

**YINGHUA ACADEMY
Charter School No. 4140**

Minneapolis, Minnesota

AUDITED FINANCIAL STATEMENTS

For the Fiscal Year Ended June 30, 2011

**YINGHUA ACADEMY
Charter School No. 4140**

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**YINGHUA ACADEMY
Charter School No. 4140**

**BOARD OF DIRECTORS AND ADMINISTRATION
For the Year Ended June 30, 2011**

<u>Board of Directors</u>	<u>Position</u>	<u>Term Expires</u>
Abigail Pribbenow	Board Chairperson	2012
MaryAnn Choy	Secretary	2011
Doug Parish	Treasurer	2012
Ben Weng	Member	2011
Keri Norell	Member	2011
Cindy Moeller	Member	2011
Scott Jax	Member	2012
Taoyuan Li	Member	2012
Kristin Swenson	Member	2013
Jen Shadowens	Member	2013
<u>Administration</u>		
Ursina Swanson	Interim Executive Director	
Dr. Luyi Lien	Academic Director	



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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 year ended June 30, 2011, 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 2010 financial statements and, in our report dated September 28, 2010, 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, 2011, and the respective changes in financial position thereof, and the respective budgetary comparison for the General, Food Service and Community Service Funds for the year then ended in conformity with U.S. generally accepted accounting principles.

The Academy has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2011, 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 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.

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

KERN, DEWENTER, VIERE, LTD.

Bloomington, Minnesota

October 27, 2011

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YINGHUA ACADEMY
Charter School No. 4140

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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, 2011. 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 new 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 (2010-2011) and the prior year (2009-2010) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2010-2011 fiscal year include the following:

- The total fund balance of the General Fund ended at a positive \$ 332,030.
- Overall General Fund revenues were \$ 3,287,698 as compared to \$ 3,247,261 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**

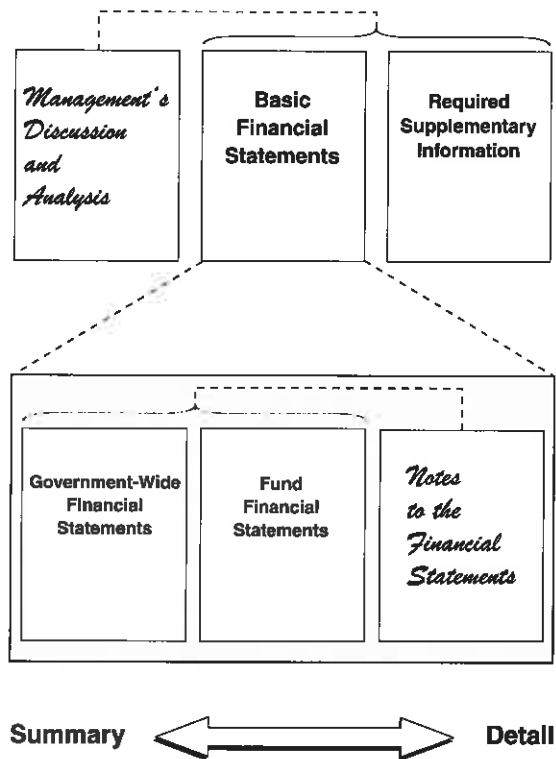
**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

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, 2011**

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 management's discussion and analysis 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>	Government-wide	Governmental Funds	Fund Statements	
			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 & changes in fund balances	♦ Statement of revenues, expenses and changes in fund net assets ♦ Statement of cash flows	♦ Statement of changes in fiduciary net assets
<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 Agency's funds do 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
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Net Assets

The Academy's combined net assets were \$ 583,183 on June 30, 2011 (See Table A-1).

