

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

AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2012

**YINGHUA ACADEMY
Charter School No. 4140**

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**YINGHUA ACADEMY
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**BOARD OF DIRECTORS AND ADMINISTRATION
For the Fiscal Year Ended June 30, 2012**

<u>Board of Directors</u>	<u>Position</u>	<u>Term Expires</u>
Jennifer Shadowens	Board Chairperson	2013
Karen Lu	Secretary	2014
Doug Parish	Treasurer	2012
Lou Bender	Member	2014
Ruth Hansen	Member	2014
Scott Jax	Member	2015
Joel O'Malley	Member	2013
Dr. Rosemary Lawrence	Member	2014
Denny Grubish	Member	2013
<u>Administration</u>		
Susan Berg	Executive Director	
Dr. Luyi Lien	Academic Director	
Jennifer Vanyo	Business and Human Resources Manager	



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Yinghua Academy
Minneapolis, Minnesota

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 fiscal year ended June 30, 2012, which collectively comprise the Academy's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the Academy's 2011 financial statements and, in our report dated October 27, 2011, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2012, and the respective changes in financial position thereof, and the respective budgetary comparison for the General, Food Service and Community Service Funds for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



U.S. generally accepted accounting principles 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 the Governmental Accounting Standards Board (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 U.S. generally accepted auditing standards, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

Kern, DeWenter, Viere, Ltd.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
September 4, 2012

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**YINGHUA ACADEMY
Charter School No. 4140**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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, 2012. 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 the 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 (2011-2012) and the prior year (2010-2011) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2011-2012 fiscal year include the following:

- The total fund balance of the General Fund ended at a positive \$ 176,227.
- Overall General Fund revenues were \$ 3,818,517 as compared to \$ 3,970,167 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**

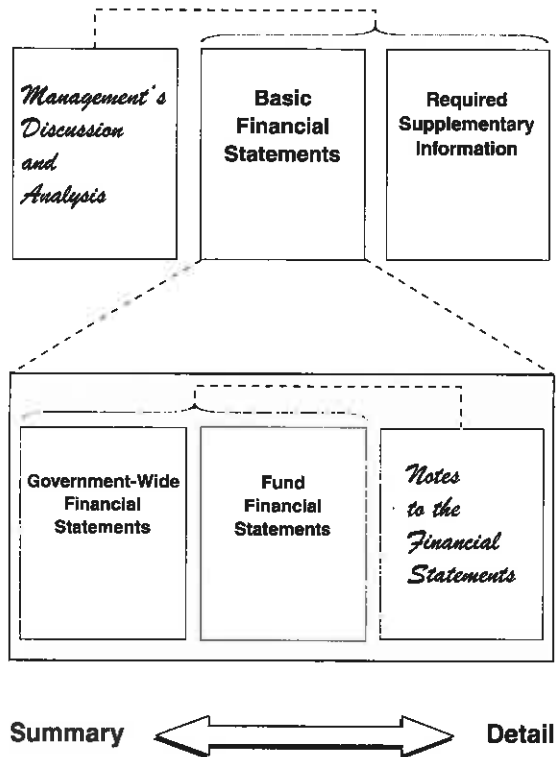
**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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, 2012**

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>	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<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>	♦ Statement of Net Assets	♦ Balance Sheet	♦ Statement of Net Assets	♦ Statement of Fiduciary Net Assets
	♦ Statement of Activities	♦ Statement of Revenues, Expenditures and Changes in Fund Balances	♦ Statement of Revenues, Expenses and Changes in Fund Net Assets	♦ Statement of Changes in Fiduciary Net Assets
			♦ Statement of Cash Flows	
<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 Assets 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, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Statements (Continued)

The two government-wide statements report the Academy's net assets and how they have changed. Net assets, 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 assets 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
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Net Assets

The Academy's combined net assets were \$ 492,072 on June 30, 2012 (See Table A-1).

