,144) | (4.1) |
| Purchased Services | 3,606,177 | 3,226,411 | 379,766 | 11.8 |
| Supplies and Materials | 500,395 | 488,476 | 11,919 | 2.4 |
| Other Expenditures | 78,305 | 77,160 | 1,145 | 1.5 |
| Total General Fund Expenditures | <u>\$ 10,934,452</u> | <u>\$ 10,824,153</u> | <u>\$ 110,299</u> | 1.0 |

Total General Fund expenditures increased \$110,299 or 1.0% from the previous year. Purchased services accounting for the majority of the increase, as those expenditures increased by approximately \$380,000. This was partially offset by decreases in salaries and benefits totaling approximately \$283,000.

Ending fund balance of the General Fund is the single best measure of overall financial health. The total fund balance of \$5,000,024 on June 30, 2022 represents 45.7% of annual expenditures. As a full K-12 program, the School continues its commitment to maintain a strong fund balance.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

General Fund Budgetary Highlights

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

- Finalized staffing requirements for the school year affecting total expenses.
- Board approved end-of-year expenditures.

The School's final budget for the General Fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by \$170,307. Overall, revenues were \$229,095 or 2.0% under budget. Expenditures were \$563,427 or 4.9% under budget due to savings related to special education and delayed capital projects.

OTHER MAJOR FUNDS

In the Building Company Fund, revenues and other financing sources exceeded expenditures and other financing uses by \$135,975 resulting in an ending total fund balance of \$2,683,843.

In the Food Service Fund, expenditures exceeded revenues by \$1,161, and the fund ended the year with a fund balance deficit of \$(12,335) as of June 30, 2022.

In the Community Service Fund, revenues exceeded expenditures by \$105,207, and the fund ended the year with a fund balance of \$176,105 as of June 30, 2022.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Investment in capital assets decreased in 2022 from \$19,652,221 to \$19,478,691 before factoring accumulated depreciation/amortization. Depreciation/amortization for the 2021-2022 school year was \$374,937.

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

| | 2022 | 2021 | Percentage Change |
|---|----------------------|----------------------|----------------------|
| Building Company | | | |
| Land | \$ 4,056,522 | \$ 4,056,522 | - |
| Buildings and Improvements | 14,543,896 | 14,543,896 | - |
| Furniture and Equipment | 21,708 | 21,708 | - |
| Nova Classical Academy | | | |
| Furniture and Equipment | 856,565 | 1,030,095 | (16.8) |
| Less: Accumulated Depreciation/Amortization | (3,498,105) | (3,312,089) | 5.6 |
| Total School Capital Assets | <u>\$ 15,980,586</u> | <u>\$ 16,340,132</u> | (2.2) |

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

Long-Term Liabilities

At year-end, Friends of Nova Classical Academy, a blended component unit of the School, had a net of \$21.8 million in charter school lease revenue bonds. The School also recorded a net pension liability in the amount of \$3.7 million, representing the school proportionate share of the unfunded liabilities for the two statewide pension plans in which it participates (TRA and PERA). More detailed information about long-term liabilities can be found in Note 5 and Note 6 to the financial statements.

**Table A-8
The School's Long-Term Liabilities**

| | 2022 | 2021 | Percentage Change |
|-----------------------------|----------------------|----------------------|----------------------|
| General Obligation Bonds | \$ 21,810,000 | \$ 22,110,000 | (1.4)% |
| Net Bond Discount | (200,343) | (232,948) | (14.0) |
| Net Bond Premium | 184,481 | - | N/A |
| Lease Liability | 5,764 | - | N/A |
| Net Pension Liability | 3,743,400 | 6,443,274 | (41.9) |
| Total Long-Term Liabilities | <u>\$ 25,543,302</u> | <u>\$ 28,320,326</u> | (9.8) |
| Long-Term Liabilities: | | | |
| Due Within One Year | \$ 460,764 | \$ 390,000 | |
| Due in More Than One Year | 25,082,538 | 27,930,326 | |
| Total | <u>\$ 25,543,302</u> | <u>\$ 28,320,326</u> | |

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. The Legislature provided for little change in the basic per pupil unit funding during recent fiscal years.

The School will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility. It is anticipated that enrollment growth will continue at a slow rate. If state funding formulas are not sufficient to continue current instructional program scenarios, staffing or enrollment adjustments will be made to match resources to balance future budgets.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors 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 Nova Classical Academy, 1455 Victoria Way, St. Paul, MN 55102.

BASIC FINANCIAL STATEMENTS

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
STATEMENT OF NET POSITION
JUNE 30, 2022**

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| ASSETS | |
| Cash and Investments | \$ 4,144,897 |
| Cash with Fiscal Agent | 2,766,050 |
| Receivables: | |
| Other Governments | 1,247,976 |
| Other | 2,408 |
| Prepaid Items | 80,019 |
| Capital Assets: | |
| Land | 4,056,522 |
| Other Capital Assets, Net of Depreciation and Amortization | 11,924,064 |
| Total Assets | <u>24,221,936</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred Outflows - Pensions | 2,744,762 |
| Deferred Outflows - Loss on Refunding of Debt | 2,037,942 |
| Total Deferred Outflows of Resources | <u>4,782,704</u> |
| LIABILITIES | |
| Salaries Payable | 19,948 |
| Accounts and Contracts Payable | 346,367 |
| Accrued Interest Payable | 281,651 |
| Unearned Revenue | 27,398 |
| Long-Term Liabilities: | |
| Net Pension Liability | 3,743,400 |
| Other Long-Term Liabilities Due Within One Year | 460,764 |
| Other Long-Term Liabilities Due in More Than One Year | 21,339,138 |
| Total Liabilities | <u>26,218,666</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred Inflows - Pensions | <u>7,002,132</u> |
| NET POSITION | |
| Net Investment in Capital Assets | (170,102) |
| Restricted for: | |
| Community Service | 176,105 |
| Unrestricted | <u>(4,222,161)</u> |
| Total Net Position | <u><u>\$ (4,216,158)</u></u> |

See accompanying Notes to Basic Financial Statements.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

| Functions | Expenses | Program Revenues | | Net (Expense) |
|--|----------------------|----------------------|------------------------------------|------------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Revenue and Change in Net Position |
| | | | | Total Governmental Activities |
| GOVERNMENTAL ACTIVITIES | | | | |
| Administration | \$ 531,105 | \$ 2,090 | \$ - | \$ (529,015) |
| District Support Services | 1,224,961 | - | 40,432 | (1,184,529) |
| Regular Instruction | 5,089,967 | 199,936 | - | (4,890,031) |
| Special Education Instruction | 1,298,143 | - | 1,285,080 | (13,063) |
| Instructional Support Services | 20,854 | - | - | (20,854) |
| Pupil Support Services | 629,207 | - | - | (629,207) |
| Sites and Buildings | 878,877 | - | 441,295 | (437,582) |
| Fiscal and Other Fixed Cost Programs | 65,115 | - | - | (65,115) |
| Food Service | 445,946 | 126,897 | 317,888 | (1,161) |
| Community Service | 120,543 | 217,842 | 19,780 | 117,079 |
| Interest and Fiscal Charges on Long-Term Liabilities | 1,095,720 | - | 1,095,720 | - |
| Total School District | <u>\$ 11,400,438</u> | <u>\$ 546,765</u> | <u>\$ 3,200,195</u> | (7,653,478) |
| GENERAL REVENUES | | | | |
| State Aid Not Restricted to Specific Purposes | | | | 8,065,220 |
| Earnings on Investments | | | | 5,296 |
| Miscellaneous | | | | 251,463 |
| Total General Revenues | | | | <u>8,321,979</u> |
| CHANGE IN NET POSITION | | | | |
| Net Position - Beginning of Year | | | | (4,860,097) |
| Prior Period Adjustment | | | | (24,562) |
| Net Position - Beginning, as Restated | | | | <u>(4,884,659)</u> |
| NET POSITION - END OF YEAR | | | | |
| | | | | <u>\$ (4,216,158)</u> |

