

**YINGHUA ACADEMY  
CHARTER SCHOOL NO. 4140  
Minneapolis, Minnesota**

**AUDITED FINANCIAL STATEMENTS**

**For the Year Ended June 30, 2014**

**YINGHUA ACADEMY  
Charter School No. 4140**

**TABLE OF CONTENTS**

<b>BOARD OF DIRECTORS AND ADMINISTRATION.....</b>	<b>1</b>
<b>INDEPENDENT AUDITOR’S REPORT .....</b>	<b>2</b>
<b>MANAGEMENT’S DISCUSSION AND ANALYSIS .....</b>	<b>5</b>
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements:	
Statement of Net Position .....	18
Statement of Activities.....	19
Fund Financial Statements:	
Balance Sheet – Governmental Funds .....	20
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds.....	21
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds.....	23
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund .....	24
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Food Service Fund.....	25
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Community Service Fund.....	26
Notes to the Financial Statements.....	27
<b>SUPPLEMENTARY INFORMATION</b>	
Uniform Financial Accounting and Reporting Standards Compliance Table .....	46
<b>REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>.....</b>	<b>47</b>
<b>REPORT ON LEGAL COMPLIANCE .....</b>	<b>49</b>

**YINGHUA ACADEMY  
Charter School No. 4140**

**BOARD OF DIRECTORS AND ADMINISTRATION  
For the Year Ended June 30, 2014**

<u>Board of Directors</u>	<u>Position</u>	<u>Term Expires</u>
Karen Lu	Board Chairperson	2014
Jan Kleinman	Secretary	2014
Denny Grubish	Treasurer	2016
Emily Hanson	Member	2014
Suzanne Reider	Member	2016
Scott Jax	Member	2015
Jen Shadowens	Member	2016
Dr. Rosemary Lawrence	Member	2014
Seth Werner	Member	2015
Walter Graff	Member	2015
Sarah Whiting	Member	2016
<u>Administration</u>		
Susan Berg	Executive Director	
Dr. Luyi Lien	Academic Director	
Jennifer Vanyo	Business and Human Resources Manager	
Jeremy Brewer	Dean of Students	



*Expert advice. When you need it.<sup>SM</sup>*

## **INDEPENDENT AUDITOR'S REPORT**

To the School Board  
Yinghua Academy  
Minneapolis, Minnesota

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Yinghua Academy, Minneapolis, Minnesota, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the Academy's basic financial statements as listed in the Table of Contents.

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

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

### **Auditor's Responsibility**

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

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

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



## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Yinghua Academy, Minneapolis, Minnesota, as of June 30, 2014, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Implementation of GASB 65**

As discussed in Note 9 to the financial statements, the Academy has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Academy's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements.

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



***Report on Summarized Comparative Information***

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Academy's financial statement for the year ended June 30, 2013, from which such partial information was derived.

We have previously audited the Academy's 2013 financial statements and our report, dated October 14, 2013, expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2014, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Kern, Dewenter, Viere Ltd".

KERN, DEWENTER, VIERE, LTD.  
Minneapolis, Minnesota  
September 10, 2014

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2014**

This section of Yinghua Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the school year that ended on June 30, 2014. Please read it in conjunction with the Academy's financial statements, which immediately follow this section. The Management's Discussion and Analysis (MD&A) is a required element of required supplementary information specified in GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year (2013-2014) and the prior year (2012-2013) is required to be presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2013-2014 year include the following:

- The total fund balance of the General Fund ended at a positive \$ 621,503.
- Overall General Fund revenues were \$ 4,991,276 as compared to \$ 4,774,060 of expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information, which includes the MD&A (this section), the basic financial statements and supplemental information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the Academy's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy's operations in more detail than the government-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.

**YINGHUA ACADEMY  
Charter School No. 4140**

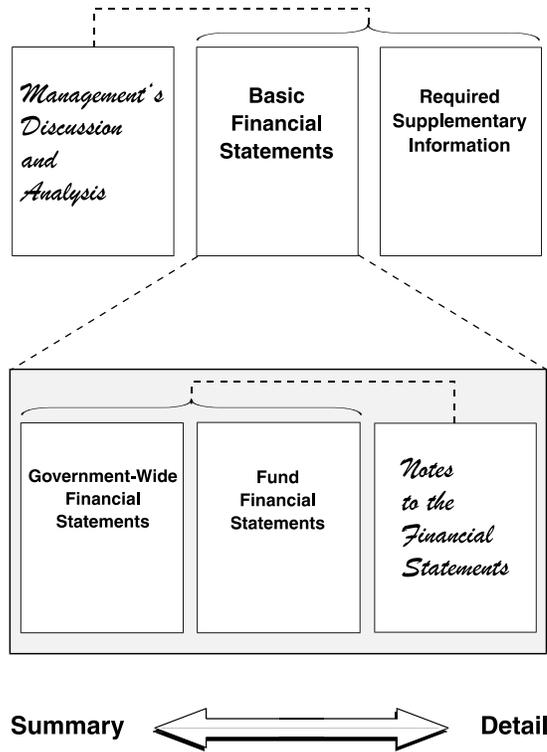
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1  
Annual Report Format**



**YINGHUA ACADEMY  
Charter School No. 4140**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

**Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements**

<i>Type of Statements</i>	<b>Fund Statements</b>			
	<b>Government-wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire school (except fiduciary funds) and the school's component units	The activities of the school that are not proprietary or fiduciary	Activities the school operates similar to private businesses: self insurance	Instances in which the school is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> <li>◆ Statement of Net Position</li> <li>◆ Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>◆ Balance Sheet</li> <li>◆ Statement of Revenues, Expenditures and Changes in Fund Balances</li> </ul>	<ul style="list-style-type: none"> <li>◆ Statement of Net Position</li> <li>◆ Statement of Revenues, Expenses and Changes in Fund Net Position</li> <li>◆ Statement of Cash Flows</li> </ul>	<ul style="list-style-type: none"> <li>◆ Statement of Fiduciary Net</li> <li>◆ Statement of Changes in Fiduciary Net Position</li> </ul>
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Academy's funds not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**Government-Wide Statements**

The government-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Academy's assets and liabilities. 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.

**YINGHUA ACADEMY  
Charter School No. 4140**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

**Government-Wide Statements (Continued)**

The two government-wide statements report the Academy's net position and how they have changed. Net position, the difference between the Academy's assets and liabilities, is one way to measure the Academy's financial health or position.

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

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

**Governmental Activities:** Most of the Academy's basic services will be included here, such as regular and special education, transportation and administration. State and federal aids as well as federal and foundation grants financed these activities.

**FUND FINANCIAL STATEMENTS**

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

- Some funds are required by state law and by bond covenants.
- The Academy may establish other funds to control and manage money for specific purposes.

The Academy has one kind of fund:

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

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2014**

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE**

**Net Position**

The Academy's combined net position was \$ 233,635 on June 30, 2014 (See Table A-1).

