

**YINGHUA ACADEMY
Charter School No. 4140
Minneapolis, Minnesota**

MANAGEMENT LETTER

For the Fiscal Year Ended June 30, 2012

**YINGHUA ACADEMY
Charter School No. 4140**

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**REPORT ON MATTERS IDENTIFIED AS A RESULT OF
THE AUDIT OF THE FINANCIAL STATEMENTS**

Members of the Board
Yinghua Academy
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of Yinghua Academy, Minneapolis, Minnesota, as of and for the fiscal year ended June 30, 2012, in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. No material weaknesses or significant deficiencies were identified.

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 Academy's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

The accompanying memorandum also includes financial analysis and recommendations for management that came to our attention as a result of our audit of the financial statements of the Academy for the fiscal year ended June 30, 2012. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated September 4, 2012, on such statements.



This communication is intended solely for the information and use of the Academy Board, management, others within the organization and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

Kern, DeWenter, Viere, Ltd.

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

**YINGHUA ACADEMY
Charter School No. 4140**

**CONTROL DEFICIENCY
June 30, 2012**

**REVIEW RECONCILIATION PROCEDURES OVER COMMUNITY SERVICE FUND
BILLING**

During testing of community service billings for after-school activities, it was noted amounts billed to parents did not reconcile with attendance records in the majority of transactions sampled. In the interest of ensuring all services are billed and also ensuring parents are only billed for services provided, we recommend a review and revision of the current billing process, ensuring procedures are instituted to reconcile attendance records to invoices prior to issuance.

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**REQUIRED COMMUNICATION
June 30, 2012**

We have audited the basic financial statements of the Academy for the fiscal year ended June 30, 2012, and have issued our report dated September 4, 2012. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such 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.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Academy are described in Note 1 to the financial statements. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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**REQUIRED COMMUNICATION
June 30, 2012**

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation – The Academy is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is also dependent upon ADM value; however, in addition to those, this Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

Expense Allocation – Certain expenses are allocated to programs based on an estimate of the benefit to that particular program. Examples are salaries, benefits and supplies.

We evaluated the key factors and assumptions used to develop the above estimates in determining they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We requested certain representations from management which were provided to us in the management representation letter.

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**REQUIRED COMMUNICATION
June 30, 2012**

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Academy’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine the consultant has all the relevant facts. We are not aware of any consultations by the Academy’s management with other accountants during the course of our audit.

OTHER FINDINGS

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

We have not reviewed, and it is our understanding, that no other published documents exist that contain audited financial statement information, for which we are currently auditing. As stated in our engagement letter, if you publish or reproduce the financial statements or make reference to our Firm name in relation to such documents, you agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

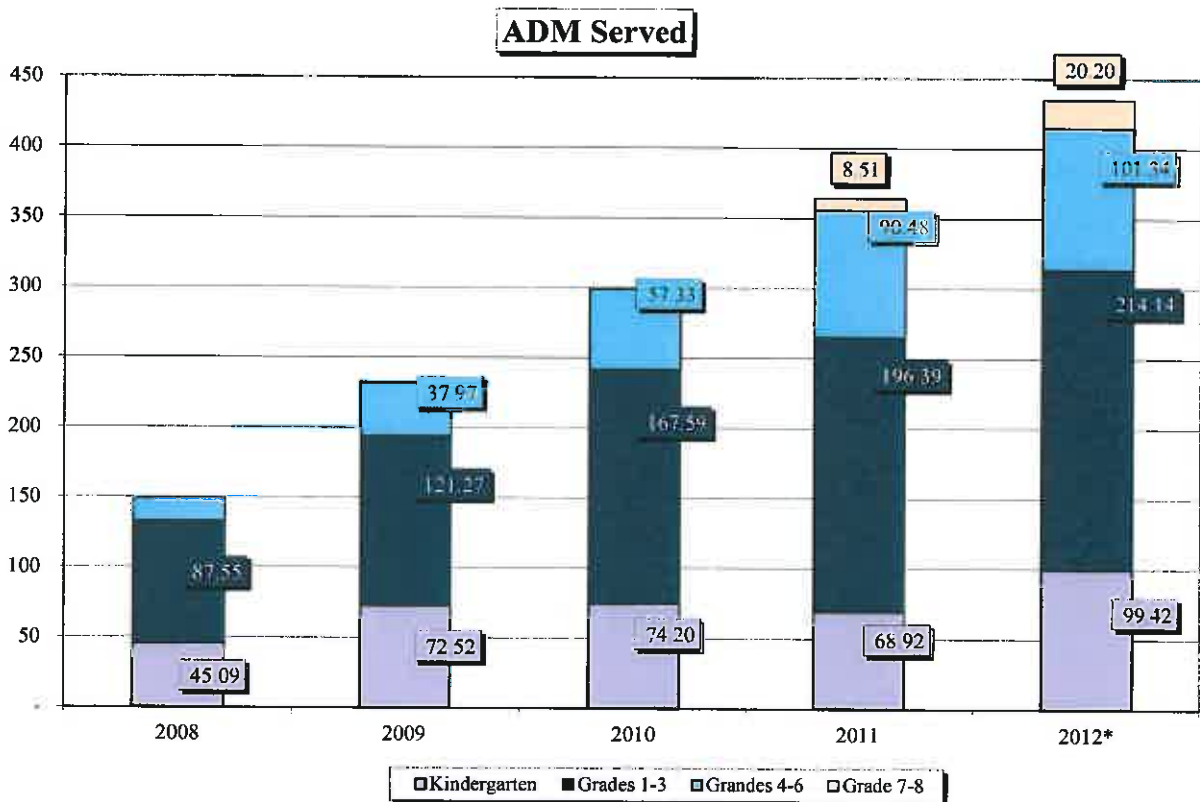
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**FINANCIAL ANALYSIS
June 30, 2012**