See accompanying Notes to Basic Financial Statements.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2022**

| | Major Funds | | | | Governmental |
|---|---------------------|------------------|----------------------|---------------------|---------------------|
| | General | Food Service | Community Service | Building Company | Funds |
| ASSETS | | | | | |
| Cash and Investments | \$ 3,828,498 | \$ - | \$ 181,580 | \$ 134,819 | \$ 4,144,897 |
| Cash with Fiscal Agent | - | - | - | 2,766,050 | 2,766,050 |
| Receivables: | | | | | |
| Due from Minnesota Department of Education | 1,030,505 | 968 | - | - | 1,031,473 |
| Due from Federal through Minnesota Department of Education | 161,191 | 55,312 | - | - | 216,503 |
| Due from Other Funds | 258,603 | - | - | - | 258,603 |
| Other Receivables | - | 2,408 | - | - | 2,408 |
| Prepaid Items | 80,019 | - | - | - | 80,019 |
| Total Assets | <u>\$ 5,358,816</u> | <u>\$ 58,688</u> | <u>\$ 181,580</u> | <u>\$ 2,900,869</u> | <u>\$ 8,499,953</u> |
| LIABILITIES AND FUND BALANCE | | | | | |
| Liabilities: | | | | | |
| Salaries Payable | \$ 5,501 | \$ 2,048 | \$ 5,262 | \$ - | \$ 12,811 |
| Payroll Deductions and Employer Contributions Payable | 7,137 | - | - | - | 7,137 |
| Accounts and Contracts Payable | 346,154 | - | 213 | - | 346,367 |
| Due to Other Funds | - | 41,577 | - | 217,026 | 258,603 |
| Unearned Revenue | - | 27,398 | - | - | 27,398 |
| Total Liabilities | <u>358,792</u> | <u>71,023</u> | <u>5,475</u> | <u>217,026</u> | <u>652,316</u> |
| Fund Balance: | | | | | |
| Nonspendable: | | | | | |
| Prepaid Items | 80,019 | - | - | - | 80,019 |
| Restricted for: | | | | | |
| Community Service | - | - | 176,105 | - | 176,105 |
| Building Company Debt Service | - | - | - | 2,683,843 | 2,683,843 |
| Unassigned | 4,920,005 | (12,335) | - | - | 4,907,670 |
| Total Fund Balance | <u>5,000,024</u> | <u>(12,335)</u> | <u>176,105</u> | <u>2,683,843</u> | <u>7,847,637</u> |
| Total Liabilities and Fund Balance | <u>\$ 5,358,816</u> | <u>\$ 58,688</u> | <u>\$ 181,580</u> | <u>\$ 2,900,869</u> | <u>\$ 8,499,953</u> |

See accompanying Notes to Basic Financial Statements.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
JUNE 30, 2022**

| | |
|--|---------------------|
| Total Fund Balance for Governmental Funds | \$ 7,847,637 |
|--|---------------------|

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

| | |
|---|------------|
| Land | 4,056,522 |
| Land Improvements, Net of Accumulated Depreciation | 507,101 |
| Buildings and Improvements, Net of Accumulated Depreciation | 11,134,915 |
| Leased Equipment, Net of Accumulated Amortization | 5,130 |
| Equipment, Net of Accumulated Depreciation | 276,918 |

| | |
|---|-----------|
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | (281,651) |
|---|-----------|

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:

| | |
|---|-------------|
| Net Pension Liability | (3,743,400) |
| Deferred Inflows of Resources - Pensions | (7,002,132) |
| Deferred Outflows of Resources - Pensions | 2,744,762 |

Long-term liabilities that pertain to governmental funds, including bonds and loans payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:

| | |
|----------------------------|--------------|
| Bonds Payable | (21,810,000) |
| Unamortized Premiums | (184,481) |
| Unamortized Discounts | 200,343 |
| Deferred Loss on Refunding | 2,037,942 |
| Lease Liability | (5,764) |

| | |
|--|-----------------------|
| Total Net Position of Governmental Activities | \$ (4,216,158) |
|--|-----------------------|

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2022**

| | Major Funds | | | | Governmental |
|---|--------------|-----------------|----------------------|---------------------|--------------|
| | General | Food Service | Community Service | Building Company | Funds |
| REVENUES | | | | | |
| Local Sources: | | | | | |
| Earnings and Investments | \$ 4,792 | \$ - | \$ - | \$ 504 | \$ 5,296 |
| Other | 452,029 | 126,897 | 210,360 | 1,445,043 | 2,234,329 |
| State Sources | 10,803,651 | 6,403 | - | - | 10,810,054 |
| Federal Sources | 178,619 | 311,485 | 19,650 | - | 509,754 |
| Total Revenues | 11,439,091 | 444,785 | 230,010 | 1,445,547 | 13,559,433 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Administration | 565,570 | - | - | - | 565,570 |
| District Support Services | 955,742 | - | - | 252,993 | 1,208,735 |
| Elementary and Secondary Regular Instruction | 5,039,660 | - | - | - | 5,039,660 |
| Special Education Instruction | 1,348,691 | - | - | - | 1,348,691 |
| Instructional Support Services | 20,854 | - | - | - | 20,854 |
| Pupil Support Services | 641,234 | - | - | - | 641,234 |
| Sites and Buildings | 2,295,418 | - | - | 14,150 | 2,309,568 |
| Fiscal and Other Fixed Cost Programs | 57,319 | - | - | 7,796 | 65,115 |
| Food Service | - | 445,946 | - | - | 445,946 |
| Community Service | - | - | 124,803 | - | 124,803 |
| Debt Service: | | | | | |
| Principal | 9,627 | - | - | 100,000 | 109,627 |
| Interest and Fiscal Charges | 337 | - | - | 934,689 | 935,026 |
| Total Expenditures | 10,934,452 | 445,946 | 124,803 | 1,309,628 | 12,814,829 |
| EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES | 504,639 | (1,161) | 105,207 | 135,919 | 744,604 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Proceeds from Refunding Bonds | - | - | - | 4,930,000 | 4,930,000 |
| Bond Premium | - | - | - | 200,056 | 200,056 |
| Payment to Refunded Bond Escrow Agent | - | - | - | (5,130,000) | (5,130,000) |
| Total Other Financing Sources (Uses) | - | - | - | 56 | 56 |
| NET CHANGE IN FUND BALANCE | 504,639 | (1,161) | 105,207 | 135,975 | 744,660 |
| FUND BALANCES | | | | | |
| Beginning of Year | 4,495,385 | 13,388 | 70,898 | 2,547,868 | 7,127,539 |
| Prior Period Adjustment | - | (24,562) | - | - | (24,562) |
| Beginning of Year, Restated | 4,495,385 | (11,174) | 70,898 | 2,547,868 | 7,102,977 |
| End of Year | \$ 5,000,024 | \$ (12,335) | \$ 176,105 | \$ 2,683,843 | \$ 7,847,637 |

See accompanying Notes to Basic Financial Statements.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2022**

| | |
|--|-------------------|
| Net Change in Fund Balance - Total Governmental Funds | \$ 744,660 |
|--|-------------------|

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 and amortization expense. The amount by which depreciation and amortization exceeded capital outlays in the current period is:

| | |
|-----------------------------------|-----------|
| Depreciation/Amortization Expense | (374,937) |
|-----------------------------------|-----------|