Table A-1
The Academy's Net Assets

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2011</u>	<u>2010</u>	
Current and Other Assets	\$ 907,338	\$ 763,067	\$ 144,271
Capital and Noncurrent Assets	132,683	129,528	3,155
Total Assets	<u>\$ 1,040,021</u>	<u>\$ 892,595</u>	<u>\$ 147,426</u>
Current Liabilities	<u>\$ 456,838</u>	<u>\$ 352,900</u>	<u>\$ 103,938</u>
Net Assets:			
Invested in Capital Assets	\$ 132,683	\$ 129,528	\$ 3,155
Restricted	117,922	106,741	11,181
Unrestricted	332,578	303,426	29,152
Total Net Assets	<u>\$ 583,183</u>	<u>\$ 539,695</u>	<u>\$ 43,488</u>

YINGHUA ACADEMY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Changes in Net Assets

The Academy's total revenues were \$ 3,631,809 for the period ended June 30, 2011. 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
	2011	2010	
REVENUES:			
Program Revenues:			
Charges for Services	\$ 347,929	\$ 328,468	\$ 19,461
Operating Grants and Contributions	1,015,996	998,615	17,381
Capital Grants and Contributions	-	-	-
General Revenues:			
Unrestricted Federal and State Aid	2,100,258	1,623,216	477,042
Other	167,626	188,204	(20,578)
Total Revenues	3,631,809	3,138,503	493,306
EXPENDITURES:			
Administration	266,584	245,007	21,577
District Support Services	220,780	204,148	16,632
Regular Instruction	1,392,191	1,195,591	196,600
Special Education Instruction	244,923	197,145	47,778
Instructional Support Services	308,716	212,057	96,659
Pupil Support Services	95,149	44,710	50,439
Sites and Buildings	706,220	613,659	92,561
Fiscal and Other Fixed Cost Programs	9,543	9,250	293
Food Service	137,681	107,875	29,806
Community Service	206,534	232,444	(25,910)
Total Expenditures	3,588,321	3,061,886	526,435
Change in Net Assets	43,488	76,617	(33,129)
NET ASSETS:			
Beginning of Year	539,695	463,078	76,617
End of Year	\$ 583,183	\$ 539,695	\$ 43,488

The total cost of all programs and services was \$ 3,588,321. Total revenues exceeded expenses by \$ 43,488.

**YINGHUA ACADEMY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Figure A-3 Sources of Academy's Revenues for Fiscal 2011

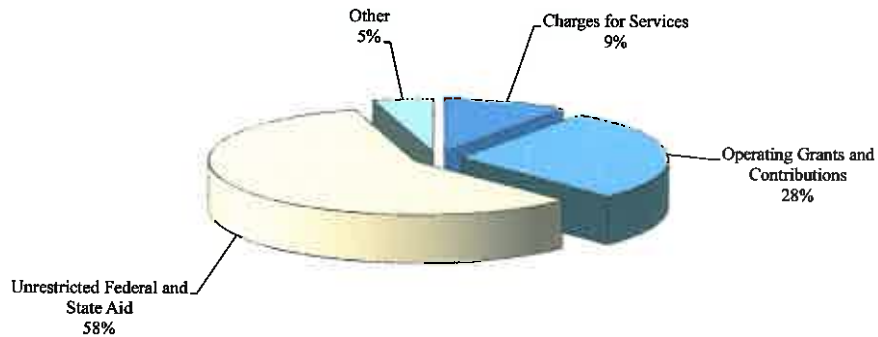
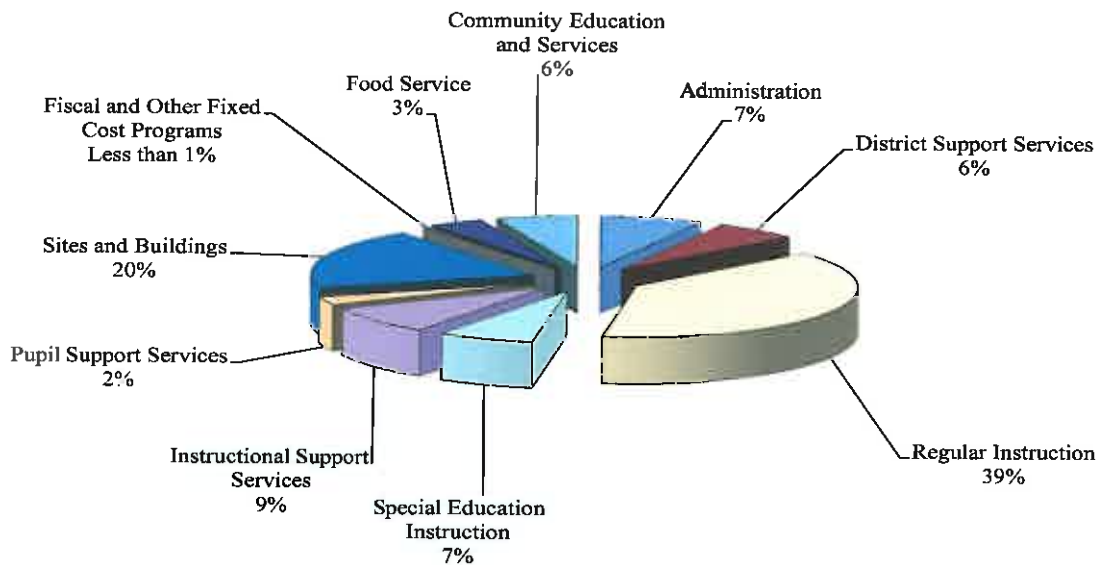