The following pages provide graphic representation of select data pertaining to the financial position and operations of the Academy for the past five years. Our analysis of each graph is presented to provide a basis for discussion.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

ADM	2008	2009	2010	2011	2012*
Kindergarten	45.09	72.52	74.20	68.92	99.42
Grades 1-3	87.55	121.27	167.59	196.39	214.14
Grades 4-6	16.21	37.97	57.33	90.48	101.34
Grade 7-8	-	-	-	8.51	20.20
Total ADM Served	148.85	231.76	299.12	364.30	435.10



* Estimate

The chart and graph above illustrates the trend in ADM served by the Academy over the last five years of operations. The Academy has nearly tripled its student count from 2008 to 2012, with the addition of one grade level per year.

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**FINANCIAL ANALYSIS
June 30, 2012**

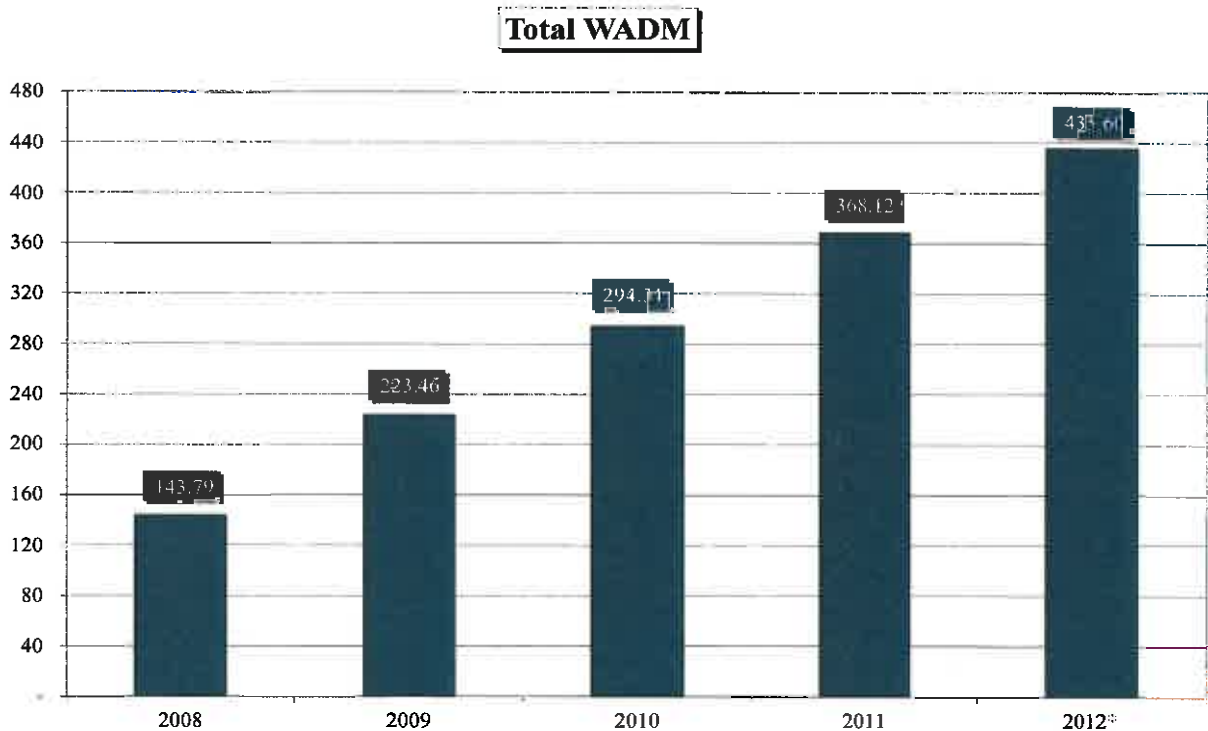
AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

To calculate a majority of the Academy's education aids, the ADM amounts are converted into pupil units by weighting, based on the student's grade level. These weighting factors are presented in the table below.