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.

| | |
|--|---------|
| | 340,274 |
|--|---------|

The governmental funds report debt issuances as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of discounts when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds, loans, and related items is as follows:

| | |
|---|-------------|
| General Obligation Lease Revenue Bonds Issued | (4,930,000) |
| Bond Premium or Discount | (200,056) |
| Repayment of Bond Principal | 100,000 |
| Bond Principal Refunded | 5,130,000 |
| Repayment of Lease Liability | 9,627 |
| Change in Accrued Interest - General Obligation Bonds | 58,385 |
| Amortization of Bond Premium | 15,575 |
| Amortization of Bond Discount | (32,605) |
| Amortization of Deferred Charges on Refunding Bonds | (192,422) |

| | |
|---|--------------------------|
| Total Change in Net Position of Governmental Activities | <u><u>\$ 668,501</u></u> |
|---|--------------------------|

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET TO ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2022**

| | Budgeted Amounts | | Actual | Over (Under) |
|--------------------------------------|-------------------|-------------------|---------------------|-------------------|
| | Original | Final | Amounts | Final Budget |
| REVENUES | | | | |
| Local Sources: | | | | |
| Earnings and Investments | \$ 15,450 | \$ 15,450 | \$ 4,792 | \$ (10,658) |
| Other | 278,070 | 443,818 | 452,029 | 8,211 |
| State Sources | 11,048,945 | 10,849,620 | 10,803,651 | (45,969) |
| Federal Sources | 244,036 | 359,298 | 178,619 | (180,679) |
| Total Revenues | <u>11,586,501</u> | <u>11,668,186</u> | <u>11,439,091</u> | <u>(229,095)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administration | 605,097 | 586,716 | 565,570 | (21,146) |
| District Support Services | 905,553 | 1,036,574 | 955,742 | (80,832) |
| Elementary and Secondary Regular | | | | |
| Instruction | 5,131,746 | 5,052,034 | 5,039,660 | (12,374) |
| Special Education Instruction | 1,801,256 | 1,798,467 | 1,348,691 | (449,776) |
| Instructional Support Services | 20,300 | 76,550 | 20,854 | (55,696) |
| Pupil Support Services | 640,132 | 649,004 | 641,234 | (7,770) |
| Sites and Buildings | 2,276,277 | 2,201,534 | 2,295,418 | 93,884 |
| Fiscal and Other Fixed Cost Programs | 40,000 | 55,000 | 57,319 | 2,319 |
| Capital Outlay | 29,025 | 42,000 | - | (42,000) |
| Debt Service: | | | | |
| Principal | - | - | 9,627 | 9,627 |
| Interest and Fiscal Charges | - | - | 337 | 337 |
| Total Expenditures | <u>11,449,386</u> | <u>11,497,879</u> | <u>10,934,452</u> | <u>(563,427)</u> |
| NET CHANGE IN FUND BALANCE | <u>\$ 137,115</u> | <u>\$ 170,307</u> | 504,639 | <u>\$ 334,332</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>4,495,385</u> | |
| End of Year | | | <u>\$ 5,000,024</u> | |

See accompanying Notes to Basic Financial Statements.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET TO ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2022**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Over (Under)</u> |
|------------------------------|-------------------------|----------------|--------------------|---------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>Final Budget</u> |
| REVENUES | | | | |
| Local Sources: | | | | |
| Other - Primarily Meal Sales | \$ 242,013 | \$ 145,000 | \$ 126,897 | \$ (18,103) |
| State Sources | 9,521 | 7,120 | 6,403 | (717) |
| Federal Sources | 46,466 | 297,239 | 311,485 | 14,246 |
| Total Revenues | <u>298,000</u> | <u>449,359</u> | <u>444,785</u> | <u>(4,574)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Food Service | <u>298,000</u> | <u>449,359</u> | <u>445,946</u> | <u>(3,413)</u> |
| Net Change in Fund Balance | <u>\$ -</u> | <u>\$ -</u> | (1,161) | <u>\$ (1,161)</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | 13,388 | |
| Prior Period Adjustment | | | <u>(24,562)</u> | |
| Beginning of Year, Restated | | | <u>(11,174)</u> | |
| End of Year | | | <u>\$ (12,335)</u> | |

See accompanying Notes to Basic Financial Statements.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET TO ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2022**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Over (Under)</u> |
|------------------------------------|-------------------------|------------------|-------------------|---------------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>Final Budget</u> |
| REVENUES | | | | |
| Local Sources: | | | | |
| Other - Primarily Tuition and Fees | \$ 114,759 | \$ 143,522 | \$ 210,360 | \$ 66,838 |
| Federal Sources | - | - | 19,650 | 19,650 |
| Total Revenues | <u>114,759</u> | <u>143,522</u> | <u>230,010</u> | <u>86,488</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community Service | <u>108,759</u> | <u>108,419</u> | <u>124,803</u> | <u>16,384</u> |
| Net Change in Fund Balance | <u>\$ 6,000</u> | <u>\$ 35,104</u> | 105,207 | <u>\$ 70,104</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>70,898</u> | |
| End of Year | | | <u>\$ 176,105</u> | |

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Nova Classical Academy 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

Nova Classical Academy (the School) is a charter school established in November 2001 in accordance with Minnesota Statute §124D.10. The Board is responsible for legislative and fiscal control of the School. A Director is appointed by the Board and is responsible for administrative control of the School. The School is authorized by Friends of Education (the Authorizer), a Minnesota nonprofit corporation, and operates under a charter agreement extending through June 30, 2027.

The mission of the School is in a supportive community and through a systematic, accelerated college-preparatory education in the classical tradition, Nova Classical Academy challenges its students to develop intellect, to attain the habits of learning and mastery, and to live a virtuous life of duty and ideals.

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

Based on these criteria, there is one organization that is considered to be a component unit of the School. Friends of Nova Classical Academy (the Building Company) is a Minnesota nonprofit corporation holding IRS classification as a 501(c)(3) tax-exempt organization which owns the real estate and building that is leased by the School for its operations. The Building Company is governed by a separate board appointed by the Board of the School. Although it is legally separate from the School, the Building Company is reported as if it were part of the School (as a blended component unit) because its sole purpose is to acquire, construct, and own the educational site. No separate financial statements of the Building Company are issued.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

Aside from its authorizer role, Friends of Education has no authority, control, power, or administrative responsibilities over Nova Classical Academy. Therefore, the School is not considered a component unit of Friends of Education.

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, student activity accounts are included in the School's basic financial statements as part of the General Fund.

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 as a whole. These statements include all the financial activities of the School.

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

The School applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position is available. Depreciation/amortization expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt, if any, 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 governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

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

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

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and GAAP. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other miscellaneous revenue, including food service sales, (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.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

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

Major Governmental Funds

General Fund

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

Building Company Special Revenue Fund

This Special Revenue Fund accounts for all activities of the Friends of Nova Classical Academy Building Company including the proceeds and uses of resources received to own an educational site for the School. Primary sources of revenue in the building company are from rent received and interest earnings.

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Primary sources of revenue in the Food Service Fund are from meal sales and state and federal aids.

Community Service Special Revenue Fund

The Community Service Fund is used to account for activities of the Scholar Zone, the School's before and after school program. Primary sources of revenue in the Community Service Fund are from user fees.

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 accounting principles generally accepted in the United States of America 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.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each May, the School Board adopts an annual budget for the following fiscal year for the General Fund, the Food Service Special Revenue Fund, and Community Service Special Revenue Fund. A budget for the Friends of Nova Classical Academy Building Company was not adopted for fiscal year 2022. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Administrative 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 and are approved by the School Board.