Table A-1
The Academy's Net Assets

	Governmental Activities		Change
	2012	2011	
Current and Other Assets	\$ 1,333,561	\$ 907,338	\$ 426,223
Capital and Noncurrent Assets	167,944	132,683	35,261
Total Assets	\$ 1,501,505	\$ 1,040,021	\$ 461,484
Current Liabilities	\$ 1,009,433	\$ 456,838	\$ 552,595
Net Assets:			
Invested in Capital Assets	\$ 167,944	\$ 132,683	\$ 35,261
Restricted	147,901	117,922	29,979
Unrestricted	176,227	332,578	(156,351)
Total Net Assets	\$ 492,072	\$ 583,183	\$ (91,111)

YINGHUA ACADEMY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Changes in Net Assets

The Academy's total revenues were \$ 4,174,607 for the period ended June 30, 2012. 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
Change in Net Assets

	Governmental Activities		Change
	2012	2011	
REVENUES:			
Program Revenues:			
Charges for Services	\$ 361,253	\$ 347,929	\$ 13,324
Operating Grants and Contributions	1,139,266	1,015,996	123,270
General Revenues:			
Unrestricted Federal and State Aid	2,520,130	2,100,258	419,872
Other	153,958	167,626	(13,668)
Total Revenues	<u>4,174,607</u>	<u>3,631,809</u>	<u>542,798</u>
EXPENDITURES:			
Administration	208,902	266,584	(57,682)
District Support Services	310,880	220,780	90,100
Regular Instruction	1,799,139	1,392,191	406,948
Special Education Instruction	241,657	244,923	(3,266)
Instructional Support Services	412,562	308,716	103,846
Pupil Support Services	153,560	95,149	58,411
Sites and Buildings	791,835	706,220	85,615
Fiscal and Other Fixed Cost Programs	14,936	9,543	5,393
Food Service	139,429	137,681	1,748
Community Service	192,818	206,534	(13,716)
Total Expenditures	<u>4,265,718</u>	<u>3,588,321</u>	<u>677,397</u>
Change in Net Assets	(91,111)	43,488	(134,599)
NET ASSETS:			
Beginning of Year	<u>583,183</u>	<u>539,695</u>	<u>76,617</u>
End of Year	<u>\$ 492,072</u>	<u>\$ 583,183</u>	<u>\$ (57,982)</u>

The total cost of all programs and services was \$ 4,265,718 and exceeded revenues by \$ 91,111.

**YINGHUA ACADEMY
Charter School No. 4140**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Figure A-3 Sources of Academy's Revenues for Fiscal 2012

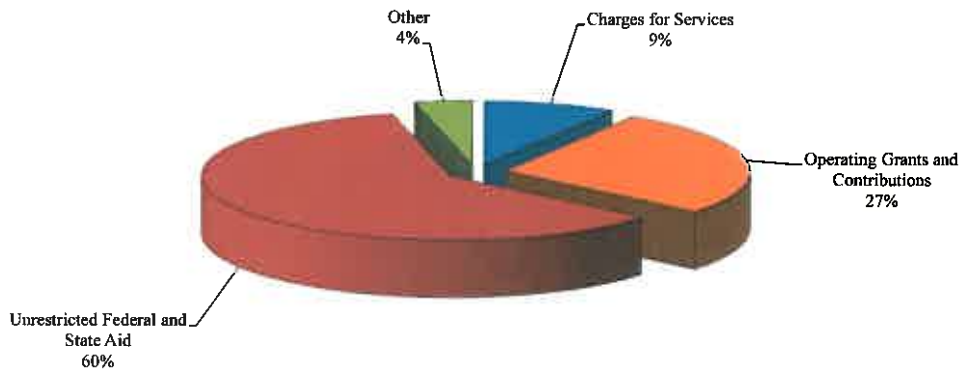
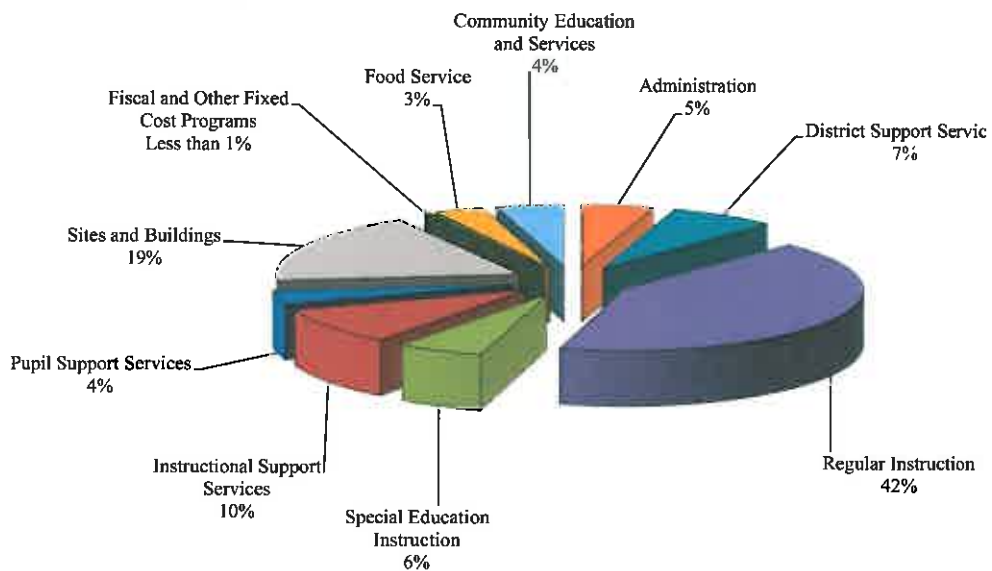