The total pupil units are converted to adjusted pupil units, which is used to calculate the Academy's education aids. Adjusted pupil units are calculated by multiplying 77% of current year pupil units and 23% of prior year, or 100% of current year, whichever is greater. The adjusted pupil unit data is used for districts with declining enrollment to lessen the negative impact.

	Pupil Units Weighting			
	Kindergarten	Elementary Grades 1-4	Elementary Grades 4-6	Secondary
Fiscal Year 2008-2012	0.612	1.115	1.060	1.300

The weighted average daily membership (WADM) served graph below converts the ADM served into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors. WADM increased over the past year given the increase in enrollment plus the higher weighting factor for students grade 7 and above.



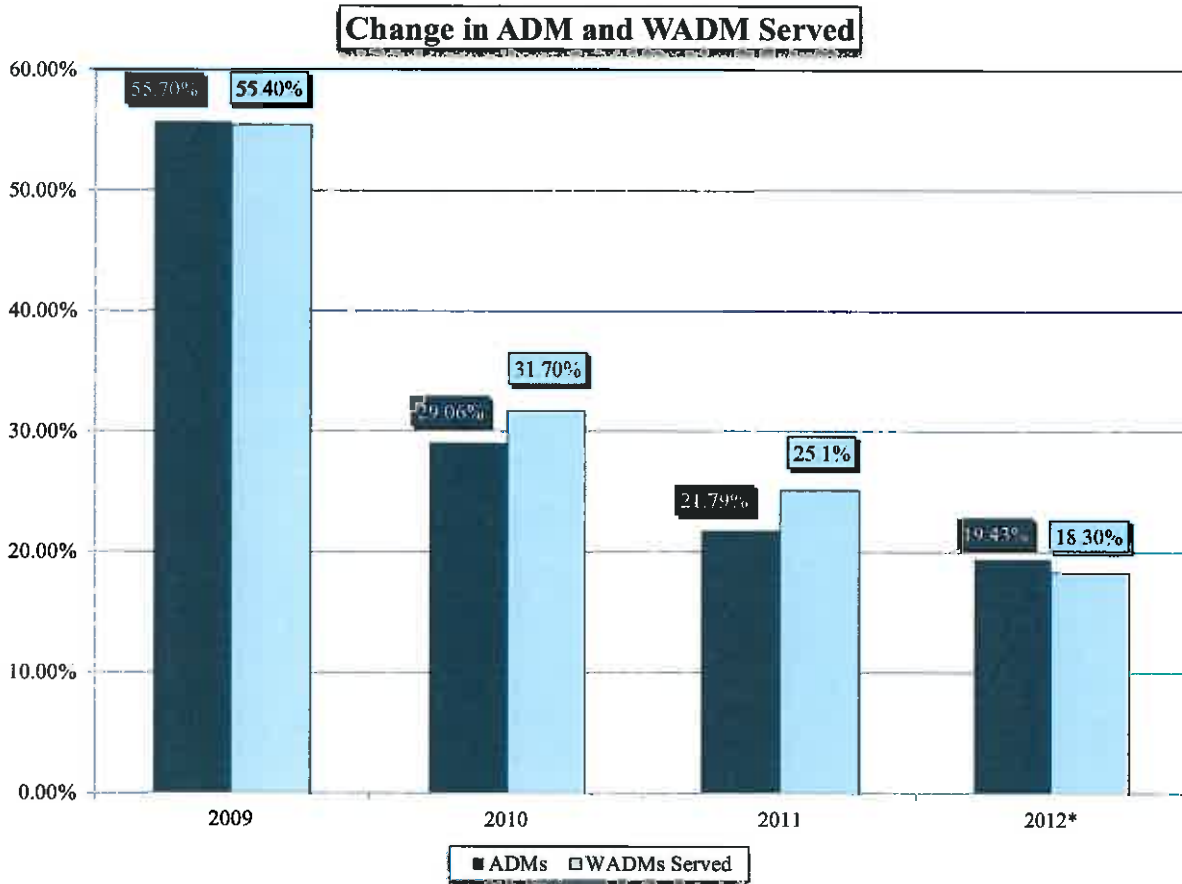
* Estimate

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**FINANCIAL ANALYSIS
June 30, 2012**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The following graph illustrates the percentage change in ADM and WADM served over the past four years, which have steadily increased. As more students are added in the secondary grades, grade 7 on up, the weighting is higher and WADM will increase at a greater rate than ADM.