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

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

| | Original Budget | Amendments | Amended Budget |
|------------------------|--------------------|------------|-------------------|
| <u>Revenues</u> | | | |
| General Fund | \$ 11,586,501 | \$ 81,685 | \$ 11,668,186 |
| Special Revenue Funds: | | | |
| Food Service Fund | 298,000 | 151,359 | 449,359 |
| Community Service Fund | 114,759 | 28,763 | 143,522 |
| <u>Expenditures</u> | | | |
| General Fund | \$ 11,449,386 | \$ 48,493 | \$ 11,497,879 |
| Special Revenue Funds: | | | |
| Food Service Fund | 298,000 | 151,359 | 449,359 |
| Community Service Fund | 108,759 | (340) | 108,419 |

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 amounts 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.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash and Investments

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

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Building Company fund, the bond escrow account held by trustee can only be used for capital purposes related to the construction of the school building, for the repair and replacement needs of the educational site or to make payments on the outstanding bonds. Interest earned on these investments is allocated directly to the escrow account.

I. Accounts Receivable

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. These expenses are allocated over the periods benefitted using the consumption method.

K. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position and balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets 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.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The School maintains a threshold level of \$5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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/amortization purposes. Useful lives vary from 5 to 20 years for equipment and 20 to 40 years for buildings and building improvements.

The School does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

M. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Premiums and discounts are capitalized and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Leases

The School determines if an arrangement is a lease at inception. Leases are included in lease assets and lease liabilities in the statements of net position.

Lease assets represent the School's control of the right to use an underlying asset for the lease term, as specified in the contract, in an exchange or exchange-like transaction. Lease assets are recognized at the commencement date based on the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. Lease assets are amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Leases (Continued)

Lease liabilities represent the School's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the commencement date based on the net present value of expected lease payments over the lease term, less any lease incentives. Interest expense is recognized ratably over the contract term.

O. Pensions

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

P. Accrued Employee Benefits

Substantially all School employees are entitled to personal time off at various rates. Unused balances earned during the year are paid out up to a maximum of three days per employee at 60% of a predetermined daily rate. There is no liability for unused compensated absences at year-end.

Q. 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 by 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 has authorized the Executive Director and the Chair of the Budget and Finance Committee to jointly assign fund balances and its intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the School's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the School's policy to use committed first, then assigned, and finally unassigned amounts.

R. 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 in 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.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Net Position

Net position represents the difference between assets and 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/amortization, reduced by the outstanding balance of any 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 its use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

T. Adoption of New Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*. This standard requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. The implementation of this standard did not result in the restatement of fund balances or net position. The School implemented this standard as of July 1, 2021.

NOTE 2 DEPOSITS AND INVESTMENTS

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's Board.

Custodial Credit Risk – Custodial credit risk for deposits 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.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

The School's and Building Company's combined carrying and bank balances of deposits at June 30, 2022 were \$3,888,683 and \$4,031,280, respectively. All deposits which were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

Investments

The School may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rate "A" or better
- Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments (Continued)

At June 30, 2022, the Building Company's investment balances were as follows:

Investments Held by Trustee

| Type | Total | Maturity Duration in Years Less Than 1 | No Maturity | Rating |
|-------------------------------------|---------------------|---|----------------|--------|
| First American Treasury Obligations | | | | |
| Money Market Fund - Class D | \$ 2,766,050 | \$ 2,766,050 | \$ - | Aaa-mf |
| Money Market Fund | 256,214 | 256,214 | - | Aaa-mf |
| Total | <u>\$ 3,022,264</u> | <u>\$ 3,022,264</u> | <u>\$ -</u> | |

The School's investments are held by an escrow agent in accordance with escrow agreements established with the sale of Revenue Bonds 2016A and 2016B and Revenue Bonds 2021A and 2021B.

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2022, the School had money market fund investments invested in the First American Treasury Obligations Fund in the amount of \$2,766,050 and in the Old National Bank Money Market Fund in the amount of \$256,214, both of which are rated Aaa-mf by Moody's Investors Service.

Concentration of Credit Risk

The School places no limit on the amount that the School may invest in any one issuer.

The deposits and investments are presented in the financial statements as follows:

| | |
|---|----------------------------|
| Cash and Investments - Statement of Net Position | \$ 4,144,897 |
| Cash and Investments Held with Fiscal Agent - Statement of Net Position | <u>2,766,050</u> |
| Total Cash and Investments | <u><u>\$ 6,910,947</u></u> |

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Fair Value Measurements

The School uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The School follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the School has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

The School did not hold and investments measured at fair value as of June 30, 2022. The money market fund investments held by the Building Company's escrow agent are valued at amortized cost.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 3 CAPITAL ASSETS

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|---------------------|-------------|----------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated: | | | | |
| Building Company | | | | |
| Land | \$ 4,056,522 | \$ - | \$ - | \$ 4,056,522 |
| Capital Assets, Being Depreciated: | | | | |
| Building Company | | | | |
| Land Improvements | 661,437 | - | - | 661,437 |
| Buildings and Improvements | 13,882,459 | - | - | 13,882,459 |
| Furniture and Equipment | 21,708 | - | - | 21,708 |
| Charter School | | | | |
| Furniture and Equipment | 1,030,095 | - | (188,921) | 841,174 |
| Leased Assets, Being Amortized: | | | | |
| Charter School | | | | |
| Furniture and Equipment | 15,391 | - | - | 15,391 |
| Total Capital Assets, Being Depreciated and Amortized | 15,611,090 | - | (188,921) | 15,422,169 |
| Accumulated Depreciation for: | | | | |
| Building Company | | | | |
| Land Improvements | (121,264) | (33,072) | - | (154,336) |
| Buildings and Improvements | (2,469,895) | (277,649) | - | (2,747,544) |
| Furniture and Equipment | (3,746) | (1,085) | - | (4,831) |
| Charter School | | | | |
| Furniture and Equipment | (717,184) | (52,870) | 188,921 | (581,133) |
| Accumulated Amortization for: | | | | |
| Charter School | | | | |
| Furniture and Equipment | - | (10,261) | - | (10,261) |
| Total Accumulated Depreciation and Amortization | (3,312,089) | (374,937) | 188,921 | (3,498,105) |
| Total Capital Assets, Being Depreciated and Amortized, Net | 12,299,001 | (374,937) | - | 11,924,064 |
| Governmental Activities Capital Assets, Net | <u>\$ 16,355,523</u> | <u>\$ (374,937)</u> | <u>\$ -</u> | <u>\$ 15,980,586</u> |

* The beginning balance of capital assets was revised to record right-to-use assets due to the implementation of GASB Statement No. 87.

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

| | |
|--|-------------------|
| Governmental Activities | |
| Administration | \$ 59 |
| District Support Services | 28,264 |
| Regular Instruction | 318,261 |
| Special Education Instruction | 456 |
| Sites and Buildings | 27,187 |
| Food Service | 710 |
| Total Depreciation/Amortization Expense, Governmental Activities | <u>\$ 374,937</u> |

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 4 SHORT-TERM DEBT

Line of Credit Agreement

On December 3, 2012, the School entered into a line of credit agreement with a local bank with a maximum borrowing amount of \$500,000 and a variable interest rate of 1.750% over prime, with a minimum established rate of 5.00%. As the previous extension was due to expire on December 15, 2021, the School renewed this line of credit agreement on December 15, 2021 until December 15, 2022 with a maximum borrowing amount of \$1,500,000 and a variable interest rate of the prime rate, with a minimum established rate of 3.25%. The School did not have any activity in its line of credit during fiscal year 2022.