Figure A-4 Academy Expenses for Fiscal 2012



YINGHUA ACADEMY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

	Total Costs of Services			Net Costs of Services		
	2012	2011	Change	2012	2011	Change
Administration	\$ 208,902	\$ 266,585	\$ (57,683)	\$ 208,902	\$ 266,584	\$ (57,682)
District Support Services	310,880	220,780	90,100	310,880	220,780	90,100
Regular Instruction	1,799,139	1,392,191	406,948	1,388,541	1,056,437	332,104
Special Education Instruction	241,657	244,923	(3,266)	(8,320)	2,691	(11,011)
Instructional Support Services	412,562	308,716	103,846	412,562	308,716	103,846
Pupil Support Services	153,560	95,149	58,411	153,560	95,149	58,411
Sites and Buildings	791,835	706,220	85,615	307,981	264,392	43,589
Fiscal and Other Fixed Cost Programs	14,936	9,543	5,393	14,936	9,543	5,393
Food Service	139,429	137,681	1,748	5,588	11,833	(6,245)
Community Education and Services	192,818	206,534	(13,716)	(29,431)	(11,729)	(17,702)
Total	\$ 4,265,718	\$ 3,588,322	\$ 677,396	\$ 2,765,199	\$ 2,224,396	\$ 540,803

In 2011-2012, the Academy enrolled 99 students in kindergarten, 214 students in grades 1-3, 101 students in grades 4-6 and 20 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 \$ 324,128.

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, 2012**

GENERAL FUND

**Table A-5
General Fund Revenues**

	Year Ended June 30,		Change
	2012	2011	
LOCAL SOURCES:			
Other Local Revenues	\$ 213,014	\$ 165,380	\$ 47,634
State Sources	3,214,240	2,712,513	501,727
Federal Sources	391,263	409,806	(18,543)
Total General Fund Revenue	\$ 3,818,517	\$ 3,287,699	\$ 530,818

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 61% were personnel salaries and benefits. Another 33% 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
	2012	2011	
Salaries	\$ 2,004,429	\$ 1,701,693	\$ 302,736
Employee Benefits	404,548	354,203	50,345
Purchased Services	1,307,725	1,008,494	299,231
Supplies and Materials	129,592	125,972	3,620
Capital Expenditures	86,574	36,646	49,928
Other Expenditures	37,299	20,250	17,049
Transfers Out	4,153	11,833	(7,680)
Total Expenditures	\$ 3,974,320	\$ 3,259,091	\$ 715,229

In 2011-2012 General Fund expenditures exceeded revenues by \$ 155,803 decreasing the fund balance to \$ 176,227.

YINGHUA ACADEMY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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 fiscal 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 2012, the Academy had invested \$ 280,791 in capital assets, including 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 \$ 112,847.

Table A-7
Capital Assets

	<u>2012</u>	<u>2011</u>
Equipment	\$ 276,866	\$ 207,232
Leasehold Improvements	3,925	-
Total Capital Assets	<u>280,791</u>	<u>207,232</u>
Less Accumulated Depreciation	<u>(112,847)</u>	<u>(74,549)</u>
Total	<u>\$ 167,944</u>	<u>\$ 132,683</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, 2012**

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.