Figure A-4 Academy Expenses for Fiscal 2011



**YINGHUA ACADEMY
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

	Total Costs of Services			Net Costs of Services		
	2011	2010	Change	2011	2010	Change
Administration	\$ 266,584	\$ 245,007	\$ 21,577	\$ 266,584	\$ 245,007	\$ 21,577
District Support Services	220,780	204,148	16,632	220,780	204,148	16,632
Regular Instruction	1,392,191	1,195,591	196,600	1,056,437	762,794	293,643
Special Education Instruction	244,923	197,145	47,778	2,691	6,108	(3,417)
Instructional Support Services	308,716	212,057	96,659	308,716	212,057	96,659
Pupil Support Services	95,149	44,710	50,439	95,149	44,710	50,439
Sites and Buildings	706,220	613,659	92,561	264,392	260,487	3,905
Fiscal and Other Fixed Cost Programs	9,543	9,250	293	9,543	9,250	293
Food Service	137,681	107,875	29,806	11,833	3,869	7,964
Community Education and Services	206,534	232,444	(25,910)	(11,729)	(13,627)	1,898
Total	\$ 3,588,321	\$ 3,061,886	\$ 526,435	\$ 2,224,396	\$ 1,734,803	\$ 489,593

In 2010-2011, the Academy enrolled 69 students in kindergarten, 196 students in grades 1-3, 90 students in grades 4-6 and 9 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 \$ 450,500.

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, 2011**

GENERAL FUND

**Table A-5
General Fund Revenues**

	Year Ended June 30,		Change
	2011	2010	
LOCAL SOURCES:			
Other Local Revenues	\$ 165,380	\$ 159,182	\$ 6,198
State Sources	2,712,512	2,115,602	596,910
Federal Sources	409,806	513,642	(103,836)
Total General Fund Revenue	\$ 3,287,698	\$ 2,788,426	\$ 499,272

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 63% were personnel salaries and benefits. Another 31% 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
	2011	2010	
Salaries	\$ 1,701,691	\$ 1,404,275	\$ 297,416
Employee Benefits	354,208	307,491	46,717
Purchased Services	1,008,494	831,075	177,419
Supplies and Materials	125,972	124,895	1,077
Capital Expenditures	36,646	110,534	(73,888)
Other Expenditures	20,250	11,561	8,689
Transfers Out	11,833	3,869	7,964
Total Expenditures	\$ 3,259,094	\$ 2,793,700	\$ 465,394

In 2010-2011 General Fund revenues exceeded expenditures by \$28,604 increasing the fund balance to \$ 332,030.

YINGHUA ACADEMY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

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 2011, the Academy had invested \$ 207,232 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 \$ 74,549.

Table A-7
Capital Assets

	<u>2011</u>	<u>2010</u>
Equipment	\$ 207,232	\$ 175,017
Less Accumulated Depreciation	<u>(74,549)</u>	<u>(45,489)</u>
Total	<u>\$ 132,683</u>	<u>\$ 129,528</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, 2011**