NOTE 5 LONG-TERM DEBT

Changes in long-term liabilities are as follows:

| | June 30, 2021 | Additions | Retirements | June 30, 2022 | Due Within One Year |
|---------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| Series 2011 Lease Revenue Bonds | \$ 5,180,000 | \$ - | \$ 5,180,000 | \$ - | \$ - |
| Series 2016 Lease Revenue Bonds | 16,930,000 | - | 50,000 | 16,880,000 | 455,000 |
| Series 2021 Lease Revenue Bonds | - | 4,930,000 | - | 4,930,000 | - |
| Premium on Bonds Payable | - | 200,056 | 15,575 | 184,481 | - |
| Discount on Bonds Payable | (232,948) | - | (32,605) | (200,343) | - |
| Lease Liability | 15,391 | - | 9,627 | 5,764 | 5,764 |
| Total | <u>\$ 21,892,443</u> | <u>\$ 5,130,056</u> | <u>\$ 5,222,597</u> | <u>\$ 21,799,902</u> | <u>\$ 460,764</u> |

* The beginning balance of long-term debt was revised to record the School's lease liability due to the implementation of GASB Statement No. 87.

In October 2011, the Building Company entered into an agreement for a \$17,540,000 loan from the Housing and Redevelopment Authority (HRA) of the City of Saint Paul to purchase land to be used as a school site by the School and to construct a school building on the site. The loan is secured by a mortgage on the related land, building, and building contents, as well as the assignment of future lease revenue. The loan represents the proceeds of two lease revenue bond issues sold by the HRA. The first issue is \$17,310,000 of Charter School Lease Revenue Bonds, Series 2011A, which bear interest ranging from 5.7% to 6.525% and have a final maturity of September 1, 2042. These bonds were refunded by the 2021 lease revenue bonds in fiscal year 2022.

In October 2016, the Building Company entered into an agreement for a \$17,060,000 loan from the Housing and Redevelopment Authority (HRA) of the City of Saint Paul to advance refund \$10,365,000 of the 2011A Charter School Lease Revenue Bonds and finance the acquisition of two parcels of land adjacent to the School and the construction and equipping of capital improvements to the land and original schoolhouse. The loan is secured by a mortgage on the related land, building, and building contents, as well as the assignment of future lease revenue. The loan represents the proceeds of two lease revenue bond issues sold by the HRA. The first issue is \$16,830,000 of Charter School Lease Revenue Bonds, Series 2016A, which bear interest ranging from 3.5% to 4.125% and have a final maturity of September 1, 2047.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 5 LONG-TERM DEBT (CONTINUED)

The portion of the 2016 Charter School Lease Revenue Bonds that advance refunded and defeased \$10,365,000 of the 2011A Charter School Lease Revenue Bonds resulted in an increase in future interest payments of \$522,704 and a net present value savings of \$659,857. The outstanding principal of the defeased bonds is \$10,365,000 on June 30, 2022, and it will be redeemed by the related irrevocable trust on September 1, 2021.

The second issue is the \$230,000 of Taxable Charter School Lease Revenue Bonds, Series 2016B, which bear an interest rate of 4.75% and have a final maturity of September 1, 2022. Through the terms of the agreement, the Building Company assumes all responsibility for the bonds issued by the HRA and must make loan payments sufficient to meet the scheduled semiannual debt service payments to retire the bonds.

In August 2021, the Building Company entered into an agreement for a \$4,930,000 loan from the Housing and Redevelopment Authority (HRA) of the City of Saint Paul to currently refund \$5,130,000 of the 2011A Charter School Lease Revenue Bonds. The loan is secured by a mortgage on the related land, building, and building contents, as well as the assignment of future lease revenue. The loan represents the proceeds of two lease revenue bond issues sold by the HRA. The first issue is \$4,735,000 of Charter School Lease Revenue Bonds, Series 2021A, which bear interest ranging from 2.0% to 4.0% and have a final maturity of September 1, 2031. The 2021 Charter School Lease Revenue Bonds refunded and defeased \$5,130,000 of the 2011A Charter School Lease Revenue Bonds, which resulted in a decrease in future interest payments of \$738,383 and a net present value savings of \$675,353. The outstanding principal of the defeased bonds is \$-0- on June 30, 2022, as they were redeemed during fiscal year 2022.

The second issue is the \$195,000 of Taxable Charter School Lease Revenue Bonds, Series 2021B, which bear an interest rate of 3.00% and have a final maturity of September 1, 2022. Through the terms of the agreement, the Building Company assumes all responsibility for the bonds issued by the HRA and must make loan payments sufficient to meet the scheduled semiannual debt service payments to retire the bonds.

The School, in turn, entered into an operating lease agreement to rent the school site from the Building Company. The lease term covers a 35-year period ending June 30, 2051 and requires the School to make monthly base lease payments ranging from \$124,641 to \$128,014, plus operating expenses. The School's base lease payments are closely tied to the loan payments the Building Company is required to make on the loan from the HRA.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 5 LONG-TERM DEBT (CONTINUED)

Following are the maturities of long-term debt for the Nova Classical Academy Building Company for each of the next five years and thereafter ending June 30:

| <u>Year Ending June 30,</u> | <u>Revenue Bonds Payable</u> | |
|-----------------------------|------------------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2023 | \$ 455,000 | \$ 838,744 |
| 2024 | 475,000 | 827,406 |
| 2025 | 495,000 | 816,919 |
| 2026 | 510,000 | 806,044 |
| 2027 | 535,000 | 794,731 |
| 2028-2032 | 3,055,000 | 3,651,356 |
| 2033-2037 | 4,020,000 | 2,944,656 |
| 2038-2042 | 4,905,000 | 2,039,916 |
| 2043-2047 | 6,005,000 | 918,947 |
| 2048 | 1,355,000 | 27,947 |
| Total | <u>\$ 21,810,000</u> | <u>\$ 13,666,666</u> |

NOTE 6 LEASES

Nova Classical Academy leases copiers under a long-term, noncancelable lease agreement. The lease expires on January 15, 2023 and carries an interest rate of 3.31%.

Total future minimum lease payments under the lease agreement is as follows:

| <u>Year Ending June 30,</u> | <u>Lease Liability</u> | |
|-----------------------------|------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2023 | \$ 5,764 | \$ 48 |

Right-to-use assets acquired through outstanding leases are shown below, by underlying asset class.

| | <u>Governmental Activities</u> |
|--------------------------------|------------------------------------|
| Equipment | \$ 15,391 |
| Less: Accumulated Amortization | (10,261) |
| Total | <u>\$ 5,130</u> |

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The School participates in the following cost-sharing multiple-employer defined 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, Chapters 353 and 356. 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 Fund

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

2. Teachers Retirement Fund (TRA)

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

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Plan (DCR) administered by Minnesota State.