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**FINANCIAL ANALYSIS
June 30, 2012**

GENERAL FUND OPERATIONS, BUDGET AND ACTUAL

The table below outlines the Academy's original and final budget and actual results for the General Fund. The Academy's original budget anticipated WADM of 482 and revenues would exceed expenditures by \$ 169,229. This budget was amended during the year to reflect a lower student count and grant activity. The Academy's revenues were 4.1% under this final budget and expenditures ended 0.1% under budget.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
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				
Administration	198,332	198,147	208,585	10,438
District Support Services	230,100	308,700	314,219	5,519
Regular Instruction	1,557,219	1,727,266	1,815,479	88,213
Special Education Instruction	256,124	252,462	240,193	(12,269)
Instructional Support Services	403,873	488,938	412,562	(76,376)
Pupil Support Services	147,433	152,221	153,560	1,339
Sites and Buildings	842,464	830,742	810,633	(20,109)
Fiscal and Other Fixed Cost Programs	15,400	15,730	14,936	(794)
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 USE				
Transfers Out	-	-	(4,153)	(11,833)
Net Change in Fund Balances	\$ 169,229	\$ 8,242	(155,803)	\$ (171,725)

Revenue from federal sources produced the majority of the variance in revenues due to the Academy not spending all of the FLAP Grant proceeds. Regular instruction had the greatest budget variance in expenditures as the Academy budgeted for fewer employees than were actually added during the year. Instructional support services were under budget due to budgeting for the FLAP Grant expenditures but not spending them.

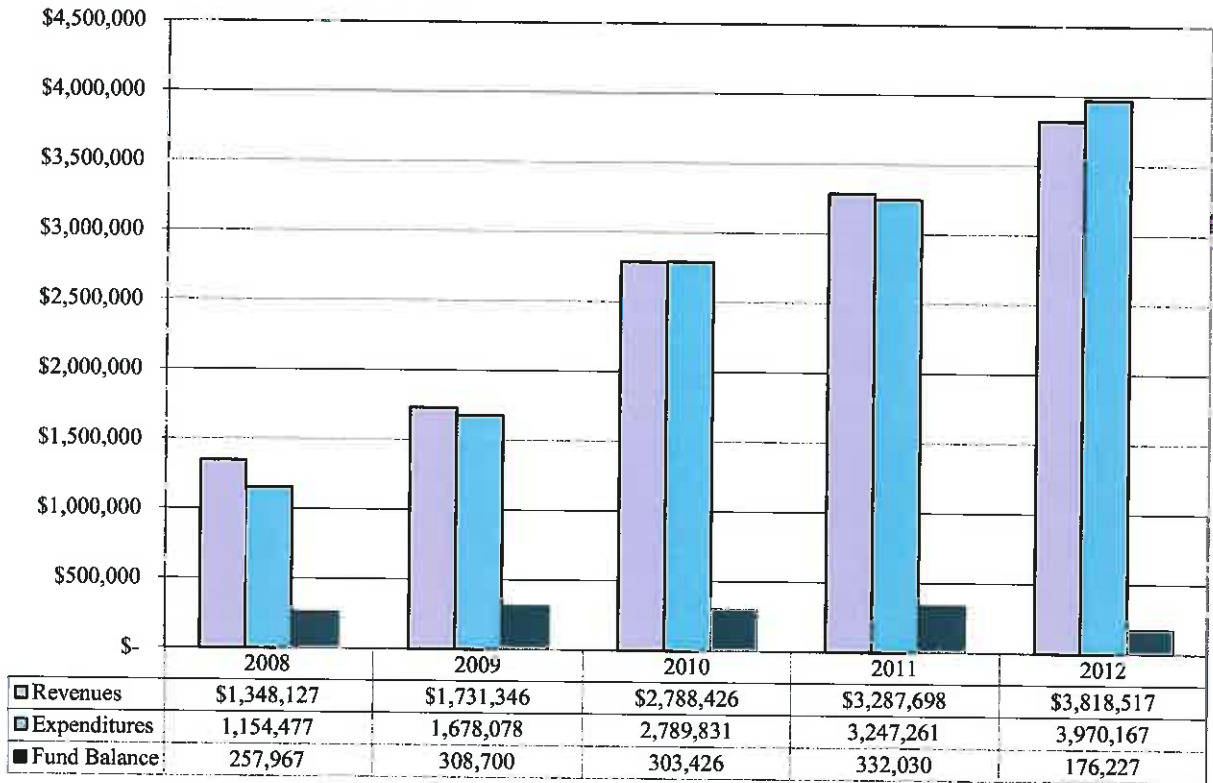
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**FINANCIAL ANALYSIS
June 30, 2012**

GENERAL FUND OPERATIONS

The graph below presents the results of operations for the General Fund at June 30 for each of the past five years. Revenues have exceeded expenditures in only three of the last five years. As a result, fund balance as a percentage of expenditures has continued to decline.