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BASIC FINANCIAL STATEMENTS

YINGHUA ACADEMY
Charter School No. 4140

STATEMENT OF NET ASSETS

	Governmental Activities	
	June 30,	
	2012	2011
ASSETS		
Cash	\$ 68,931	\$ 33,469
Accounts Receivable	4,481	420
Due from Department of Education	1,132,605	754,517
Due from Federal Government through Department of Education	27,209	29,926
Prepaid Items	100,335	89,006
Capital Assets:		
Furniture and Equipment	276,866	207,232
Leasehold Improvements	3,925	-
Less Accumulated Depreciation	<u>(112,847)</u>	<u>(74,549)</u>
Total Assets	<u>\$ 1,501,505</u>	<u>\$ 1,040,021</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable	\$ 89,092	\$ 48,035
Salaries and Benefits Payable	260,561	161,988
Unearned Revenue	9,780	146,815
Line of Credit Payable	<u>650,000</u>	<u>100,000</u>
Total Liabilities	<u>1,009,433</u>	<u>456,838</u>
Net Assets		
Invested in Capital Assets	167,944	132,683
Restricted for:		
Other Purposes	147,901	117,922
Unrestricted	<u>176,227</u>	<u>332,578</u>
Total Net Assets	<u>492,072</u>	<u>583,183</u>
Total Liabilities and Net Assets	<u>\$ 1,501,505</u>	<u>\$ 1,040,021</u>

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

YINGHUA ACADEMY
Charter School No. 4140

STATEMENT OF ACTIVITIES

	June 30,		Capital Grants and Contributions	Governmental Activities
	2012	2011		
Governmental Activities				
Administration	\$ 208,902	\$ -	\$ -	\$ (266,584)
District Support Services	310,880	-	-	(220,780)
Regular Instruction	1,799,139	53,405	357,193	(1,056,437)
Special Education Instruction	241,657	-	249,977	(2,691)
Instructional Support Services	412,562	-	-	(308,716)
Pupil Support Services	153,560	-	-	(95,149)
Sites and Buildings	791,835	-	483,854	(264,392)
Fiscal and Other Fixed Cost Programs	14,936	-	-	(9,543)
Food Service	139,429	85,599	48,242	(11,833)
Community Education and Services	192,818	222,249	-	11,729
Total Governmental Activities	<u>\$ 4,265,718</u>	<u>\$ 361,253</u>	<u>\$ 1,139,266</u>	<u>(2,224,396)</u>
General Revenues				
State Aid-Formula Grants				2,100,258
Other General Revenues				167,109
Investment Income				517
Total General Revenues				<u>2,267,884</u>
Change in Net Assets				<u>(91,111)</u>
Net Assets - Beginning				<u>583,183</u>
Net Assets - Ending				<u>\$ 492,072</u>
				<u>\$ 583,183</u>

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

YINGHUA ACADEMY
Charter School No. 4140

BALANCE SHEET - GOVERNMENTAL FUNDS

	General	Community Service	Food Service	Total Governmental Funds	
				June 30,	
				2012	2011
ASSETS					
Cash	\$ 9,922	\$ 59,009	\$ -	\$ 68,931	\$ 33,469
Accounts Receivable	4,239	242	-	4,481	420
Due from Department of Education	1,132,420	-	185	1,132,605	754,517
Due from Federal Government through Department of Education	26,072	-	1,137	27,209	29,926
Due from Other Funds	-	106,900	-	106,900	117,405
Prepaid Items	100,335	-	-	100,335	89,006
Total Assets	<u>\$ 1,272,988</u>	<u>\$ 166,151</u>	<u>\$ 1,322</u>	<u>\$ 1,440,461</u>	<u>\$ 1,024,743</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 88,349	\$ 695	\$ 48	\$ 89,092	\$ 48,035
Salaries and Benefits Payable	251,433	8,765	363	260,561	161,988
Due to Other Funds	105,989	-	911	106,900	117,405
Deferred Revenue	990	8,790	-	9,780	146,815
Line of Credit Payable	650,000	-	-	650,000	100,000
Total Liabilities	<u>1,096,761</u>	<u>18,250</u>	<u>1,322</u>	<u>1,116,333</u>	<u>574,243</u>
Fund Balances					
Nonspendable	100,335	-	-	100,335	89,006
Restricted	-	147,901	-	147,901	117,922
Unassigned	75,892	-	-	75,892	243,572
Total Fund Balances	<u>176,227</u>	<u>147,901</u>	<u>-</u>	<u>324,128</u>	<u>450,500</u>
Total Liabilities and Fund Balances	<u>\$ 1,272,988</u>	<u>\$ 166,151</u>	<u>\$ 1,322</u>	<u>\$ 1,440,461</u>	<u>\$ 1,024,743</u>

YINGHUA ACADEMY
Charter School No. 4140

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

	June 30,	
	2012	2011
Total Fund Balances - Governmental Funds	\$ 324,128	\$ 450,500
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
<p style="padding-left: 40px;">Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.</p>		
Cost of Capital Assets	280,791	207,232
Less Accumulated Depreciation	(112,847)	(74,549)
Total Net Assets - Governmental Activities	\$ 492,072	\$ 583,183