B. Benefits Provided

1. General Employees Plan Benefits

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

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. General Employees Plan Benefits (Continued)

For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

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 |

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

With these provisions:

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

or

Tier II Benefits

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

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 receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions

1. General Employees Fund Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2022 and the School was required to contribute 7.50% for Coordinated Plan members. The School's contributions to the GERP for the plan's fiscal year ended June 30, 2022 were \$94,476. The School's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 rates for the fiscal year 2022 for coordinated were 7.50% for the employee and 8.34% for the employer. Basic rates were 11.00% for the employee and 12.34% for the employer. The School's contributions to TRA for the plan's fiscal year ended June 30, 2022 were \$357,999. The School's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At June 30, 2022, the School reported a liability of \$815,656 for its proportionate share of the General Employees Fund's net pension liability. The School's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million. The state of Minnesota is considered a 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 \$24,930, for a total net pension liability of \$840,586 associated with the School. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The School's proportionate share of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2020 through June 30, 2021, relative to the total employer contributions received from all of PERA's participating employers. The School's proportionate share was 0.0191% at the end of the measurement period and 0.0201% for the beginning of the period.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

For the year ended June 30, 2022, the School recognized pension expense of \$35,795 for its proportionate share of the General Employees Fund's pension expense. In addition, the District recognized \$2,011 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2022, the School reported its proportionate share of General employees Plan'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 | \$ 5,011 | \$ 24,961 |
| Changes in Actuarial Assumptions | 498,022 | 18,043 |
| Net Difference Between Projected and Actual | | |
| Earnings on Plan Investments | - | 706,392 |
| Changes in Proportion | 31,115 | 80,655 |
| District Contributions Subsequent to the Measurement Date | 94,476 | - |
| Total | <u>\$ 628,624</u> | <u>\$ 830,051</u> |

A total of \$94,476 reported as deferred outflows of resources related to pensions resulting from School contributions to the General Employees Fund subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

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

| <u>Year Ending June 30.</u> | <u>Pension Expense Amount</u> |
|-----------------------------|---------------------------------------|
| 2023 | \$ (36,701) |
| 2024 | (44,973) |
| 2025 | (21,559) |
| 2026 | (192,670) |

2. TRA Pension Costs

At June 30, 2022, the School reported a liability of \$2,927,744 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The School's proportionate share was .0669% at the end of the measurement period and .0709% 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:

| <u>Description</u> | <u>Amount</u> |
|---|---------------------|
| School's Proportionate Share of the TRA Net Pension Liability | \$ 2,927,744 |
| State's Proportionate Share of the Net Pension Liability Associated with the School | 246,779 |
| Total | <u>\$ 3,174,523</u> |

For the year ended June 30, 2022, the School recognized pension expense of \$48,218. The School also recognized \$23,654 as a decrease to pension expense and grant revenue for the support provided by direct aid.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

At June 30, 2022, 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 | \$ 79,296 | \$ 82,921 |
| Changes in Actuarial Assumptions | 1,072,908 | 2,641,439 |
| Net Difference Between Projected and Actual | | |
| Earnings on Plan Investments | - | 2,454,894 |
| Changes in Proportion | 605,935 | 992,827 |
| District Contributions Subsequent to the Measurement Date | 357,999 | - |
| Total | <u>\$ 2,116,138</u> | <u>\$ 6,172,081</u> |

A total of \$357,999 reported as deferred outflows of resources related to pensions resulting from School contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. 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 |
|----------------------|------------------------------|
| 2023 | \$ (1,976,244) |
| 2024 | (1,514,410) |
| 2025 | (384,680) |
| 2026 | (673,343) |
| 2027 | 134,735 |

3. Total Pension Costs

The School's total pension expense, including direct aid from special funding, for all plans for the year ended June 30, 2022 was \$62,370. The School's total net pension liability for all plans for the year ended June 30, 2022 was \$3,743,400.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Long-Term Expected Return on Investment

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Domestic Equity | 33.5 % | 5.10 % |
| Private Markets | 25.0 | 5.90 |
| Fixed Income | 25.0 | 0.75 |
| International Equity | 16.5 | 5.30 |
| Cash Equivalents | - | - |
| Totals | <u>100.00 %</u> | |

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Domestic Equity | 35.5 % | 5.10 % |
| Private Markets | 25.0 | 5.90 |
| Fixed Income | 20.0 | 0.75 |
| International Equity | 17.5 | 5.30 |
| Cash Equivalents | 2.0 | - |
| Totals | <u>100.00 %</u> | |

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions

The total pension liability in the June 30, 2021, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5% for PERA and 7.0% for TRA. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5% for PERA and 7.0% for TRA was deemed to be within that range of reasonableness for financial reporting purposes.

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

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

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

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

TRA pre-retirement mortality rates were based on the RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale. 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.

Inflation is assumed to be 2.5% for TRA. Benefit increases after retirement are assumed to be 1.0% for January 2020 through January 2023 then increasing by 0.10% each year up to 1.5% annually.

Salary growth assumptions for TRA range in annual increments from 2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% after June 30, 2028.

**NOVA CLASSICAL ACADEMY
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

The following changes for PERA occurred in 2021:

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

The following changes in actuarial assumptions for TRA occurred in 2021:

- The investment return assumption was changed from 7.50% to 7.00%.

G. Discount Rate

The discount rate used to measure the PERA General Employees Plan liability in 2021 was 6.50%. The discount rate used to measure the PERA General Employees Plan liability at the prior measurement date 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 7.00%. The discount rate used to measure the total pension liability at the prior measurement date was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contribution will be made at the fiscal year 2021 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. 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> | 5.50% | 6.50% | 7.50% |
| School's Proportionate Share of the GERF Net Pension Liability | \$ 1,663,521 | \$ 815,656 | \$ 119,930 |
| <u>TRA Discount Rate</u> | 6.00% | 7.00% | 8.00% |
| School's Proportionate Share of the TRA Net Pension Liability | \$ 5,914,185 | \$ 2,927,744 | \$ 478,624 |

I. Pension Plan Fiduciary Net Position

Detailed information about General Employees Plan'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.

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 1-800-657-3669.

NOTE 8 STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceeded the budgeted amount in the following funds in fiscal year 2022:

| | Budget | Expenditures | Excess |
|------------------------|------------|--------------|-----------|
| Special Revenue Funds: | | | |
| Community Service Fund | \$ 108,419 | \$ 124,803 | \$ 16,384 |

Management and the School board considers these overages to be necessary to the operations of the School.

Also, the fund balance of the Food Service Fund was a deficit of \$12,335 as of June 30, 2022. In accordance Minnesota Statute 124D.111, the School plans to eliminate the deficit through fiscal year 2023 activity. If the fiscal year 2023 operations of the food service fund are not sufficient to eliminate the deficit, the General Fund will eliminate it via a permanent fund balance transfer.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 9 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Pledged State Revenues

The School has pledged all funds, monies, grants, or other distributions received by the School from the state of Minnesota with respect to general student funding, state building lease aid payments, state distributions of Federal Title I funds, or any other funding sources, net of operating expenses of the School required under state or federal laws to provide required educational program expenditures, to repay the \$17,540,000 2011A lease revenue bonds issued by the Building Company in October of 2011. Note that \$10,365,000 of these bonds was defeased in fiscal year 2017 by the 2016 bonds and the remained was defeased in fiscal in 2022 by the 2021 bonds. The pledge agreement was modified to also cover the repayment of the \$17,060,000 2016 lease revenue bonds issued by the Building Company in October of 2016 as well as the \$4,930,000 2021 lease revenue bonds issued by the Building Company in August of 2021. The Company used proceeds of the Series 2016 Bonds to: (i) advance refund the Issuer's \$10,365,000 Charter School Lease Revenue Bonds maturing on September 1, 2042 (the Refunded Series 2011 Bonds), the proceeds of which were used to finance the acquisition, construction and equipping by the Company of approximately 2.03 acres of land and constructing the current charter school facility located at 1455 Victoria Way in the City of Saint Paul, Minnesota (the City) (the 2011 Project); (ii) finance the acquisition of two parcels of land bounded by Madson Street, Mercer Way and Kay Avenue in the City and the construction and equipping of improvements to the land and to the Schoolhouse (the "2016 Project," and together with the 2011 Project, the Schoolhouse); (iii) make a deposit to increase the amount for the Reserve Fund to the Reserve Fund Requirement for the Non-Refunded Series 2011 Bonds and the Series 2016 Bonds, and (iv) pay the costs of issuance of the Series 2016 Bonds. The bonds are payable solely from lease revenues paid by the School to the Building Company revenues and are payable through September 1, 2047.