General Fund Operations



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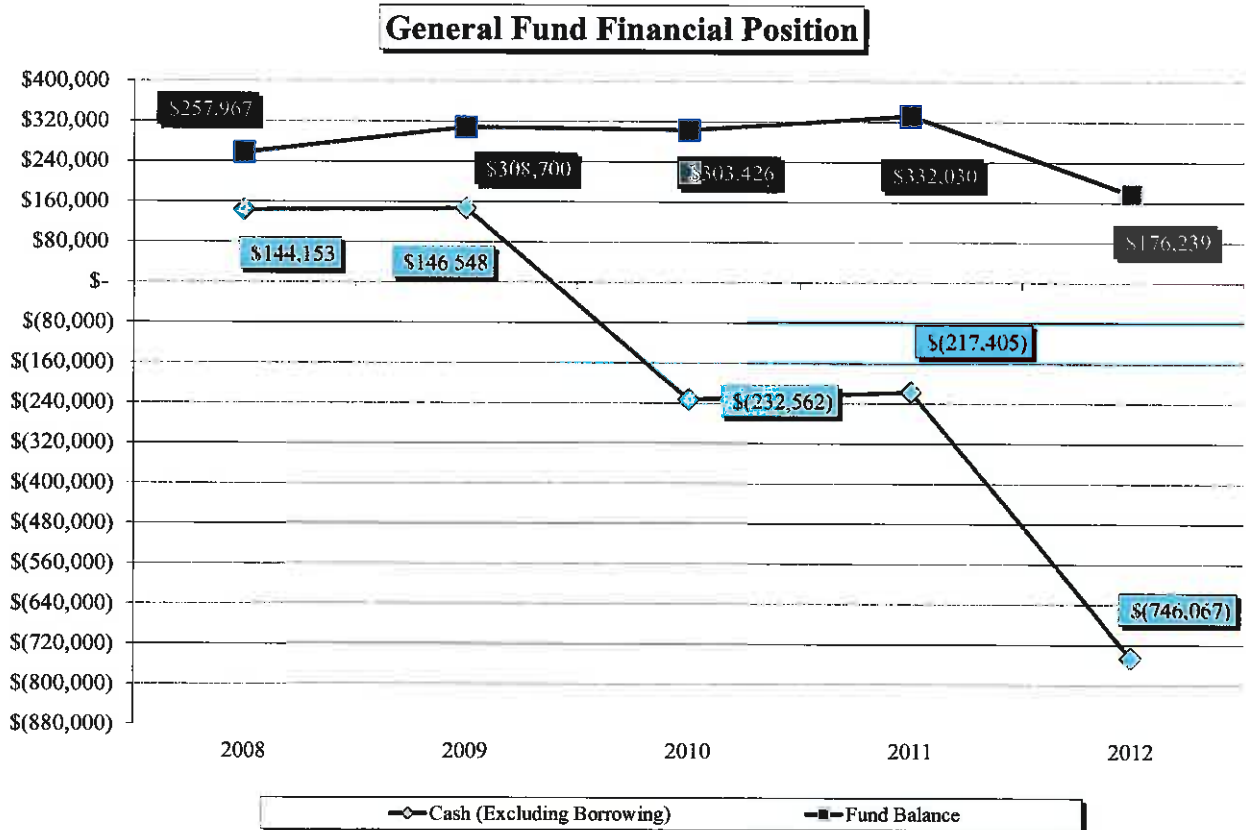
**FINANCIAL ANALYSIS
June 30, 2012**

GENERAL FUND OPERATIONS

The graph below presents the fund balance of the General Fund at June 30 for each of the past five years with cash (net of any borrowings) for the same periods.

During 2012, the State of Minnesota experienced a shortfall in its budget and increased the hold back of state aids to schools. While the State paid 90% for the past few years, only 70% and 64.3% of state aids were paid prior to year-end in 2011 and 2012, respectively. The General Fund receivable from the State increased \$ 378,000 from 2011. Because of the increased proration in the last two years, the Academy increased its line of credit in 2012. At June 30, 2012, the Academy had borrowed \$ 650,000 on the line and \$ 105,989 from the Community Service Fund.

For the fiscal year ended June 30, 2012, the Academy had under one month of expenditures based on 2012 spending levels in its fund balance.