YINGHUA ACADEMY
Charter School No. 4140

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

	General	Community Service	Food Service	Total Governmental Funds For the Fiscal Year Ended June 30,	
				2012	2011
REVENUES					
Other Local Revenues	\$ 213,014	\$ 222,249	\$ -	\$ 435,263	\$ 383,643
Revenue from State Sources	3,214,240	-	5,395	3,219,635	2,717,465
Revenue from Federal Sources	391,263	-	42,847	434,110	441,209
Sales and Other Conversion of Assets	-	-	85,599	85,599	89,492
Total Revenues	3,818,517	222,249	133,841	4,174,607	3,631,809
EXPENDITURES					
Current					
Administration	208,585	-	-	208,585	266,143
District Support Services	308,045	-	-	308,045	220,076
Regular Instruction	1,768,230	-	-	1,768,230	1,370,783
Special Education Instruction	239,037	-	-	239,037	243,458
Instructional Support Services	411,562	-	-	411,562	308,716
Pupil Support Services	153,560	-	-	153,560	95,149
Sites and Buildings	779,698	-	-	779,698	696,747
Fiscal and Other Fixed Cost Programs	14,936	-	-	14,936	9,543
Food Service	-	-	137,994	137,994	137,681
Community Education and Services	-	192,818	-	192,818	206,534
Capital Outlay					
District Support Services	6,174	-	-	6,174	2,593
Regular Instruction	47,249	-	-	47,249	12,610
Special Education Instruction	1,156	-	-	1,156	4,326
Instructional Support Services	1,000	-	-	1,000	-
Sites and Buildings	30,935	-	-	30,935	17,117
Total Expenditures	3,970,167	192,818	137,994	4,300,979	3,591,476
Excess of Revenues Over (Under) Expenditures	(151,650)	29,431	(4,153)	(126,372)	40,333
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	4,153	4,153	11,833
Transfers Out	(4,153)	-	-	(4,153)	(11,833)
Total Other Financing Sources (Uses)	(4,153)	-	4,153	-	-
Net Change in Fund Balances	(155,803)	29,431	-	(126,372)	40,333
FUND BALANCES					
Beginning of Year	332,030	118,470	-	450,500	410,167
End of Year	\$ 176,227	\$ 147,901	\$ -	\$ 324,128	\$ 450,500

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 Fiscal Year Ended	
	June 30,	
	<u>2012</u>	<u>2011</u>
Net Change in Fund Balances - Total Governmental Funds	\$ (126,372)	\$ 40,333
<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	73,559	32,215
Depreciation Expense	<u>(38,298)</u>	<u>(29,060)</u>
Change in Net Assets - Governmental Activities	<u>\$ (91,111)</u>	<u>\$ 43,488</u>

YINGHUA ACADEMY
Charter School No. 4140

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Fiscal Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES				
Other Local Revenues	\$ 126,180	\$ 195,324	\$ 213,014	\$ 17,690
Revenue from State Sources	3,409,255	3,258,553	3,214,240	(44,313)
Revenue from Federal Sources	284,739	528,571	391,263	(137,308)
Total Revenues	3,820,174	3,982,448	3,818,517	(163,931)
EXPENDITURES				
Current				
Administration	198,332	198,147	208,585	10,438
District Support Services	230,100	298,700	308,045	9,345
Regular Instruction	1,522,219	1,677,573	1,768,230	90,657
Special Education Instruction	251,046	251,306	239,037	(12,269)
Instructional Support Services	398,795	483,860	411,562	(72,298)
Pupil Support Services	147,433	152,221	153,560	1,339
Sites and Buildings	822,964	798,644	779,698	(18,946)
Fiscal and Other Fixed Cost Programs	15,400	15,730	14,936	(794)
Capital Outlay				
District Support Services	-	10,000	6,174	(3,826)
Regular Instruction	35,000	49,693	47,249	(2,444)
Special Education Instruction	5,078	1,156	1,156	-
Instructional Support Services	5,078	5,078	1,000	(4,078)
Sites and Buildings	19,500	32,098	30,935	(1,163)
Total Expenditures	3,650,945	3,974,206	3,970,167	(4,039)
Excess of Revenues Over (Under) Expenditures	169,229	8,242	(151,650)	(159,892)
OTHER FINANCING USES				
Transfers Out	-	-	(4,153)	(4,153)
Net Change in Fund Balances	\$ 169,229	\$ 8,242	(155,803)	\$ (164,045)
FUND BALANCES				
Beginning of Year			332,030	
End of Year			\$ 176,227	