Annual principal and interest payments on the bonds during the year ended June 30, 2022 required 71.6% of net lease revenues. The total principal and interest remaining to be paid on the bonds is \$35,476,666. Principal and interest paid for the current year and total net rent revenues were \$1,034,689 and \$1,445,043, respectively.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

C. Lease Commitments and Terms

In October 2011, the School entered into a lease agreement with the Friends of Nova Classical Academy to lease the educational site at 1455 Victoria Way, St. Paul, Minnesota. This lease was revised in August of 2021 when the 2021 bonds were issued. The amended agreement is for a 35-year period commencing August 1, 2016 through June 30, 2051. The extended lease calls for monthly payments over the 35-year period and includes 10 options for the School to extend the lease, each extension option for a period of five years.

The net annual base rent for the term of the lease agreement is tied closely to the debt service requirements of the Friends of Nova Classical Academy, including amounts held in escrow as part of the respective loan agreements. In addition, the School is responsible for all interior and exterior repair and maintenance costs as well as all utility costs. The School is funding 2% of monthly lease payments to a repair and replacement escrow account for this purpose.

Total future minimum lease payments are scheduled as follows:

| <u>Year Ending June 30,</u> | <u>Scheduled Lease Payments</u> |
|-----------------------------|-------------------------------------|
| 2023 | \$ 1,532,056 |
| 2024 | 1,534,548 |
| 2025 | 1,532,038 |
| 2026 | 1,531,202 |
| 2027 | 1,529,427 |
| 2028 - 2032 | 7,640,000 |
| 2033 - 2037 | 7,618,681 |
| 2038 - 2042 | 7,576,039 |
| 2043 - 2047 | 7,511,474 |
| 2048 - 2051 | 249,282 |
| Total | <u>\$ 38,254,747</u> |

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

The total amount of rent paid by the School under the terms of the lease agreements for fiscal 2022 was \$1,553,615. The estimated charter school lease state aid entitlement for fiscal 2022 was \$1,398,254. The School qualified for state charter school lease aid based on a statutory cap of 90% of qualified net lease expenditures. This entitlement is subject to proration by the Minnesota Department of Education to the extent the overall funding that has been provided is insufficient to meet all amounts owed to Minnesota charter schools.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2022**

NOTE 10 PRIOR PERIOD RESTATEMENT

The School restated the fund balance of the food service fund for the beginning of the year to reflect unearned revenues and receivables related to previous student meal account balances which were not recognized in the prior year. The result was a decrease to beginning fund balance and the recognition of the related unearned revenues and receivables. The effects of those restatements is as follows:

| | Food Service Fund |
|---|----------------------|
| Fund Balance - July 1, 2021, as Previously Reported | \$ 84,286 |
| Prior Period Adjustment to Record Unearned Revenues and Receivables Related to Student Meal Accounts | (24,562) |
| Fund Balance - July 1, 2021, as Restated | <u>\$ 59,724</u> |

REQUIRED SUPPLEMENTARY INFORMATION

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST EIGHT MEASUREMENT DATES***

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

| | Measurement Date June 30, | | | | | | | |
|---|---------------------------|---------------------|---------------------|---------------------|----------------------|----------------------|---------------------|---------------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| School's Proportion of the Net Pension Liability | 0.0669% | 0.0709% | 0.0802% | 0.0676% | 0.0677% | 0.0669% | 0.0662% | 0.0708% |
| School's Proportionate Share of the Net Pension Liability | \$ 2,927,744 | \$ 5,238,187 | \$ 5,111,965 | \$ 4,248,395 | \$ 13,514,148 | \$ 15,957,246 | \$ 4,095,125 | \$ 3,262,413 |
| State's Proportionate Share of the Net Pension Liability Associated with School | 246,779 | 438,737 | 452,407 | 399,178 | 1,305,589 | 1,601,364 | 502,171 | 229,565 |
| Total | <u>\$ 3,174,523</u> | <u>\$ 5,676,924</u> | <u>\$ 5,564,372</u> | <u>\$ 4,647,573</u> | <u>\$ 14,819,737</u> | <u>\$ 17,558,610</u> | <u>\$ 4,597,296</u> | <u>\$ 3,491,978</u> |
| School's Covered Payroll | \$ 4,337,872 | \$ 4,096,856 | \$ 4,060,700 | \$ 3,851,493 | \$ 3,696,640 | \$ 3,479,573 | \$ 3,296,773 | \$ 3,214,600 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 67.49% | 127.86% | 125.89% | 110.31% | 365.58% | 458.60% | 124.22% | 101.49% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 86.63% | 75.48% | 78.21% | 78.07% | 51.57% | 44.88% | 76.80% | 81.50% |

* This schedule presents information for the years available and will eventually include 10 years of information.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
TRA SCHEDULE OF SCHOOL CONTRIBUTIONS
LAST EIGHT FISCAL YEARS***

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

| | Fiscal Year Ended June 30, | | | | | | | |
|---|----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Statutorily Required Contribution | \$ 357,999 | \$ 352,669 | \$ 324,471 | \$ 313,080 | \$ 288,862 | \$ 277,248 | \$ 260,968 | \$ 247,258 |
| Contributions in Relation to the Statutorily Required Contribution | <u>(357,999)</u> | <u>(352,669)</u> | <u>(324,471)</u> | <u>(313,080)</u> | <u>(288,862)</u> | <u>(277,248)</u> | <u>(260,968)</u> | <u>(247,258)</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| School's Covered Payroll | \$ 4,292,554 | \$ 4,337,872 | \$ 4,096,856 | \$ 4,060,700 | \$ 3,851,493 | \$ 3,696,640 | \$ 3,479,573 | \$ 3,296,773 |
| Contributions as a Percentage of Covered Payroll | 8.34% | 8.13% | 7.92% | 7.71% | 7.50% | 7.50% | 7.50% | 7.50% |

* This schedule presents information for the years available and will eventually include 10 years of information.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST EIGHT MEASUREMENT DATES***

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

| | Measurement Date June 30, | | | | | | | |
|---|---------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| School's Proportion of the Net Pension Liability | 0.0191% | 0.0201% | 0.0212% | 0.0192% | 0.0171% | 0.0145% | 0.0132% | 0.0132% |
| School's Proportionate Share of the Net Pension Liability | \$ 815,656 | \$ 1,205,087 | \$ 1,172,101 | \$ 1,065,137 | \$ 1,091,653 | \$ 1,177,328 | \$ 684,093 | \$ 620,070 |
| State's Proportionate Share of the Net Pension Liability Associated with School | 24,930 | 37,125 | 36,498 | 34,886 | 13,748 | 15,387 | - | - |
| Total | \$ 840,586 | \$ 1,242,212 | \$ 1,208,599 | \$ 1,100,023 | \$ 1,105,401 | \$ 1,192,715 | \$ 684,093 | \$ 620,070 |
| School's Covered Payroll | \$ 1,393,253 | \$ 1,429,253 | \$ 1,497,307 | \$ 1,290,520 | \$ 1,109,080 | \$ 907,573 | \$ 778,631 | \$ 647,586 |
| School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 58.54% | 84.32% | 78.28% | 82.54% | 98.43% | 129.72% | 87.86% | 95.75% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 87.00% | 79.10% | 80.23% | 79.45% | 75.90% | 68.90% | 78.20% | 78.70% |

* This schedule presents information for the years available and will eventually include 10 years of information.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
GERF SCHEDULE OF SCHOOL CONTRIBUTIONS
LAST EIGHT FISCAL YEARS***

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

| | Fiscal Year Ended June 30, | | | | | | | |
|---|----------------------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|-----------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Statutorily Required Contribution | \$ 94,476 | \$ 104,494 | \$ 107,194 | \$ 112,298 | \$ 96,789 | \$ 83,181 | \$ 68,068 | \$ 57,424 |
| Contributions in Relation to the Statutorily Required Contribution | <u>(94,476)</u> | <u>(104,494)</u> | <u>(107,194)</u> | <u>(112,298)</u> | <u>(96,789)</u> | <u>(83,181)</u> | <u>(68,068)</u> | <u>(57,424)</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| School's Covered Payroll | \$ 1,259,680 | \$ 1,393,253 | \$ 1,429,253 | \$ 1,497,307 | \$ 1,290,520 | \$ 1,109,080 | \$ 907,573 | \$ 778,631 |
| Contributions as a Percentage of Covered Payroll | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.38% |

* This schedule presents information for the years available and will eventually include 10 years of information.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

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

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

2021

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.5% to 6.5%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

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

2020

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

2019

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2018

Changes in Actuarial Assumption

- 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.