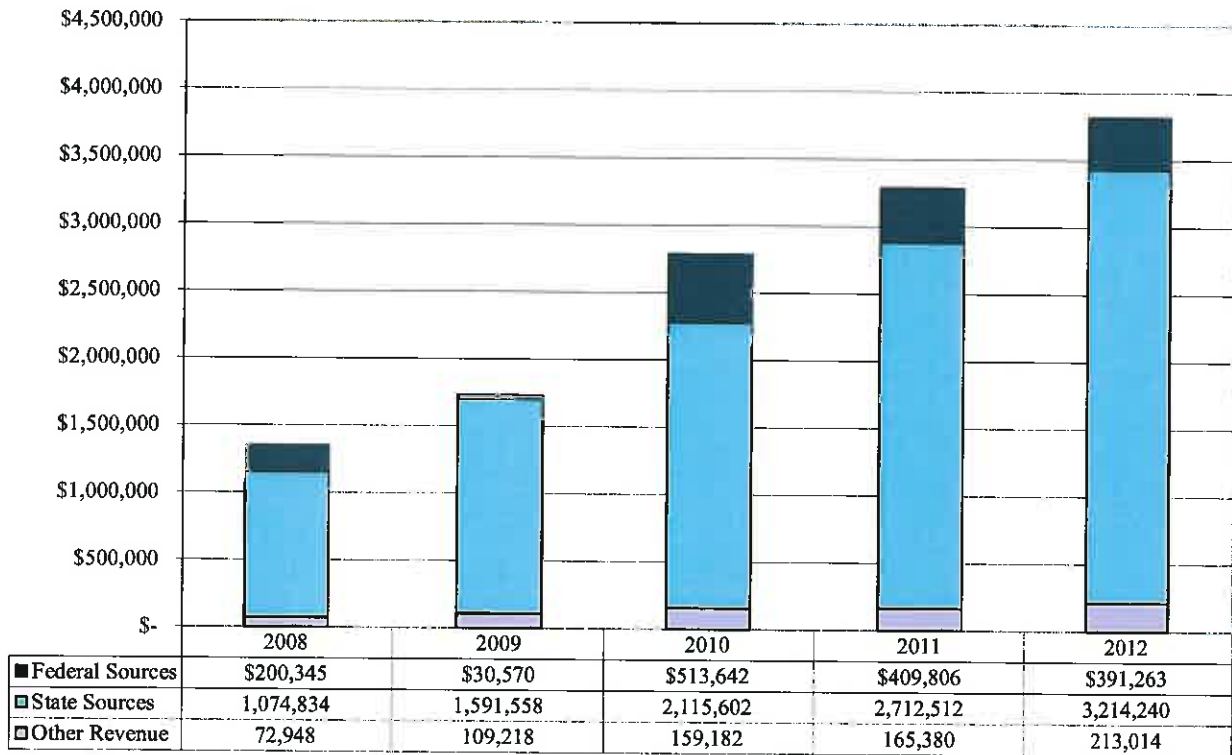
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**FINANCIAL ANALYSIS
June 30, 2012**

GENERAL FUND REVENUE

Total General Fund revenues increased by \$ 530,819, or 16%, to \$ 3,818,517 in 2012. The largest component of the increase in revenue was the \$ 501,000 increase in state sources. This increase was mainly due to the increase in ADM. Revenue from other sources increased because of funding received related to students taking a trip to China during the year. Revenue from federal sources was consistent with last year.

General Fund Sources of Revenue



Revenues from state sources increased from 83% of total revenues in 2011 to 84% of total revenues in 2012, while revenues from federal sources decreased from 13% of total revenues in 2011 to 10% of total revenues in 2012.

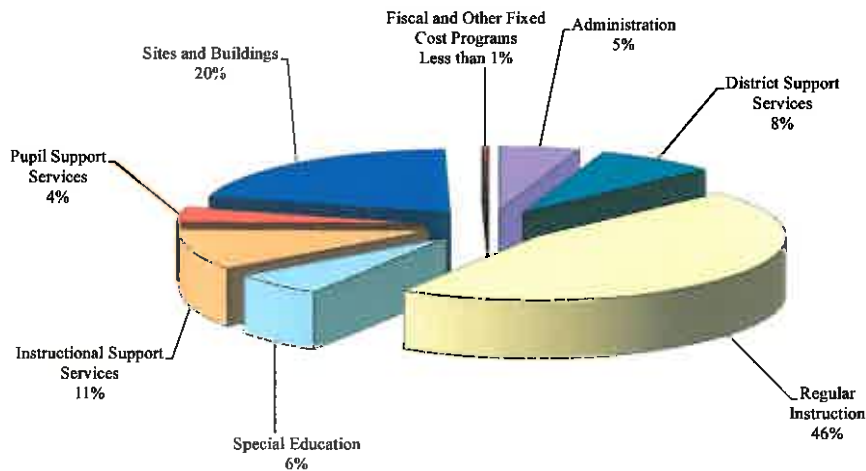
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**FINANCIAL ANALYSIS
June 30, 2012**