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,	
	2011	2010
ASSETS		
Cash	\$ 33,469	\$ 13,530
Accounts Receivable	420	-
Due from Department of Education	754,517	562,509
Due from Federal Government through Department of Education	29,926	104,482
Prepaid Items	89,006	82,546
Capital Assets:		
Furniture and Equipment	207,232	175,017
Less Accumulated Depreciation	<u>(74,549)</u>	<u>(45,489)</u>
Total Assets	<u>\$ 1,040,021</u>	<u>\$ 892,595</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable	\$ 48,035	\$ 91,195
Salaries and Benefits Payable	161,988	132,165
Unearned Revenue	146,815	14,540
Line of Credit Payable	<u>100,000</u>	<u>115,000</u>
Total Liabilities	<u>456,838</u>	<u>352,900</u>
 Net Assets		
Invested in Capital Assets	132,683	129,528
Restricted for:		
Other Purposes	117,922	106,741
Unrestricted	<u>332,578</u>	<u>303,426</u>
Total Net Assets	<u>583,183</u>	<u>539,695</u>
Total Liabilities and Net Assets	<u>\$ 1,040,021</u>	<u>\$ 892,595</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,		Charges for Services	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets
	2011	2010		Operating Grants and Contributions	Governmental Activities		
Governmental Activities							
Administration	\$ 266,584	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (266,584)
District Support Services	220,780	-	-	-	-	-	(220,780)
Regular Instruction	1,392,191	40,174	295,580	295,580	-	-	(1,056,437)
Special Education Instruction	244,923	-	242,232	242,232	-	-	(2,691)
Instructional Support Services	308,716	-	-	-	-	-	(308,716)
Pupil Support Services	95,149	-	-	-	-	-	(95,149)
Sites and Buildings	706,220	-	441,828	441,828	-	-	(264,392)
Fiscal and Other Fixed Cost Programs	9,543	-	-	-	-	-	(9,543)
Food Service	137,681	89,492	36,356	36,356	-	-	(11,833)
Community Education and Services	206,534	218,263	-	-	-	-	11,729
Total Governmental Activities	\$ 3,588,321	\$ 347,929	\$ 1,015,996	\$ -	\$ -	\$ -	(2,224,396)
General Revenues							
State Aid-Formula Grants							1,623,216
Other General Revenues							187,385
Investment Income							819
Total General Revenues							1,811,420
Change in Net Assets							76,617
Net Assets - Beginning							463,078
Net Assets - Ending	\$ 583,183	\$ 539,695					\$ 539,695

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,	
				2011	Restated 2010
ASSETS					
Cash	\$ -	\$ 30,185	\$ 3,284	\$ 33,469	\$ 13,530
Accounts Receivable	420	-	-	420	-
Due from Department of Education	754,517	-	-	754,517	562,509
Due from Federal Government through Department of Education	29,926	-	-	29,926	104,482
Due from Other Funds	-	117,405	-	117,405	119,402
Prepaid Items	88,458	548	-	89,006	82,546
Total Assets	\$ 873,321	\$ 148,138	\$ 3,284	\$ 1,024,743	\$ 882,469
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 44,427	\$ 324	\$ 3,284	\$ 48,035	\$ 91,195
Salaries and Benefits Payable	149,335	12,653	-	161,988	132,165
Due to Other Funds	117,405	-	-	117,405	119,402
Deferred Revenue	130,124	16,691	-	146,815	14,540
Line of Credit Payable	100,000	-	-	100,000	115,000
Total Liabilities	541,291	29,668	3,284	574,243	472,302
Fund Balances					
Nonspendable	88,458	548	-	89,006	82,546
Restricted	-	117,922	-	117,922	106,193
Unassigned	243,572	-	-	243,572	221,428
Total Fund Balances	332,030	118,470	-	450,500	410,167
Total Liabilities and Fund Balances	\$ 873,321	\$ 148,138	\$ 3,284	\$ 1,024,743	\$ 882,469

**YINGHUA ACADEMY
Charter School No. 4140**

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

	June 30,	
	<u>2011</u>	<u>2010</u>
Total Fund Balances - Governmental Funds	\$ 450,500	\$ 410,167
 Amounts reported for governmental activities in the Statement of Net Assets are different because:		
 Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		
Cost of Capital Assets	207,232	175,017
Less Accumulated Depreciation	<u>(74,549)</u>	<u>(45,489)</u>
Total Net Assets - Governmental Activities	<u>\$ 583,183</u>	<u>\$ 539,695</u>