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

	Governmental Activities		Change
	2014	2013	
Current and Other Assets	\$ 5,390,127	\$ 10,426,158	\$ (5,036,031)
Capital and Noncurrent Assets	10,091,091	5,032,953	5,058,138
<b>Total Assets</b>	<b>\$ 15,481,218</b>	<b>\$ 15,459,111</b>	<b>\$ 22,107</b>
Current Liabilities	\$ 907,379	\$ 466,777	\$ 440,602
Noncurrent Liabilities	14,332,454	14,338,261	(5,807)
<b>Total Liabilities</b>	<b>\$ 15,239,833</b>	<b>\$ 14,805,038</b>	<b>\$ 434,795</b>
Deferred Inflow of Resources	\$ 7,750	\$ -	\$ 7,750
<b>Net Position:</b>			
Net Investment in Capital Assets	\$ (283,322)	\$ (312,786)	\$ 29,464
Restricted	88,693	57,588	31,105
Unrestricted	428,264	909,271	(481,007)
<b>Total Net Position</b>	<b>\$ 233,635</b>	<b>\$ 654,073</b>	<b>\$ (420,438)</b>

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2014**

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE**

**Changes in Net Position**

The Academy's total revenues were \$ 6,154,209 for the period ended June 30, 2014. The majority of the revenues were from state/federal aids and the Community Service Fund, as well as federal grants, private grants and investment earnings (See Table A-2.).

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

	Governmental Activities		Change
	2014	2013	
<b>REVENUES</b>			
Program Revenues:			
Charges for Services	\$ 1,176,188	\$ 439,343	\$ 736,845
Operating Grants and Contributions	1,390,963	1,222,032	168,931
Capital Grants and Expenditures	-	30,656	(30,656)
General Revenues:			
Unrestricted Federal and State Aid	3,383,742	3,033,566	350,176
Other	203,316	248,865	(45,549)
 Total Revenues	 <u>6,154,209</u>	 <u>4,974,462</u>	 <u>1,179,747</u>
<b>EXPENDITURES</b>			
Administration	198,124	180,012	18,112
District Support Services	391,660	375,559	16,101
Regular Instruction	2,060,809	1,865,420	195,389
Special Education Instruction	472,321	370,686	101,635
Instructional Support Services	350,401	320,547	29,854
Pupil Support Services	189,530	176,869	12,661
Sites and Buildings	1,075,244	960,952	114,292
Fiscal and Other Fixed Cost Programs	11,672	16,975	(5,303)
Food Service	161,272	184,496	(23,224)
Community Service	305,926	349,493	(43,567)
Interest and Fiscal Charges on Long Term Debt	841,252	11,452	829,800
 Total Expenditures	 <u>6,058,211</u>	 <u>4,812,461</u>	 <u>1,245,750</u>
 Change in Net Position	 95,998	 162,001	 (66,003)
<b>NET POSITION</b>			
Beginning of Year, Restated	<u>137,637</u>	<u>492,072</u>	<u>(354,435)</u>
End of Year	<u>\$ 233,635</u>	<u>\$ 654,073</u>	<u>\$ (420,438)</u>

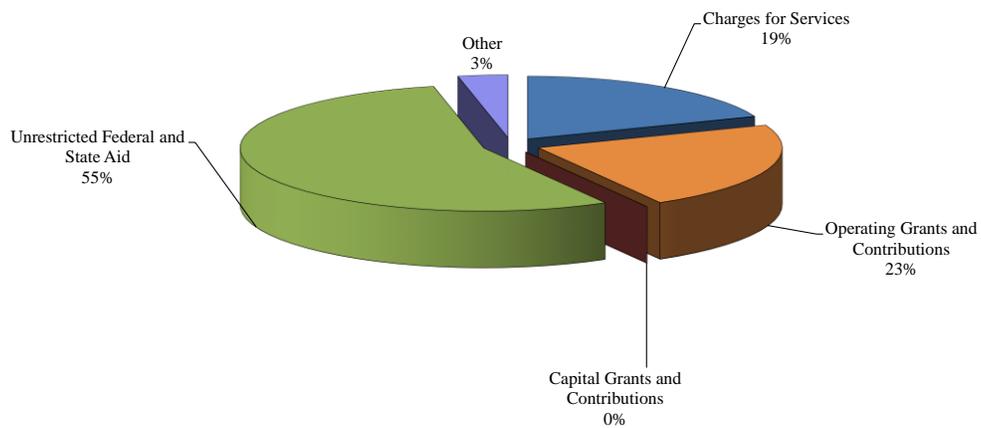
Revenue exceeded total cost of all programs, \$ 6,058,211, by \$ 95,998.

**YINGHUA ACADEMY  
Charter School No. 4140**

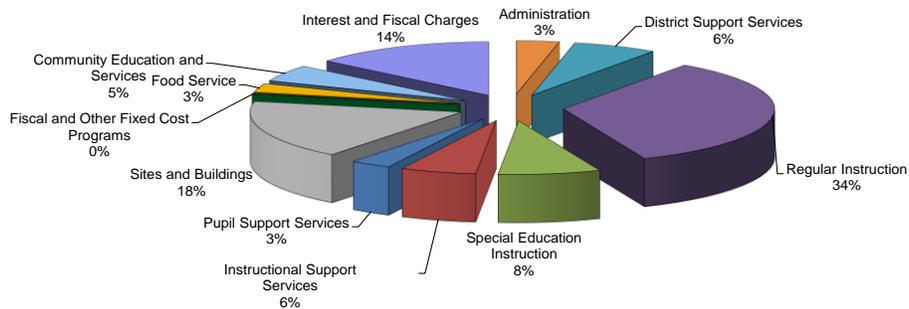
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE**

**Figure A-3 Sources of Academy's Revenues for 2014**



**Figure A-4 Academy Expenses for 2014**



**YINGHUA ACADEMY**  
**Charter School No. 4140**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2014**

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE**

	Total Costs of Services			Net Costs of Services		
	2014	2013	Change	2014	2013	Change
Administration	\$ 198,124	\$ 180,012	\$ 18,112	\$ 198,124	\$ 180,012	\$ 18,112
District Support Services	391,660	375,559	16,101	391,660	375,559	16,101
Regular Instruction	2,060,809	1,865,420	195,389	1,798,983	1,610,836	188,147
Special Education Instruction	472,321	370,686	101,635	10,801	3,651	7,150
Instructional Support Services	350,401	320,547	29,854	350,401	320,547	29,854
Pupil Support Services	189,530	176,869	12,661	189,530	176,869	12,661
Sites and Buildings	1,075,244	960,952	114,292	394,276	310,974	83,302
Fiscal and Other Fixed Cost Programs	11,672	16,975	(5,303)	11,672	16,975	(5,303)
Food Service	161,272	184,496	(23,224)	114	23,242	(23,128)
Community Education and Services	305,926	349,493	(43,567)	(30,497)	90,313	(120,810)
Interest & Fiscal Charges on Long Term Debt	841,252	11,452	829,800	175,996	11,452	164,544
<b>Total</b>	<b>\$ 6,058,211</b>	<b>\$ 4,812,461</b>	<b>\$ 1,245,750</b>	<b>\$ 3,491,060</b>	<b>\$ 3,120,430</b>	<b>\$ 370,630</b>

In 2013-2014, the Academy enrolled 111 students in kindergarten, 274 students in grades 1-3, 148 students in grades 4-6 and 28 students in grades 7-8.

**FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS**

The financial performance of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its governmental funds reported a combined fund balance of \$ 4,893,821.

**GENERAL FUND**

The General Fund includes the primary operations of the Academy in providing educational services to students from kindergarten through grade 8, including pupil transportation activities and capital outlay projects.

The schedule on the following page presents a summary of General Fund revenues.

**YINGHUA ACADEMY  
Charter School No. 4140**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

**GENERAL FUND**

**Table A-5  
General Fund Revenues**

	Year Ended June 30,		Change
	2014	2013	
Other Local Revenues	\$ 271,825	\$ 314,478	\$ (42,653)
State Sources	4,498,241	3,977,488	520,753
Federal Sources	221,210	262,062	(40,852)
<b>Total General Fund Revenue</b>	<b>\$ 4,991,276</b>	<b>\$ 4,554,028</b>	<b>\$ 437,248</b>

Other revenue consists of private grant funding which is expenditure driven.

The following schedule presents a summary of General Fund expenditures. Of the total expenditures, about 62% were personnel salaries and benefits. Another 34% of total expenditures were purchased services to continue developing the educational program, provide facility and administrative services and direct services to students. Table A-6 below presents a summary of General Fund expenditures.

**Table A-6  
General Fund Expenditures**

	Year Ended June 30,		Change
	2014	2013	
Salaries	\$ 2,406,928	\$ 2,186,172	\$ 220,756
Employee Benefits	518,041	526,646	(8,605)
Purchased Services	1,607,068	1,369,327	237,741
Supplies and Materials	160,725	135,849	24,876
Capital Expenditures	72,377	71,465	912
Other Expenditures	8,921	14,702	(5,781)
Transfers Out	-	21,807	(21,807)
<b>Total Expenditures</b>	<b>\$ 4,774,060</b>	<b>\$ 4,325,968</b>	<b>\$ 448,092</b>

In 2013-2014 General Fund revenues exceeded expenditures and other financing uses by \$ 217,216 increasing the fund balance to \$ 621,503.

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2014**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Following approval of the budget, the Academy can revise the annual operating budget in mid-year. These budget amendments fall into two categories:

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

**Capital Assets**

By the end of 2014, the Academy had invested \$ 10,286,087 in capital assets, including construction in progress related to a new building acquisition, computers, equipment and furniture (See Table A-7). More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$ 44,662.

**Table A-7**  
**Capital Assets**

	<u>2014</u>	<u>2013</u>
Equipment	\$ 402,909	\$ 341,203
Construction in Progress	9,874,871	4,323,874
Leasehold Improvements	3,925	3,925
Building and Improvements	4,382	-
Total Capital Assets	<u>10,286,087</u>	<u>4,669,002</u>
Less Accumulated Depreciation	<u>(194,996)</u>	<u>(152,485)</u>
Total	<u>\$ 10,091,091</u>	<u>\$ 4,516,517</u>

**OTHER MAJOR FUNDS**

From the standpoint of maintaining current operating expenditures within the range of annual revenue and maintaining fund balance, the Food Service and Community Service Funds are operating on a sound financial basis.

**FACTORS BEARING ON THE ACADEMY'S FUTURE**

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

**YINGHUA ACADEMY  
Charter School No. 4140**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2014**

**CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our constituents, state oversight agencies, lenders, customers, legislative leaders and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Yinghua Academy Charter School, 1616 Buchanan Avenue NE, Minneapolis, Minnesota 55413.

(THIS PAGE LEFT BLANK INTENTIONALLY)

## **BASIC FINANCIAL STATEMENTS**

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**STATEMENT OF NET POSITION**

	Governmental Activities	
	June 30,	
	2014	2013
<b>ASSETS</b>		
Cash	\$ 591,935	\$ 102,375
Investment with Fiscal Agent	4,107,888	9,508,958
Accounts Receivable	85,121	26,893
Due from Department of Education	460,924	631,036
Due from Federal Government through Department of Education	49,427	49,445
Prepaid Items	94,832	107,451
Deferred Charges	-	516,436
Capital Assets:		
Construction In Progress	9,874,871	4,323,874
Furniture and Equipment	402,909	341,203
Leasehold Improvements	3,925	3,925
Building and Improvements	4,382	-
Less Accumulated Depreciation	(194,996)	(152,485)
Total Assets	\$ 15,481,218	\$ 15,459,111
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
<b>Liabilities</b>		
Accounts Payable	\$ 119,895	\$ 36,018
Salaries and Benefits Payable	340,011	281,868
Interest Payable	418,823	11,452
Unearned Revenue	28,650	72,439
Line of Credit Payable	-	65,000
Bonds Payable:		
Payable After One Year	14,332,454	14,338,261
Total Liabilities	15,239,833	14,805,038
<b>Deferred Inflows of Resources</b>		
Unavailable Revenue - Grants	7,750	-
<b>Net Position</b>		
Net Investment in Capital Assets	(283,322)	(312,786)
Restricted for:		
Other Purposes	88,693	57,588
Unrestricted	428,264	909,271
Total Net Position	233,635	654,073
Total Liabilities, deferred Inflows of Resources and Net Position	\$ 15,481,218	\$ 15,459,111

The Notes to the Financial Statements are an integral part of this statement.

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**STATEMENT OF ACTIVITIES**

Functions/Programs				June 30,	
				2014	2013
	Expenses	Program Revenues		Governmental Activities	Governmental Activities
	Charges for Services	Operating Grants and Contributions		Net (Expense) Revenues and Changes in Net Position	Net (Expense) Revenues and Changes in Net Position
<b>Governmental Activities</b>					
Administration	\$ 198,124	\$ -	\$ -	\$ (198,124)	\$ (180,012)
District Support Services	391,660	-	-	(391,660)	(375,559)
Regular Instruction	2,060,809	68,605	193,221	(1,798,983)	(1,610,836)
Special Education Instruction	472,321	-	461,520	(10,801)	(3,651)
Instructional Support Services	350,401	-	-	(350,401)	(320,547)
Pupil Support Services	189,530	-	-	(189,530)	(176,869)
Sites and Buildings	1,075,244	-	680,968	(394,276)	(310,974)
Fiscal and Other Fixed Cost Programs	11,672	-	-	(11,672)	(16,975)
Food Service	161,272	105,904	55,254	(114)	(23,242)
Community Education and Services	305,926	336,423	-	30,497	(90,313)
Interest and Fiscal Charges on Long-Term Debt	841,252	665,256	-	(175,996)	(11,452)
Total Governmental Activities	\$ 6,058,211	\$ 1,176,188	\$ 1,390,963	(3,491,060)	(3,120,430)
<b>General Revenues</b>					
				3,383,742	3,033,566
				201,396	247,256
				1,920	1,609
				3,587,058	3,282,431
				<b>Change in Net Position</b>	<b>162,001</b>
				654,073	492,072
				(516,436)	-
				137,637	492,072
				\$ 233,635	\$ 654,073

☞ The Notes to the Financial Statements are an integral part of this statement.