YINGHUA ACADEMY
Charter School No. 4140

**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - FOOD SERVICE FUND
 For the Fiscal Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES				
Revenue from State Sources	\$ 8,000	\$ 6,000	\$ 5,395	\$ (605)
Revenue from Federal Sources	50,000	35,000	42,847	7,847
Sales and Other Conversion of Assets	410,700	95,000	85,599	(9,401)
Total Revenues	468,700	136,000	133,841	(2,159)
EXPENDITURES				
Current				
Food Service	473,700	141,000	137,994	(3,006)
Excess of Revenues Over (Under) Expenditures	(5,000)	(5,000)	(4,153)	847
OTHER FINANCING SOURCES				
Transfers In	-	-	4,153	4,153
Net Change in Fund Balances	\$ (5,000)	\$ (5,000)	-	\$ 5,000
FUND BALANCES				
Beginning of Year			-	
End of Year			\$ -	

YINGHUA ACADEMY
Charter School No. 4140

**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - COMMUNITY SERVICE FUND
 For the Fiscal Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Other Local Revenues	\$ 286,500	\$ 286,500	\$ 222,249	\$ (64,251)
EXPENDITURES				
Current				
Community Education and Services	259,000	259,000	192,818	(66,182)
Excess of Revenues Over Expenditures	\$ 27,500	\$ 27,500	29,431	\$ 1,931
FUND BALANCES				
Beginning of Year			118,470	
End of Year			\$ 147,901	

YINGHUA ACADEMY
Charter School No. 4140

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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 2011-2012 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 the Academy has no component units.

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.

B. Basic Financial Statement Information

The government-wide financial statements (i.e. the Statement of Net Assets 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.

YINGHUA ACADEMY
Charter School No. 4140

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

The Academy applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function.

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 U.S. generally accepted accounting principles. *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 revenue is considered available if collected within 60 days.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaids for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

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 on the next page.

**YINGHUA ACADEMY
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

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.

D. Deposits and Investments

Minnesota Statutes requires 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: For deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it.

The Academy did not have formal policies in place as of June 30, 2012 to address custodial credit risk for deposits. The Academy also does not have a policy in place to address credit risk, concentration of credit risk, custodial credit risk or interest rate risk for investments.

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 an 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.

YINGHUA ACADEMY
Charter School No. 4140

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

F. Capital Assets (Continued)

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.

G. Compensated Absences

Certain Academy employees earn paid leave time (PLT). Academy employees may not carryover PLT to subsequent years so, at June 30, 2012, no liability exists.

H. 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 fiscal years. There were no significant reductions or other significant changes in the Academy's insurance coverage during the fiscal year ending June 30, 2012.

I. 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, 2012, the Academy did not have a minimum fund balance policy.

**YINGHUA ACADEMY
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

J. Net Assets

Net assets represent the difference between assets and liabilities in the government-wide financial statements. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are 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.

K. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

L. 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.

M. Tax Status

The Academy is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) as an organization. The School is also exempt from Minnesota franchise or income tax. Therefore, no provision or liability for federal income taxes is included in the financial statements.

L. Subsequent Events

The Academy has evaluated subsequent events through September 4, 2012, the date which the financial statements were available to be issued.

YINGHUA ACADEMY
Charter School No. 4140

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

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

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, 2012, the Academy's bank balance of \$ 106,320 was not exposed to custodial credit risk because it was covered by FDIC with additional collateral held if needed.

Deposits are presented in the Statement of Net Assets at June 30, 2012 is as follows:

Cash	<u>\$ 68,931</u>
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YINGHUA ACADEMY
Charter School No. 4140

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets being				
Depreciated:				
Furniture and Equipment	\$ 207,232	\$ 69,634	\$ -	\$ 276,866
Leasehold Improvements	-	3,925	-	3,925
Total	<u>207,232</u>	<u>73,559</u>	-	<u>280,791</u>
Less Accumulated				
Depreciation for:				
Furniture and Equipment	74,549	37,737	-	112,286
Leasehold Improvements	-	561	-	561
Total	<u>74,549</u>	<u>38,298</u>	-	<u>112,847</u>
Total Capital Assets being				
Depreciated, Net	<u>\$ 132,683</u>	<u>\$ 31,897</u>	<u>\$ -</u>	<u>\$ 167,944</u>