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 Year Ended June 30,	
				2011	2010
REVENUES					
Other Local Revenues	\$ 165,380	\$ 218,263	\$ -	\$ 383,643	\$ 405,253
Revenue from State Sources	2,712,512	-	4,953	2,717,465	2,119,158
Revenue from Federal Sources	409,806	-	31,403	441,209	538,467
Sales and Other Conversion of Assets	-	-	89,492	89,492	75,625
Total Revenues	3,287,698	218,263	125,848	3,631,809	3,138,503
EXPENDITURES					
Current					
Administration	266,143	-	-	266,143	244,566
District Support Services	220,076	-	-	220,076	203,787
Regular Instruction	1,370,783	-	-	1,370,783	1,167,869
Special Education Instruction	243,458	-	-	243,458	196,192
Instructional Support Services	308,716	-	-	308,716	212,057
Pupil Support Services	95,149	-	-	95,149	44,710
Sites and Buildings	696,747	-	-	696,747	600,866
Fiscal and Other Fixed Cost Programs	9,543	-	-	9,543	9,250
Food Service	-	-	137,681	137,681	107,875
Community Education and Services	-	206,534	-	206,534	232,444
Capital Outlay					
District Support Services	2,593	-	-	2,593	219
Regular Instruction	12,610	-	-	12,610	73,040
Special Education Instruction	4,326	-	-	4,326	3,350
Sites and Buildings	17,117	-	-	17,117	33,925
Total Expenditures	3,247,261	206,534	137,681	3,591,476	3,130,150
Excess of Revenues Over (Under) Expenditures	40,437	11,729	(11,833)	40,333	8,353
OTHER FINANCING SOURCES (USES)					
Transfers In	-	-	11,833	11,833	3,869
Transfers Out	(11,833)	-	-	(11,833)	(3,869)
Total Other Financing Sources (Uses)	(11,833)	-	11,833	-	-
Net Change in Fund Balances	28,604	11,729	-	40,333	8,353
FUND BALANCES					
Beginning of Year	303,426	106,741	-	410,167	401,814
End of Year	\$ 332,030	\$ 118,470	\$ -	\$ 450,500	\$ 410,167

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 Years Ended June 30,	
	2011	2010
Net Change in Fund Balances - Total Governmental Funds	\$ 40,333	\$ 8,353
<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	32,215	93,217
Depreciation Expense	(29,060)	(24,953)
Change in Net Assets - Governmental Activities	\$ 43,488	\$ 76,617

YINGHUA ACADEMY
Charter School No. 4140

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
REVENUES				
Other Local Revenues	\$ 119,680	\$ 175,982	\$ 165,380	\$ (10,602)
Revenue from State Sources	2,836,826	2,705,819	2,712,512	6,693
Revenue from Federal Sources	461,112	484,201	409,806	(74,395)
Total Revenues	3,417,618	3,366,002	3,287,698	(78,304)
EXPENDITURES				
Current				
Administration	266,374	263,349	266,143	2,794
District Support Services	264,056	278,882	220,076	(58,806)
Regular Instruction	1,700,983	1,459,966	1,370,783	(89,183)
Special Education Instruction	235,766	274,100	243,458	(30,642)
Instructional Support Services	196,503	284,808	308,716	23,908
Pupil Support Services	99,175	84,175	95,149	10,974
Sites and Buildings	679,095	690,126	696,747	6,621
Fiscal and Other Fixed Cost Programs	9,600	13,496	9,543	(3,953)
Capital Outlay				
District Support Services	-	-	2,593	2,593
Regular Instruction	19,097	10,597	12,610	2,013
Special Education Instruction	-	5,000	4,326	(674)
Sites and Buildings	20,000	20,000	17,117	(2,883)
Total Expenditures	3,490,649	3,384,499	3,247,261	(137,238)
Excess of Revenues Over (Under) Expenditures	(73,031)	(18,497)	40,437	58,934
OTHER FINANCING USES				
Transfers Out	-	-	(11,833)	(11,833)
Net Change in Fund Balances	\$ (73,031)	\$ (18,497)	28,604	\$ 47,101
FUND BALANCES				
Beginning of Year			303,426	
End of Year			\$ 332,030	