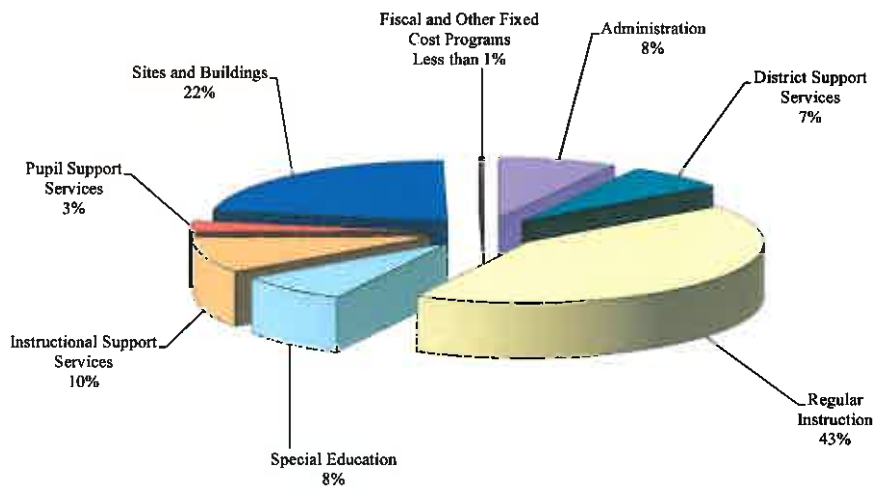
GENERAL FUND OPERATIONS

The following pie charts illustrate the breakdown of General Fund expenditures by program for the past two years.

2012 General Fund Expenditures



2011 General Fund Expenditures



As seen in the graphs above, expenditures among programs have remained fairly consistent from 2011 to 2012; but with increased enrollment, more dollars are going to instruction with economies of scale savings seen in areas such as administration.

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**FINANCIAL ANALYSIS
June 30, 2012**

GENERAL FUND EXPENDITURES

The General Fund expenditures increased \$ 722,894, or 22%, in 2012 over the prior year.

All programs except for administration and special education had increases in 2012. The largest increases occurred in the programs of district support services, regular instruction, instructional support services, pupil support services and sites and buildings. These increases were all due to the addition of teaching staff and services needed for the significant increase in ADM.

General Fund Expenditures					
	2008	2009	2010	2011	2012
Administration	\$ 141,493	\$ 151,396	\$ 244,566	\$ 266,143	\$ 208,585
District Support Services	94,173	165,398	204,006	222,669	314,219
Regular Instruction	500,503	729,842	1,240,909	1,383,393	1,815,479
Special Education	31,376	132,400	199,542	247,784	240,193
Instructional Support Services	102,720	132,560	212,057	308,716	412,562
Pupil Support Services	4,323	35,181	44,710	95,149	153,560
Sites and Buildings	274,396	325,400	634,791	713,864	810,633
Fiscal and Other Fixed Cost Programs	5,493	5,901	9,250	9,543	14,936
Total Expenditures	\$ 1,154,477	\$ 1,678,078	\$ 2,789,831	\$ 3,247,261	\$ 3,970,167

Below is a chart showing the Academy's expenditures per ADM served. Although expenditures significantly increased in fiscal year 2012, so did the students served. Expenditures per ADM decreased mainly as a result of 2011 spending related to additional grant awards the Academy received over and above its base funding. With the exception of 2011, expenditures per ADM served were below the state average per student served in the General Fund.

	2008**	2009**	2010**	2011**	2012*
General Fund	\$ 7,756	\$ 7,241	\$ 9,327	\$ 10,909	\$ 9,125
Food Service	334	344	362	378	316
Community Service	503	812	777	567	475
State General Fund Average	\$ 9,364	\$ 9,797	\$ 10,639	\$ 10,251	Unavailable

* Estimate

** Amounts listed for 2008-2011 were obtained from the Minnesota Department of Education (MDE) publication, *School District Profiles*.

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FINANCIAL ANALYSIS
June 30, 2012

FOOD SERVICE FUND

The following table presents five years of comparative operating results for the Academy's Food Service Fund.

For Year End June 30		2008		2009		2010		2011		2012
Revenues	\$	42,261	\$	77,218	\$	104,006	\$	125,848	\$	133,841
Expenditures		49,670		79,753		107,875		137,681		137,994
Excess of Revenues Under										
Expenditures		(7,409)		(2,535)		(3,869)		(11,833)		(4,153)
Add: Transfer In		7,409		2,535		3,869		11,833		4,153
Fund Balance, July 1		-		-		-		-		-
Fund Balance, June 30	\$	-	\$	-	\$	-	\$	-	\$	-

In all of the years presented, expenditures exceeded revenues in the Food Service Fund. The General Fund has needed to subsidize the operations of the Food Service Fund through annual transfers.