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

	Building Company					Total Governmental Funds	
	General	Food Service	Community Service	Capital Projects	Debt Service Fund	June 30,	
						2014	2013
<b>ASSETS</b>							
Cash	\$ 450,715	\$ 4,074	\$ 137,146	\$ -	\$ -	\$ 591,935	\$ 102,375
Cash with Fiscal Agent	-	-	-	2,573,127	1,534,761	4,107,888	9,508,958
Accounts Receivable	9,384	-	-	-	75,737	85,121	26,893
Due from Department of Education	460,774	150	-	-	-	460,924	631,036
Due from Federal Government through Department of Education	48,298	1,129	-	-	-	49,427	49,445
Due from Other Funds	-	-	-	-	-	-	6,265
Prepaid Items	94,832	-	-	-	-	94,832	107,451
<b>Total Assets</b>	<b>\$ 1,064,003</b>	<b>\$ 5,353</b>	<b>\$ 137,146</b>	<b>\$ 2,573,127</b>	<b>\$ 1,610,498</b>	<b>\$ 5,390,127</b>	<b>\$ 10,432,423</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts Payable	\$ 119,280	\$ -	\$ 615	\$ -	\$ -	\$ 119,895	\$ 36,018
Salaries and Benefits Payable	314,495	4,745	20,771	-	-	340,011	281,868
Due to Other Funds	-	-	-	-	-	-	6,265
Unearned Revenue	975	-	27,675	-	-	28,650	72,439
Line of Credit Payable	-	-	-	-	-	-	65,000
<b>Total Liabilities</b>	<b>434,750</b>	<b>4,745</b>	<b>49,061</b>	<b>-</b>	<b>-</b>	<b>488,556</b>	<b>461,590</b>
<b>Deferred Inflows of Resources</b>							
Unavailable Revenue - Grants	7,750	-	-	-	-	7,750	-
<b>Fund Balances</b>							
Nonspendable	94,832	-	-	-	-	94,832	107,451
Restricted	-	608	88,085	2,573,127	1,610,498	4,272,318	9,566,546
Unassigned	526,671	-	-	-	-	526,671	296,836
<b>Total Fund Balances</b>	<b>621,503</b>	<b>608</b>	<b>88,085</b>	<b>2,573,127</b>	<b>1,610,498</b>	<b>4,893,821</b>	<b>9,970,833</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,064,003</b>	<b>\$ 5,353</b>	<b>\$ 137,146</b>	<b>\$ 2,573,127</b>	<b>\$ 1,610,498</b>	<b>\$ 5,390,127</b>	<b>\$ 10,432,423</b>

**YINGHUA ACADEMY  
Charter School No. 4140**

**RECONCILIATION OF THE BALANCE SHEET TO THE  
STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS**

	June 30,	
	2014	2013
Total Fund Balances - Governmental Funds	\$ 4,893,821	\$ 9,970,833
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		
Cost of Capital Assets	10,286,087	4,669,002
Less Accumulated Depreciation	(194,996)	(152,485)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Bonds Payable	(14,135,000)	(14,135,000)
Unamortized Premium on Bonds Payable	(197,454)	(203,261)
Deferred Charges	-	516,436
Governmental funds do not report a liability for accrued interest on bonds until due and payable.		
	(418,823)	(11,452)
Total Net Position - Governmental Activities	\$ 233,635	\$ 654,073

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**

	<u>Building Company</u>					<u>Total Governmental Funds</u> For the Year Ended June 30,	
	<u>General</u>	<u>Food Service</u>	<u>Community Service</u>	<u>Capital Projects</u>	<u>Debt Service Fund</u>	<u>2014</u>	<u>2013</u>
<b>REVENUES</b>							
Other Local Revenues	\$ 271,825	\$ -	\$ 336,423	\$ 80	\$ 665,272	\$ 1,273,600	\$ 573,658
Revenue from State Sources	4,498,241	5,378	-	-	-	4,503,619	3,982,761
Revenue from Federal Sources	221,210	51,174	-	-	-	272,384	304,839
Sales and Other Conversion of Assets	-	104,606	-	-	-	104,606	113,204
Total Revenues	<u>4,991,276</u>	<u>161,158</u>	<u>336,423</u>	<u>80</u>	<u>665,272</u>	<u>6,154,209</u>	<u>4,974,462</u>
<b>EXPENDITURES</b>							
<b>Current</b>							
Administration	197,807	-	-	-	-	197,807	179,695
District Support Services	389,324	-	-	-	-	389,324	890,204
Regular Instruction	2,026,288	-	-	-	-	2,026,288	1,833,608
Special Education Instruction	469,837	-	-	-	-	469,837	368,237
Instructional Support Services	350,401	-	-	-	-	350,401	320,547
Pupil Support Services	189,530	-	-	-	-	189,530	176,869
Sites and Buildings	1,066,824	-	-	-	-	1,066,824	951,990
Fiscal and Other Fixed Cost Programs	11,672	-	-	-	-	11,672	16,975
Food Service	-	160,550	-	-	-	160,550	179,968
Community Education and Services	-	-	305,926	-	-	305,926	349,493
<b>Capital Outlay</b>							
District Support Services	1,721	-	-	-	-	1,721	145
Regular Instruction	39,043	-	-	-	-	39,043	46,836
Special Education Instruction	1,020	-	-	-	-	1,020	985
Instructional Support Services	16,341	-	-	-	-	16,341	-
Sites and Buildings	14,252	-	-	5,550,997	-	5,565,249	4,347,373
Food Service	-	-	-	-	-	-	3,093
<b>Debt Service</b>							
Interest	-	-	-	-	439,688	439,688	-
Total Expenditures	<u>4,774,060</u>	<u>160,550</u>	<u>305,926</u>	<u>5,550,997</u>	<u>439,688</u>	<u>11,231,221</u>	<u>9,666,018</u>
Excess of Revenues Over (Under) Expenditures	217,216	608	30,497	(5,550,917)	225,584	(5,077,012)	(4,691,556)
<b>OTHER FINANCING SOURCES (USES)</b>							
Bond Issuance	-	-	-	-	-	-	14,135,000
Proceeds from Capital Leases	-	-	-	-	-	-	203,261
Transfers In	-	-	-	-	-	-	21,807
Transfers Out	-	-	-	-	-	-	(21,807)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,338,261</u>
Net Change in Fund Balances	217,216	608	30,497	(5,550,917)	225,584	(5,077,012)	9,646,705
<b>FUND BALANCES</b>							
<b>Beginning of Year</b>	<u>404,287</u>	<u>-</u>	<u>57,588</u>	<u>8,124,044</u>	<u>1,384,914</u>	<u>9,970,833</u>	<u>324,128</u>
<b>End of Year</b>	<u>\$ 621,503</u>	<u>\$ 608</u>	<u>\$ 88,085</u>	<u>\$ 2,573,127</u>	<u>\$ 1,610,498</u>	<u>\$ 4,893,821</u>	<u>\$ 9,970,833</u>