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

YINGHUA ACADEMY
Charter School No. 4140

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - FOOD SERVICE FUND
For the Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
REVENUES				
Revenue from State Sources	\$ 6,000	\$ 6,000	\$ 4,953	\$ (1,047)
Revenue from Federal Sources	26,000	26,000	31,403	5,403
Sales and Other Conversion of Assets	222,600	222,600	89,492	(133,108)
Total Revenues	254,600	254,600	125,848	(128,752)
EXPENDITURES				
Current				
Food Service	261,600	259,600	137,681	(121,919)
Excess of Revenues Under Expenditures	(7,000)	(5,000)	(11,833)	(6,833)
OTHER FINANCING SOURCES				
Transfers In	-	-	11,833	11,833
Net Change in Fund Balances	\$ (7,000)	\$ (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 Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Over (Under)</u>
REVENUES				
Other Local Revenues	\$ 255,500	\$ 268,000	\$ 218,263	\$ (49,737)
EXPENDITURES				
Current				
Community Education and Services	<u>168,000</u>	<u>240,500</u>	<u>206,534</u>	<u>(33,966)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 87,500</u>	<u>\$ 27,500</u>	11,729	<u>\$ (15,771)</u>
FUND BALANCES				
Beginning of Year			<u>106,741</u>	
End of Year			<u>\$ 118,470</u>	

YINGHUA ACADEMY
Charter School No. 4140

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

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-7 in the 2010-2011 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, 2011**

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, 2011**

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, 2011 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, 2011

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 carryover PLT to subsequent years so, at June 30, 2011, 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, 2011.

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, 2011, the Academy did not have a target fund balance.

**YINGHUA ACADEMY
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011**

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, contributions are deductible under Section 701(c) of the IRC. The Academy is also exempt from Minnesota franchise or income tax. Generally, the Academy is no longer subject to examination by tax authorities for years before 2006.

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.

YINGHUA ACADEMY
Charter School No. 4140

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information (Continued)

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, 2011, the Academy’s bank balance of \$ 88,893 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, 2011 is as follows:

Cash	<u>\$ 33,469</u>
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NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 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	<u>\$ 175,017</u>	<u>\$ 32,215</u>	<u>\$ -</u>	<u>\$ 207,232</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	<u>45,489</u>	<u>29,060</u>	<u>-</u>	<u>74,549</u>
Total Capital Assets being Depreciated, Net	<u><u>\$ 129,528</u></u>	<u><u>\$ 3,155</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 132,683</u></u>

YINGHUA ACADEMY
Charter School No. 4140

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 4 – CAPITAL ASSETS

Depreciation expense for the year ended June 30, 2011 was charged to the following functions:

Administration	\$ 441
District Support Services	649
Regular Instruction	18,312
Special Education	1,465
Sites, Buildings and Equipment	<u>8,193</u>
Total Depreciation Expense	<u>\$ 29,060</u>

NOTE 5 – TRANSFERS/INTERFUND ACTIVITY

The Academy's Food Service Fund incurred an operating deficit of \$ 11,833 that was eliminated through a transfer from the General Fund at June 30, 2011. 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.

An interfund loan of \$ 117,405 was made from the Community Service Fund to the General Fund to cover a temporary deficit cash balances. It is anticipated this amount will be repaid in the next fiscal year as funds become available.

NOTE 6 – SHORT-TERM DEBT

On July 7, 2010, the Academy renewed a line of credit (LOC) of \$ 125,150 that expired on September 7, 2010. On November 30, 2010, the Academy obtained a LOC of \$ 350,000. The agreement expires on October 15, 2011. The agreement requires interest on all borrowings at 6.5% and was secured by assets of the Academy. At June 30, 2011, the Academy owed \$ 100,000 on its 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.

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.

**YINGHUA ACADEMY
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers’ Retirement Association (Continued)

A. Plan Description (Continued)

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 below and on the following pages.

Tier I:

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

With these provisions:

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

YINGHUA ACADEMY
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

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.

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 maybe obtained by writing TRA at Teachers' Retirement Association, 60 Empire Drive, #400, St. Paul, Minnesota 55103-4000 or by calling (651) 296-6449 or (800) 657-3853.