COMMUNITY SERVICE FUND

The following table presents five years of comparative operating results for the Academy's Community Service Fund. This Fund is used to track the Academy's after school program and summer school.

For Year End June 30		2008		2009		2010		2011		2012
Revenues	\$	140,172	\$	189,508	\$	246,071	\$	218,263	\$	222,249
Expenditures		74,847		188,191		232,444		206,534		192,818
Excess of Revenues Over										
Expenditures		65,325		1,317		13,627		11,729		29,431
Fund Balance, July 1		26,472		91,797		93,114		106,741		118,470
Fund Balance, June 30	\$	91,797	\$	93,114	\$	106,741	\$	118,470	\$	147,901

Revenues in the Community Service Fund increased from 2011 due to the overall increase in students and program participants. This Fund has continued to produce operating surpluses and had a healthy fund balance at year-end.

**YINGHUA ACADEMY
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**LEGISLATIVE SUMMARY
June 30, 2012**

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

STATE AID APPROPRIATIONS

The formula allowance for fiscal year 2013 General Education Aid was increased to \$ 5,224. Linkages remain intact for compensatory, sparsity, transportation sparsity, nonpublic pupil/nonpublic transportation and tribal contract revenues.

Given the February 2012 budget forecast for the state, education appropriations have been changed from 60% current funding to 64.3% current funding.

Small schools revenue, new for fiscal year 2013, will be included in General Education Aid. Districts, not including charter schools, with fewer than 1,000 students are eligible to receive small school revenue on a sliding scale. This revenue is equal to the 2013 formula allowance, divided by the district's adjusted marginal cost pupil units, times the greater of zero or the ratio of 1,000 less the district's adjusted marginal cost pupil units for that year divided by 1,000. Fiscal year 2013 appropriation for this program is \$ 9,617,000.

Beginning fiscal year 2013, districts are required to pay teachers who are on military leave their full salary. Previously, this amount was allowed to be offset by the district's cost of substitute teachers.

EDUCATION EXCELLENCE

New Literacy Incentive Aid, beginning in fiscal year 2013, includes the new Proficiency Aid and Growth Aid. Proficiency Aid is the district's 3rd grade enrollment on October 1 of the previous year times \$ 530, times its proficiency index (percent of 3rd graders meeting or exceeding proficiency.) Growth Aid is the product of a district's 4th grade enrollment on October 1 of the previous year, times \$ 530 times the percent of 4th graders making medium or high growth on the reading MCA. Funding in 2013 is capped at \$ 48,585,000 and the estimated aid proration factor is 97.8%.

SPECIAL EDUCATION

Regular and excess cost and growth factors remained as in current law (4.6% for regular and 2.0% for excess cost).

PERSONNEL AND ACCOUNTING

Beginning fiscal year 2013, districts are required to give written notice by July 1, instead of June 1, to probationary teachers whose contract it declines to renew for the following school year.

For fiscal year 2014, all districts are required to adopt and maintain an annual principal evaluation process consistent with provisions in state statutes. Principal evaluations will be a required duty of the superintendent. The MDE developed a model for this evaluation which will be piloted in certain districts for the 2013 school year.

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**LEGISLATIVE SUMMARY
June 30, 2012**

PERSONNEL AND ACCOUNTING

For fiscal year 2015, all districts are required to adopt and maintain a teacher evaluation process consistent with provisions in state statutes. The MDE is in the process of developing a model for this evaluation, which will be piloted in certain districts for the 2014 school year.

The authority for districts to make unlimited fund transfers that do not increase state aid or levy obligations is extended to fiscal years 2014 and 2015. These will follow the same procedures outlined for fiscal years 2012 and 2013:

- Transfers are not allowed from the food service or community service funds. The school board must adopt a resolution stating the transfer will not diminish instructional opportunities for students and the district must apply to the Commissioner to make the transfer. The application must include the amount to be transferred and the funds/accounts involved. It must also be signed by the superintendent and approved by the school board.

CHARTER SCHOOLS

Beginning fiscal year 2013, charter schools are eligible for Shared Time Aid, including Shared Time Aid for home-schooled students, although the resident district must grant permission to the charter school or another district to claim the shared time aid for students.

Districts and charter schools are allowed to enter into a collaborative agreement, given the charter school is in the geographic boundaries of the district. These agreements can include, but are not limited to; facilities, transportation and student achievement assessments.

Charter schools are required to publish and maintain on their web site, the meeting minutes of the board, directory of information and delegated committees and contact information for a school's authorizer. Board training must also be included in the annual report, although the MDE does not have to approve the training.

The initial approval of a charter contract can be extended to five years instead of three years. In addition, the length of time a charter school seeking to build or expand needs to have a net positive general fund balance has been shortened from eight years to five years.