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE  
STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**

	For the Year Ended	
	June 30,	
	2014	2013
Net Change in Fund Balances - Total Governmental Funds	\$ (5,077,012)	\$ 9,646,705
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Capital outlay is reported in governmental funds as an expenditure. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>		
Capital Outlay	5,619,999	4,388,211
Depreciation Expense	(44,662)	(39,638)
Loss on Disposal	(763)	-
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.</p>		
	(407,371)	(11,452)
<p>Governmental funds report the effects of bond premiums, discounts and issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
	5,807	313,175
<p>Proceeds from the sale of bonds are recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net assets in the Statement of Activities.</p>		
	-	(14,135,000)
Change in Net Position - Governmental Activities	\$ 95,998	\$ 162,001

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
<b>REVENUES</b>				
Other Local Revenues	\$ 187,230	\$ 272,590	\$ 271,825	\$ (765)
Revenue from State Sources	4,622,751	4,446,839	4,498,241	51,402
Revenue from Federal Sources	186,800	182,463	221,210	38,747
Total Revenues	4,996,781	4,901,892	4,991,276	89,384
<b>EXPENDITURES</b>				
<b>Current</b>				
Administration	212,591	206,091	197,807	(8,284)
District Support Services	474,100	454,645	389,324	(65,321)
Regular Instruction	1,924,978	2,048,169	2,026,288	(21,881)
Special Education Instruction	453,080	441,711	469,837	28,126
Instructional Support Services	389,723	359,686	350,401	(9,285)
Pupil Support Services	167,760	186,025	189,530	3,505
Sites and Buildings	1,123,439	1,072,621	1,066,824	(5,797)
Fiscal and Other Fixed Cost Programs	18,600	15,100	11,672	(3,428)
<b>Capital Outlay</b>				
District Support Services	717	717	1,721	1,004
Regular Instruction	68,677	34,077	39,043	4,966
Special Education Instruction	-	2,000	1,020	(980)
Instructional Support Services	-	-	16,341	16,341
Sites and Buildings	-	-	14,252	14,252
Total Expenditures	4,833,665	4,820,842	4,774,060	(46,782)
Excess of Revenues Over Expenditures	163,116	81,050	217,216	136,166
<b>OTHER FINANCING USES</b>				
Transfers Out	-	(27,708)	-	27,708
Net Change in Fund Balance	\$ 163,116	\$ 53,342	217,216	\$ 163,874
<b>FUND BALANCE</b>				
<b>Beginning of Year</b>			404,287	
<b>End of Year</b>			\$ 621,503	

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - FOOD SERVICE FUND  
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
<b>REVENUES</b>				
Revenue from State Sources	\$ 10,000	\$ 8,000	\$ 5,378	\$ (2,622)
Revenue from Federal Sources	57,000	49,900	51,174	1,274
Sales and Other Conversion of Assets	130,900	104,000	104,606	606
Total Revenues	197,900	161,900	161,158	(742)
<b>EXPENDITURES</b>				
<b>Current</b>				
Food Service	208,900	172,900	160,550	(12,350)
Excess of Revenues Over (Under) Expenditures	(11,000)	(11,000)	608	11,608
<b>OTHER FINANCING SOURCES</b>				
Transfers In	-	11,000	-	(11,000)
Net Change in Fund Balance	\$ (11,000)	\$ -	608	\$ 608
<b>FUND BALANCE</b>				
<b>Beginning of Year</b>			-	
<b>End of Year</b>			\$ 608	

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - COMMUNITY SERVICE FUND  
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
<b>REVENUES</b>				
Other Local Revenues	\$ 422,698	\$ 270,995	\$ 336,423	\$ 65,428
<b>EXPENDITURES</b>				
<b>Current</b>				
Community Education and Services	422,698	287,703	305,926	18,223
Excess of Revenues Over (Under) Expenditures	-	(16,708)	30,497	47,205
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	-	16,708	-	(16,708)
Net Change in Fund Balance	\$ -	\$ -	30,497	\$ 30,497
<b>FUND BALANCE</b>				
<b>Beginning of Year</b>			57,588	
<b>End of Year</b>			\$ 88,085	

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

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

The Academy is a nonprofit corporation that was formed and began operating in June 2004, as Harriet Bishop Academy, in accordance with *Minnesota Statutes* 317A. The Academy subsequently changed its name to Yinghua Academy. The Academy is sponsored by Friends of Education. The Academy is a public school which served grades K-8 in the 2013-2014 school year. The mission of the Academy is to provide a challenging and comprehensive learning environment that will nurture the students' natural inquisitiveness and will prepare them to be engaged and productive global citizens. The governing body consists of a Board of Directors composed of a Chairperson, Treasurer, Secretary and such other members.

**A. Reporting Entity**

The financial statements present the Academy and its component units. The Academy includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the appointed officials of the Academy are financially accountable and are included within the financial statements of the Academy because of the significance of their operational or financial relationships with the Academy.

The Academy is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the Academy.

As a result of applying the component unit definition criteria above, it has been determined a certain organization has been defined and is presented in this report as follows:

Blended Component Units – Reported as if they were part of the Academy.

**1. Blended Component Unit**

Educational Properties Yinghua meets the criteria to be included as a blended component unit in the basic financial statements. Separate financial statements are not prepared for the organization.

Educational Properties Yinghua was organized to operate exclusively in support of the Academy and in particular to purchase, own and/or construct a school house for lease to the Academy.

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

Any student activities the Academy may have are accounted for in the General Fund.

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**B. Basic Financial Statement Information**

The government-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 Academy.

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 Academy applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. The effect of interfund activity has been removed from these Statements.

**C. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred. An exception to this general rule are that interest and principal expenditures in the Debt Service Fund are recognized when payment is due.

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

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

**Description of Funds:**

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

**Major Funds:**

General Fund – This Fund is the basic operating fund of the Academy and is used to account for all financial resources except those required to be accounted for in another fund.

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This Fund is used to account for before and after school program revenues and expenditures.

Building Company Capital Project Fund – This Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Building Company Debt Service Fund – This Fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bonds, interest and related costs.