NOTE 4 – CAPITAL ASSETS

Depreciation expense for the fiscal year ended June 30, 2012 was charged to the following functions:

Administration	\$ 317
District Support Services	1,646
Regular Instruction	24,227
Special Education	1,464
Sites, Buildings and Equipment	9,209
Food Service	<u>1,435</u>
 Total Depreciation Expense	 <u>\$ 38,298</u>

**YINGHUA ACADEMY
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 5 – TRANSFERS/INTERFUND ACTIVITY

The Academy's Food Service Fund incurred an operating deficit of \$ 4,153 that was eliminated through a transfer from the General Fund at June 30, 2012. Under state accounting guidelines, the Academy is required to eliminate such a deficit either through operations of the next fiscal year or through a permanent transfer from the General Fund at the end of the second fiscal year.

Interfund loans of \$ 105,989 and \$ 911 were made from the Community Service Fund to the General and Food Service Funds, respectively, to cover temporary deficit cash balances. These amounts will be repaid in the next fiscal year as funds become available.

NOTE 6 – 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, 2013. The Academy also obtained a second LOC on June 14, 2012 for \$ 300,000 that expired on August 14, 2012. Both agreements require interest on all borrowings at 6.5% and were secured by assets of the Academy. At June 30, 2012, the Academy owed \$ 650,000 on its two LOC.

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 as described on the following pages.

**YINGHUA ACADEMY
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

Tier I:

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).

Tier II:

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 5.5% per year.

**YINGHUA ACADEMY
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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

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

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

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.tra.state.mn.us. 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.

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 5.5% and 9.0%, respectively, of their annual covered salary during fiscal year 2011 as employee contributions. The TRA employer contribution rates are 5.5% for Coordinated Plan members and 9.5% for Basic Plan members during fiscal year 2011. Total covered payroll salaries for all TRA members state-wide during fiscal year ended June 30, 2011 was approximately \$ 3.84 billion. TRA covered payroll for all members state-wide for the fiscal years ended June 30, 2010 and 2009 were \$ 3.79 billion and \$ 3.76 billion, respectively. The Academy's contributions for the fiscal years ended June 30, 2012, 2011 and 2010 were \$ 84,549, \$ 66,675 and \$ 50,857, 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 for the four year period. Beginning July 1, 2014, TRA Coordinated Plan employee and employer contribution rates will each be 7.5%.

YINGHUA ACADEMY
Charter School No. 4140

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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.

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

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, by writing to PERA at 60 Empire Drive, #200, St. Paul, Minnesota 55103-2088 or by calling (651) 296-7460 or (800) 652-9026.

**YINGHUA ACADEMY
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees’ Retirement Association (Continued)

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. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in 2011. In 2011, 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 fiscal years ended June 30, 2012, 2011 and 2010 were \$ 49,362, \$ 43,892 and \$ 38,521, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 8 – COMMITMENTS

A. Lease Commitments and Terms

On June 5, 2009, the Academy (Lessee) signed a lease for educational space with the Charter School Development Corporation (CSDC [Lessor]), in Minneapolis, Minnesota. The term of the lease agreement covers periods through June 30, 2014. The annual rent for the lease is be equivalent to the product of the projected average daily membership (ADM) multiplied by a rental amount that results in the Lessee’s receipt of the maximum amount of lease aid available pursuant to applicable Minnesota law, or the amount necessary for the Lessor’s debt service coverage ratio to remain at 1.25:1.00 for the total projected costs. During fiscal year 2012, the Academy paid \$ 593,718 to CSDC. This lease agreement also provides the Academy the right to purchase the Lessor’s interest in the property at a future date.

For fiscal year 2012, 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 \$ 522,720.

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 additional educational space with NE Lutheran Ministry Center, Minneapolis, Minnesota, 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.

**YINGHUA ACADEMY
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012**

NOTE 9 – SUBSEQUENT EVENT

On July 31, 2012, the Academy paid off its second LOC for \$ 300,000, bringing the balance to \$ 0. In August, 2012, \$ 175,000 was paid down on the first LOC, leaving a remaining balance of \$ 175,000.