Changes in Plan Provisions

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

2017

Changes in Actuarial Assumption

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5 % per year thereafter.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

Changes in Plan Provisions

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

2016

Changes in Actuarial Assumptions

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

Changes in Actuarial Plan Provisions

- There have been no changes since the prior valuation.

2015

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increase the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

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

2021

Changes in Actuarial Assumptions

- The investment return assumption was changed from 7.50% to 7.00%.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2020

Changes in Actuarial Assumptions

- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale.
- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2019

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2018

Changes in Actuarial Assumptions

- The investment return assumption was changed from 8.5% to 7.5%.
- The price inflation assumption was lowered from 3.0% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The wage inflation assumption (above price inflation) was reduced from 0.75% to 0.35% for the next 10 years, and 0.75% thereafter.
- The total salary increase assumption was adjusted by the wage inflation change.
- The amortization date for the funding of the Unfunded Actuarial Accrual Liability (UAAL) was reset to June 30, 2048 (30 years).
- The mechanism in the law that provided the TRA Board with some authority is set contribution rates was eliminated.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

Changes in Plan Provisions

- 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 five years, (7.92% in 2019, 8.13% in 2020, 8.34% 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.

2017

Changes in Actuarial Assumptions

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- Adjustment were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the nonvested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The COLA was not assumed to increase to 2.5%, but remain at 2.0% for all future years.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for 10 years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS (CONTINUED)

2016

Changes in Actuarial Assumptions

- The cost of living adjustment was not assumed to increase (it remained at 2.0% for all future years).
- The price inflation assumption was lowered from 3.0% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes at some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back 6 years, and female rates set back five years. Generational projection uses the MP-2015 scale.
- The postretirement mortality assumption was changed to the RP-2014 white collar annuitant table, male rates set back 3 years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
- The post-disability mortality assumption was changed to the RP-2014 disabled retiree mortality table, without adjustments.
- Separate retirement assumptions for members hired before or after July 1, 1989 were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional forms of payment at retirement were made.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015

Changes in Actuarial Assumptions

- The cost of living adjustment was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2037.
- The investment return assumption was changed from 8.25% to 8.0%.

Changes in Plan Provisions

- The Duluth Teachers Retirement Fund Association was merged into TRA on June 30, 2015. This also resulted in a state-provided contribution stream of \$14.377 million until the System becomes fully funded.

SUPPLEMENTARY INFORMATION

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2022**

| | AUDIT | UFARS | DIFFERENCE |
|---|---------------|---------------|------------|
| 01 GENERAL FUND | | | |
| Total Revenue | \$ 11,439,091 | \$ 11,439,089 | \$ 2 |
| Total Expenditures | 10,934,452 | 10,934,451 | 1 |
| <i>Nonspendable:</i> | | | |
| 460 Nonspendable Fund Balance | 80,019 | 80,019 | - |
| <i>Restricted:</i> | | | |
| 401 Student Activities | - | - | - |
| 402 Scholarships | - | - | - |
| 403 Staff Development | - | - | - |
| 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 | - | - | - |
| 467 LTFM | - | - | - |
| 472 Medical Assistance | - | - | - |
| 473 PPP Loans | - | - | - |
| 473 EIDL Loans | - | - | - |
| 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 | 4,920,005 | 4,920,004 | 1 |
| 02 FOOD SERVICE | | | |
| Total Revenue | 444,785 | 440,307 | 4,478 |
| Total Expenditures | 445,946 | 445,948 | (2) |
| <i>Nonspendable:</i> | | | |
| 460 Nonspendable Fund Balance | - | - | - |
| <i>Restricted:</i> | | | |
| 452 OPEB Liability Not Held in Trust | - | - | - |
| 464 Restricted Fund Balance | - | 7,747 | (7,747) |
| <i>Unassigned:</i> | | | |
| 463 Unassigned Fund Balance | (12,335) | - | (12,335) |
| 04 COMMUNITY SERVICE | | | |
| Total Revenue | 230,010 | 230,010 | - |
| Total Expenditures | 124,803 | 124,802 | 1 |
| <i>Nonspendable:</i> | | | |
| 460 Nonspendable Fund Balance | - | - | - |
| <i>Restricted:</i> | | | |
| 426 \$25 Taconite | - | - | - |
| 431 Community Education | - | - | - |
| 432 E.C.F.E. | - | - | - |
| 440 Teacher Development and Evaluations | - | - | - |
| 444 School Readiness | - | - | - |
| 447 Adult Basic Education | - | - | - |
| 452 OPEB Liability Not Held in Trust | - | - | - |
| 464 Restricted Fund Balance | 176,105 | 176,105 | - |
| <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**

Members of the Board of Education
Nova Classical Academy
Charter School No. 4098
St. Paul, 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 Nova Classical Academy, as of and for the year ended February 2, 2023, and the related notes to the financial statements, which collectively comprise Nova Classical Academy's basic financial statements, and have issued our report thereon dated February 2, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Nova Classical Academy's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Nova Classical Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Nova Classical Academy'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

Nova Classical Academy's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Nova Classical Academy's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. Nova Classical Academy's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
February 2, 2023



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Members of the Board of Education
Nova Classical Academy
Charter School No. 4098
St. Paul, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nova Classical Academy as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the charter school's basic financial statements, and have issued our report thereon dated February 2, 2023.

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

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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
February 2, 2023

**NOVA CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4098
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2022**

FINDING: 2022-001 PRIOR PERIOD ADJUSTMENT TO FOOD SERVICE FUND

Material Weakness in Internal Control over Financial Reporting

Condition: A prior period adjustment was proposed related to recording previously unrecognized unearned revenues and receivables related to student meal accounts, which resulted in a net reduction to beginning food service fund balance in the amount of \$24,562.

Criteria or specific requirement: The School should have controls in place to prevent or detect a material misstatement in the annual financial statements in a timely manner.

Effect: The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the School's internal controls.

Cause: Due to COVID-19, the Child and Adult Care Food Program (CACFP) reimbursement rates were increased to allow all students to eat free at schools that participated in the CACFP through June 30, 2022. Due to this, processes changed during the school year and audit, and most schools did not carry a material food service balance at year end. However, the School only participates in the CACFP through 5th Grade and the higher grades continued to pay for meals during the year. With the higher grade levels continuing to pay for meals, there was still a material balance at the end of the year. This balance was overlooked during the audit process and was not recorded.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the School continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with Generally Accepted Accounting Principles (GAAP).

Views of responsible officials and planned corrective actions: There is no disagreement with the audit finding. The Business Manager and contracted accounting company will continue training staff and will implement additional procedures to ensure all year-end balances are reviewed.