**D. Deposits and Investments**

*Minnesota Statutes* require all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Custodial Credit Risk – Deposits: This is the risk that, in the event of the failure of a depository financial institution, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. *Minnesota Statutes* requires all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The Academy's policy states that full collateralization is required on all demand deposit accounts exceeding FDIC coverage.

Interest Rate Risk: This is the risk that the market values of securities in a portfolio would decrease due to changes in market interest rate. The Academy's investment policy states that investments maturities shall be scheduled to coincide with projected cash flow needs. Maturities for short-term and long-term investments shall be timed according to anticipated need. Within these parameters, portfolio maturities shall be staggered to avoid undue concentration of assets and a specific maturity sector. The maturities selected shall provide for stability of income and reasonable liquidity.

**YINGHUA ACADEMY**  
**Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**D. Deposits and Investments (Continued)**

Credit Risk: This is the risk an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top two ratings issued by national recognized statistical rating organizations. According to the Academy's investment policy, the Academy may only invest in funds specified by Minnesota State Statute.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The Academy's investment policy states that the Academy shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities.

Custodial Credit Risk- Investments- This is the risk that in the event of the failure of the counterparty, the Academy will not be able to recover the value of its interments or collateral securities that in the possession of an outside party. The Academy's investment policy requires all investments to be held in third-party safekeeping by an institution designated as a custodial agent. The custodial agent may be any Federal Reserve Bank, any bank authorized under the laws of the United States, or any state to exercise corporate trust powers, a primary reporting dealer in the United States Government securities to the Federal Reserve Bank of New York, or a securities broker-dealer defined by Minnesota State Statute.

**E. Prepaid Items**

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

**F. Capital Assets**

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the Academy as assets with an initial individual cost of more than \$ 500. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the half-year 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 Academy, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 5 to 20 years for furniture and equipment.

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

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

**G. Deferred Inflows of Resources**

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy has one item, which qualifies for reporting in this category, unavailable revenue from grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. At the government-wide level unavailable revenue related to grants is presented.

**H. Compensated Absences**

Certain Academy employees earn paid leave time (PLT). Academy employees may not carryover PLT to subsequent years so, at June 30, 2014, no liability exists.

**I. Risk Management**

The Academy is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the Academy carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions or other significant changes in the Academy's insurance coverage during the year ending June 30, 2014.

**J. Fund Equity**

**1. Classification**

In the fund financial statements, the governmental fund report fund classifications that comprise a hierarchy based primarily on the extent to which the Academy is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. Nonspendable fund balances include amounts that cannot be spent because they are not in spendable form. Amounts that are restricted to specific purposes either by a) constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments or b) imposed by law through enabling legislation are classified as restricted fund balances. Amounts that can only be used for specific purposes pursuant to constraints imposed by the Board of Trustees (highest level of decision making authority) through resolution are classified as committed fund balances. Amounts that are constrained by the Academy's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to a specific purpose in the General Fund.

**2. Minimum Fund Balance**

At June 30, 2014, the Academy's policy is to maintain a minimum unassigned general fund balance of 20 percent of the annual budget.

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

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

**K. Net Position**

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

**L. 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 disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**M. Comparative Data**

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the Academy's financial position and operations. This data has been restated where necessary for comparable classifications.

**N. Tax Status**

The Academy is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Academy is also exempt from Minnesota Franchise or income tax.

The Academy is required to assess whether an uncertain tax position exists and if there should be recognition of a related benefit or liability in the financial statements. The Academy has determined there are not amounts to record as assets or liabilities related to uncertain tax positions. Generally, the Academy is no longer subject to examination by tax authorities for years before 2011.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

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

1. Prior to July 1, the Director of Academy submits to the Academy's Board of Directors, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information (Continued)**

3. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America
4. Budgets are as originally adopted or as amended by the Academy’s Board of Directors. Budgeted expenditure appropriations lapse at year-end.

**B. Excess of Expenditures over Appropriations**

Budgetary control for governmental funds is established by each fund’s total appropriations. Expenditures exceeded appropriations in the following Funds for the year ending June 30, 2014.

	<u>Appropriations</u>	<u>Expenditures</u>
Special Revenue Funds:		
Community Service	\$ 287,703	\$ 305,926

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

In accordance with applicable *Minnesota Statutes*, the Academy maintains deposits at depository banks authorized by the Academy’s Board of Directors.

Custodial Credit Risk – Deposits: As of June 30, 2014, the Academy’s bank balance of \$ 661,983 was not exposed to custodial credit risk because it was covered by FDIC and collateral pledged by the Academy.

Deposits are presented in the Statement of Net Position at June 30, 2014 is as follows:

Cash	\$ 591,935
------	------------

**B. Investments**

Investments at June 30, 2014 were comprised of \$ 4,107,888 in Wells Fargo Treasury Money Market.

**C. Deposits and Investments**

The following is a summary of total deposits and investments:

District Governmental Funds:	
Deposits	\$ 591,935
Investments	4,107,888
Total Deposits and Investments	\$ 4,699,823

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**C. Deposits and Investments (Continued)**

Deposits and investments are presented in the June 30, 2014 basic financial statements as follows:

Statement of Net Position:

Cash and Investments	\$ 591,935
Investment with Fiscal Agent	4,107,888
	4,107,888
 Total Deposits and Investments	 \$ 4,699,823

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Construction in Progress	\$ 4,323,874	\$ 5,550,997	\$ -	\$ 9,874,871
Capital Assets being Depreciated:				
Furniture and Equipment	\$ 341,203	\$ 64,620	\$ (2,914)	\$ 402,909
Leasehold Improvements	3,925	-	-	3,925
Building and Improvements	-	4,382	-	4,382
Total	345,128	69,002	(2,914)	411,216
Less Accumulated Depreciation for:				
Furniture and Equipment	151,363	44,028	(2,151)	193,240
Leasehold Improvements	1,122	561	-	1,683
Building and Improvements	-	73	-	73
Total	152,485	44,662	(2,151)	194,996
 Total Capital Assets being Depreciated, Net	 \$ 192,643	 \$ 24,340	 \$ (763)	 \$ 216,220
 Governmental Activities, Capital Assets, Net	 \$ 4,516,517	 \$ 5,575,337	 \$ (763)	 \$ 10,091,091

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 4 – CAPITAL ASSETS**

Depreciation expense for the year ended June 30, 2014 was charged to the following functions:

Administration	\$ 317
District Support Services	1,664
Regular Instruction	32,077
Special Education	1,464
Instructional Support Services	722
Site and Buildings	8,418
Total Depreciation Expense	\$ 44,662

**NOTE 5 – SHORT-TERM DEBT**

On November 30, 2010, the Academy obtained a line of credit (LOC) of \$ 350,000 that expired on October 15, 2011 and was extended to January 15, 2015. The agreement requires interest on all borrowings at 6.5% and was secured by assets of the Academy. At June 30, 2014, the Academy had a balance of \$ 0 outstanding on the LOC.