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SUPPLEMENTARY INFORMATION

YINGHUA ACADMEY
Charter School No. 4140

**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Fiscal Year Ended June 30, 2012**

	<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>		<u>Audit</u>	<u>UFARS</u>	<u>Audit-UFARS</u>
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 3,818,517	\$ 3,818,518	\$ (1)	Total Revenue	\$	\$	\$
Total Expenditures	3,970,167	3,970,168	(1)	Total Expenditures			
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	100,335	100,335		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			
407 Capital Projects Levy				<i>Restricted:</i>			
408 Cooperative Revenue				464 Restricted Fund Balance			
414 Operating Debt				<i>Unassigned:</i>			
416 Levy Reduction				463 Unassigned Fund Balance			
417 Taconite Building Maintenance				07 DEBT SERVICE FUND			
423 Certain Teacher Programs				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 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				08 TRUST FUND			
449 Safe School Crime				Total Revenue	\$	\$	\$
450 Prekindergarten				Total Expenditures			
451 QZAB Payments				<i>Unassigned:</i>			
452 OPEB Liabilities not Held in Trust				422 Unassigned Fund Balance			
453 Unfunded Severance and Retirement Levy				20 INTERNAL SERVICE FUND			
<i>Restricted:</i>				Total Revenue	\$	\$	\$
464 Restricted Fund Balance				Total Expenditures			
<i>Committed:</i>				<i>Unassigned:</i>			
418 Committed for Separation				422 Unassigned Fund Balance			
461 Committed				25 OPEB REVOCABLE TRUST			
<i>Assigned:</i>				Total Revenue	\$	\$	\$
462 Assigned Fund Balance				Total Expenditures			
<i>Unassigned:</i>				<i>Unassigned:</i>			
422 Unassigned Fund Balance	75,892	75,891	1	422 Unassigned Fund Balance			
02 FOOD SERVICES FUND				45 OPEB IRREVOCABLE TRUST			
Total Revenue	\$ 133,841	\$ 133,842	\$ (1)	Total Revenue	\$	\$	\$
Total Expenditures	137,994	137,995	(1)	Total Expenditures			
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable Fund Balance				422 Unassigned Fund Balance			
<i>Restricted/Reserved:</i>				47 OPEB DEBT SERVICE			
452 OPEB Liabilities not Held in Trust				Total Revenue	\$	\$	\$
<i>Restricted:</i>				Total Expenditures			
464 Restricted Fund Balance				<i>Nonspendable:</i>			
<i>Unassigned:</i>				460 Nonspendable Fund Balance			
463 Unassigned Fund Balance				<i>Restricted:</i>			
04 COMMUNITY SERVICE FUND				464 Restricted Fund Balance			
Total Revenue	\$ 222,249	\$ 222,249	\$	<i>Unassigned:</i>			
Total Expenditures	192,818	192,818		463 Unassigned Fund Balance			
<i>Nonspendable:</i>				03 GENERAL FUND			
460 Nonspendable Fund Balance				Total Revenue	\$	\$	\$
<i>Restricted/Reserved:</i>				Total Expenditures			
426 \$ 25 Taconite				<i>Nonspendable:</i>			
431 Community Education				460 Nonspendable Fund Balance			
432 ECFE				<i>Restricted:</i>			
444 School Readiness				464 Restricted Fund Balance			
447 Adult Basic Education				<i>Unassigned:</i>			
452 OPEB Liabilities not Held in Trust				463 Unassigned Fund Balance			
<i>Restricted:</i>				05 GENERAL FUND			
464 Restricted Fund Balance	147,901	147,900	1	Total Revenue	\$	\$	\$
<i>Unassigned:</i>				Total Expenditures			
463 Unassigned Fund Balance				<i>Nonspendable:</i>			



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

To the Board of Directors
Yinghua Academy
Minneapolis, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Yinghua Academy, Minneapolis, Minnesota, as of and for the fiscal year ending June 30, 2012, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 4, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Academy is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Academy's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.



COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of 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*.

We noted certain matters that we reported to management of the Academy in a separate letter dated September 4, 2012.

This report is intended solely for the information and use of the Board of Directors, administration and state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
September 4, 2012



Expert advice. When you need it.SM

REPORT ON LEGAL COMPLIANCE

To the Board of Directors
Yinghua Academy
Minneapolis, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Yinghua Academy, Minneapolis, Minnesota, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated September 4, 2012.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* promulgated by the State Auditor pursuant to *Minnesota Statutes Sec. 6.65*. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions* covers two categories of compliance to be tested in audits of charter schools: uniform financial accounting and reporting standards and charter schools. Our study included all of the listed categories.

The results of our tests indicate that for the items tested, the Academy complied with the material terms and conditions of applicable legal provisions.

This report is intended solely for the information and use of the Board of Directors, administration and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
September 4, 2012