**Changes in Short-Term Debt**

	Balance	Additions	Reductions	Balance
Short-Term Liabilities:				
Line of Credit	\$ 65,000	\$ -	\$ 65,000	\$ -

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 6 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-Term Liabilities:						
Charter School Lease Revenue Bonds, 2013A	06/25/13	5.000% -6.125 %	\$ 14,135,000	07/01/48	\$ 14,135,000	\$ -
Premium on Bonds					<u>197,454</u>	<u>-</u>
Total all Long-Term					<u>\$ 14,332,454</u>	<u>\$ -</u>

The long-term bonds listed above were issued to finance acquisition and construction of capital facilities.

**B. Minimum Debt Payments for Bonds and Loans**

Minimum annual principal and interest payments required to retire bond liabilities:

<u>Year Ending June 30,</u>	<u>Charter School Lease Revenue Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ -	\$ 842,300	\$ 842,300
2016	-	842,300	842,300
2017	15,000	841,888	856,888
2018	95,000	838,863	933,863
2019	125,000	832,813	957,813
2020-2024	1,010,000	4,026,450	5,036,450
2025-2029	1,325,000	3,703,875	5,028,875
2030-2034	1,775,000	3,241,875	5,016,875
2035-2039	2,365,000	2,625,375	4,990,375
2040-2044	3,165,000	1,801,875	4,966,875
2045-2048	<u>4,260,000</u>	<u>682,938</u>	<u>4,942,938</u>
Total	<u>\$ 14,135,000</u>	<u>\$ 20,280,552</u>	<u>\$ 34,415,552</u>

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 6 – LONG-TERM DEBT**

**C. Changes in Long-Term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance
Long-Term Liabilities:				
G.O. Bonds	\$ 14,135,000	\$ -	\$ -	\$ 14,135,000
Premium on Bonds	203,261	-	5,807	197,454
Total	<u>\$ 14,338,261</u>	<u>\$ -</u>	<u>\$ 5,807</u>	<u>\$ 14,332,454</u>

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

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

**Teachers' Retirement Association**

**A. Plan Description**

All teachers employed by the Academy are covered by defined benefit plans administered by the TRA. TRA members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. These Plans are established and administered in accordance with *Minnesota Statutes* Chapter 354 and 356.

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

Two methods are used to compute benefits for 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 below and on the following pages.

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Teachers’ Retirement Association**

**A. Plan Description (Continued)**

**Tier I Benefits:**

Tier I	Step Rate Formula	Percentage
Basic	First 10 years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First 10 years if service years are prior to July 1, 2006	1.2% per year
	First 10 years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are prior to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

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

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Teachers' Retirement Association (Continued)**

**A. Plan Description (Continued)**

**Tier II Benefits :**

For years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% per year for Basic Plan members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0% to 5.4% per year.

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

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

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance and further information on benefits provisions. The report may be accessed at the TRA web site [www.minnesotatra.org](http://www.minnesotatra.org). Alternatively, a copy of the report may be obtained by writing TRA at Teachers' Retirement Association, 60 Empire Drive, #400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-2409 or (800) 657-3669.

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Teachers' Retirement Association (Continued)**

**B. Funding Policy**

*Minnesota Statutes* Chapter 354 sets the rates for the employee and employer contributions. These Statutes are established and amended by the State Legislature. Coordinated and Basic Plan members are required to contribute 6.5% and 10.0%, respectively, of their annual covered salary during the year 2013 as employee contributions. The TRA employer contribution rates are 6.5% for Coordinated Plan members and 10.5% for Basic Plan members during 2013. Total covered payroll salaries for all TRA members state-wide during year ended June 30, 2013 was approximately \$ 3.92 billion. TRA covered payroll for all members state-wide for the years ended June 30, 2012 and 2011 were \$ 3.87 billion and \$ 3.84 billion, respectively. The Academy's contributions for the years ended June 30, 2014, 2013 and 2012 were \$ 114,709, \$ 93,218 and \$ 84,549, respectively, equal to the required contributions for each year as set by state statute.

The 2010 State Legislature approved employee and employer contribution rate increases to be phased in over a four year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5% each year of the four year period, ending in 2014. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5%.

**Public Employees' Retirement Association**

**A. Plan Description**

All full-time and certain part-time employees (nonteacher) of the Academy are covered by defined benefit plans administered by the PERA. PERA administers the General Employees' Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This Plan is established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

GERF members belong to either the Coordinated or Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement 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.

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**A. Plan Description (Continued)**

**Public Employees' Retirement Association (Continued)**

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of the average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For all GERF members hired prior to July 1, 1989, whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated Plan members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated Plan members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A single-life annuity is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be payable over joint lives. Members may also leave their contributions in the Fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active Plan participants.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org), by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

**B. Funding Policy**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The Academy makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2013. In 2013, the Academy was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The Academy's contributions to the Public Employee's Retirement Fund for the years ended June 30, 2014, 2013 and 2012 were \$ 65,852, \$ 65,054 and \$ 49,362, respectively, equal to the contractually required contributions for each year as set by state statute.

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 8 – COMMITMENTS**

**A. Lease Commitments and Terms**

For 2014, the Academy qualified for state charter school lease aid which equaled the lesser of 90% of the approved lease cost or \$ 1,200 per pupil units served, or \$ 680,967.

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

On June 10, 2012, the Academy signed a lease for educational space with NE Lutheran Ministry Center, Minneapolis, Minnesota, (now Grace Center) commencing July 1, 2012. The term of the lease agreement covers periods through June 30, 2014. The annual rent for the lease shall be \$ 73,440 and will be paid in 12 equal installments. If enrollment increases above 61.2 pupil units, the Academy will be required to pay a rent adjustment in January and will be retroactive to the first day of the applicable year. The additional rent shall increase in an amount equal to any increase in the amount of building lease aid per pupil unit as provided in *Minnesota Statutes* 124D.11, Subd 4. During 2014, the Academy paid \$ 91,374 to Grace Center.

On June 25, 2013, the Academy (Lessee) signed a lease for educational space with Educational Properties Yinghua, LLC (Lessor), in Minneapolis, Minnesota. The term of the lease agreement covers periods through June 30, 2053 and assumes the remaining lease term from CSDC. The annual rent for the lease is equal to a base annual rent plus operating costs. Annual base rent will be for the portion of the facility that remains intact and occupied which will be calculated as the greater of (1) \$ 589,519 or (2) the maximum amount related to students occupying the premises. Beginning on July 1, 2014, the annual base rent will be the greater of (1) an amount equivalent to (A) 1.0x of Landlord's annual debt service (plus issuer, trustee and rating agency fees) if a Certificate of Occupancy has not been obtained for the new addition, or (B) if a Certificate of Occupancy for the new addition has been obtained, 1.1x of Landlord's annual debt service or (2) the maximum amount. The Academy is also responsible for all operating costs associated with all utilities, water, sewer, garbage removal, telecommunication, janitorial, cleaning, maintenance, repairs, replacements, landscaping, snow removal and all other costs of operating the premises. Payments under the lease began on July 5, 2013 for the period beginning July 1, 2013.

**YINGHUA ACADEMY  
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2014**

**NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2014, the Academy implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This resulted in an adjustment to the beginning net position on the Statement of Activities of \$ 516,436 to remove deferred charges no longer required to be capitalized in accordance with GASB Statement No. 65. Also, some items previously reported as liabilities or the balance sheet have been reclassified as Deferred Inflows of Resources.

**NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

(THIS PAGE LEFT BLANK INTENTIONALLY)

**SUPPLEMENTARY INFORMATION**

**YINGHUA ACADMEY**  
**Charter School No. 4140**

**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS**  
**COMPLIANCE TABLE**  
**For the Year Ended June 30, 2014**

	<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>		<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION FUND</b>			
Total Revenue	\$ 4,991,276	\$ 4,991,275	\$ 1	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	4,774,060	4,774,062	(2)	Total Expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	94,832	94,832	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	-	-	-	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted Fund Balance	-	-	-
409 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned Fund Balance	-	-	-
416 Levy Reduction	-	-	-	<b>07 DEBT SERVICE FUND</b>			
417 Taconite Building Maintenance	-	-	-	Total Revenue	\$ -	\$ -	\$ -
424 Operating Capital	-	-	-	Total Expenditures	-	-	-
426 \$ 25 Taconite	-	-	-	<i>Nonspendable:</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable Fund Balance	-	-	-
428 Learning and Development	-	-	-	<i>Restricted/Reserved:</i>			
434 Area Learning Center	-	-	-	425 Bond Refunding	-	-	-
435 Contracted Alternative Programs	-	-	-	451 QZAB and QCSB Payments	-	-	-
436 State Approved Alternative Program	-	-	-	<i>Restricted:</i>			
438 Gifted and Talented	-	-	-	464 Restricted Fund Balance	-	-	-
441 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
445 Career Technical Programs	-	-	-	463 Unassigned Fund Balance	-	-	-
446 First Grade Preparedness	-	-	-	<b>08 TRUST FUND</b>			
448 Achievement and Integration Revenue	-	-	-	Total Revenue	\$ -	\$ -	\$ -
449 Safe School Crime	-	-	-	Total Expenditures	-	-	-
450 Transition for Pre-Kindergarten	-	-	-	<i>Unassigned:</i>			
451 QZAB and QCSB Payments	-	-	-	422 Unassigned Fund Balance (Net Position)	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-	<b>20 INTERNAL SERVICE FUND</b>			
453 Unfunded Severance and Retirement Levy	-	-	-	Total Revenue	\$ -	\$ -	\$ -
<i>Restricted:</i>				Total Expenditures	-	-	-
464 Restricted Fund Balance	-	-	-	<i>Unassigned:</i>			
<i>Committed:</i>				422 Unassigned Fund Balance (Net Position)	-	-	-
418 Committed for Separation	-	-	-	<b>25 OPEB REVOCABLE TRUST</b>			
461 Committed	-	-	-	Total Revenue	\$ -	\$ -	\$ -
<i>Assigned:</i>				Total Expenditures	-	-	-
462 Assigned Fund Balance	-	-	-	<i>Unassigned:</i>			
<i>Unassigned:</i>				422 Unassigned Fund Balance (Net Position)	-	-	-
422 Unassigned Fund Balance (Net Position)	526,671	526,671	-	<b>45 OPEB IRREVOCABLE TRUST</b>			
<b>02 FOOD SERVICES FUND</b>				Total Revenue	\$ -	\$ -	\$ -
Total Revenue	\$ 161,158	\$ 161,159	\$ (1)	Total Expenditures	-	-	-
Total Expenditures	160,550	160,551	(1)	<i>Unassigned:</i>			
<i>Nonspendable:</i>				422 Unassigned Fund Balance (Net Position)	-	-	-
460 Nonspendable Fund Balance	-	-	-	<b>47 OPEB DEBT SERVICE</b>			
<i>Restricted/Reserved:</i>				Total Revenue	\$ -	\$ -	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				<i>Nonspendable:</i>			
464 Restricted Fund Balance	608	608	-	460 Nonspendable Fund Balance	-	-	-
<i>Unassigned:</i>				<i>Restricted:</i>			
463 Unassigned Fund Balance	-	-	-	464 Restricted Fund Balance	-	-	-
<b>04 COMMUNITY SERVICE FUND</b>				<i>Unassigned:</i>			
Total Revenue	\$ 336,423	\$ 336,423	\$ -	463 Unassigned Fund Balance	-	-	-
Total Expenditures	305,926	305,926	-	<b>06 BUILDING CONSTRUCTION FUND</b>			
<i>Nonspendable:</i>				Total Revenue	\$ -	\$ -	\$ -
460 Nonspendable Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Restricted/Reserved:</i>				<i>Nonspendable:</i>			
426 \$ 25 Taconite	-	-	-	460 Nonspendable Fund Balance	-	-	-
431 Community Education	-	-	-	<i>Restricted:</i>			
432 ECFE	-	-	-	464 Restricted Fund Balance	-	-	-
444 School Readiness	-	-	-	<i>Unassigned:</i>			
447 Adult Basic Education	-	-	-	463 Unassigned Fund Balance	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-	<b>06 BUILDING CONSTRUCTION FUND</b>			
<i>Restricted:</i>				Total Revenue	\$ -	\$ -	\$ -
464 Restricted Fund Balance	88,085	88,086	(1)	Total Expenditures	-	-	-
<i>Unassigned:</i>				<i>Nonspendable:</i>			
463 Unassigned Fund Balance	-	-	-	460 Nonspendable Fund Balance	-	-	-



*Expert advice. When you need it.<sup>SM</sup>*

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

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Yinghua Academy  
Minneapolis, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Yinghua Academy, Minneapolis, Minnesota, as of and for the year ending June 30, 2014, and the related Notes to the Financial Statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 10, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

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

A handwritten signature in cursive script that reads "Kern DeWenter, Vice Ltd".

KERN, DEWENTER, VIERE, LTD.  
Minneapolis, Minnesota  
September 10, 2014



*Expert advice. When you need it.<sup>SM</sup>*

## **REPORT ON LEGAL COMPLIANCE**

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Yinghua Academy  
Minneapolis, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Yinghua Academy, Minneapolis, Minnesota, as of and for the year ended June 30, 2014, and the related Notes to the Financial Statements, and have issued our report thereon dated September 10, 2014.

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

In connection with our audit, nothing came to our attention that caused us to believe that the Academy failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. 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 Academy's noncompliance with the above referenced provisions.

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

A handwritten signature in cursive script that reads "Kern DeWenter, Viero Ltd". The signature is written in black ink and is positioned above the printed name of the auditor.

KERN, DEWENTER, VIERO, LTD.  
Minneapolis, Minnesota  
September 10, 2014