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 as employee contributions. The TRA employer contribution rates are 5.5% for Coordinated Plan members and 9.5% for Basic Plan members. Total covered payroll salaries for all TRA members state-wide during fiscal year ended June 30, 2010 was approximately \$ 3.79 billion. TRA covered payroll for all members state-wide for the fiscal years ended June 30, 2009 and 2008 were \$ 3.76 billion and \$ 3.65 billion, respectively. The Academy's contributions for the years ended June 30, 2011, 2010 and 2009 were \$ 66,675, \$ 50,857 and \$ 33,753, respectively, equal to the required contributions for each year as set by state statute.

YINGHUA ACADEMY
Charter School No. 4140

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

B. Funding Policy (Continued)

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%.

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.

YINGHUA ACADEMY
Charter School No. 4140

NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

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.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State Legislature. The Academy makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.0%, respectively, of their annual covered salary in 2010. In 2010, the Academy was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.0% for Coordinated Plan members. The Academy's contributions to the Public Employee's Retirement Fund for the years ended June 30, 2011, 2010 and 2009 were \$ 43,892, \$ 38,521 and \$ 21,619, 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, commencing June 15, 2009. The term of the lease agreement covers periods through June 30, 2014. The annual rent for the lease will 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 2011, the Academy paid \$ 512,919 to CSDC.

For fiscal year 2011, 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 \$ 441,828.

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.

**YINGHUA ACADEMY
Charter School No. 4140**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2011**

NOTE 8 – COMMITMENTS

A. Lease Commitments and Terms (Continued)

This lease agreement also provides the Academy the right to purchase the Lessor's interest in the property at a future date.

NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2011, the Academy implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This action resulted in a reclassification of fund balances on the governmental fund statements to correspond with the new fund naming structure required by this statement. The 2010 balances presented in the fund Balance Sheet are reclassified to correspond to the 2011 GASB Statement No. 54 classifications.

SUPPLEMENTARY INFORMATION

YINGHUA ACADEMY
Charter School No. 4140

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Year Ended June 30, 2011

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total Revenue	\$ 3,287,698	\$ 3,287,702	\$ (4)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	3,247,261	3,247,264	(3)	Total Expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	88,458	88,458	-	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	-	-	-				
423 Certain Teacher Programs	-	-	-	07 DEBT SERVICE FUND			
424 Operating Capital	-	-	-	Total Revenue	\$ -	\$ -	\$ -
426 \$ 25 Taconite	-	-	-	Total Expenditures	-	-	-
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable Fund Balance	-	-	-
434 Area Learning Center	-	-	-	<i>Restricted/Reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refunding	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB Payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted Fund Balance	-	-	-
445 Career Technical Programs	-	-	-	<i>Unassigned:</i>			
446 First Grade Preparedness	-	-	-	463 Unassigned Fund Balance	-	-	-
449 Safe School Crime	-	-	-				
450 Prekindergarten	-	-	-	08 TRUST FUND			
451 QZAB Payments	-	-	-	Total Revenue	\$ -	\$ -	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned Fund Balance	-	-	-
464 Restricted Fund Balance	-	-	-				
<i>Committed:</i>				20 INTERNAL SERVICE FUND			
418 Committed for Separation	-	-	-	Total Revenue	\$ -	\$ -	\$ -
461 Committed	-	-	-	Total Expenditures	-	-	-
<i>Assigned:</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance	-	-	-	422 Unassigned Fund Balance	-	-	-
<i>Unassigned:</i>							
422 Unassigned Fund Balance	243,572	243,571	1	25 OPEB REVOCABLE TRUST			
				Total Revenue	\$ -	\$ -	\$ -
02 FOOD SERVICES FUND				Total Expenditures	-	-	-
Total Revenue	\$ 125,848	\$ 125,847	\$ 1	<i>Unassigned:</i>			
Total Expenditures	137,681	137,680	1	422 Unassigned Fund Balance	-	-	-
<i>Nonspendable:</i>							
460 Nonspendable Fund Balance	-	-	-	45 OPEB IRREVOCABLE TRUST			
<i>Restricted/Reserved:</i>				Total Revenue	\$ -	\$ -	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted Fund Balance	-	-	-	422 Unassigned Fund Balance	-	-	-
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-	47 OPEB DEBT SERVICE			
				Total Revenue	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE FUND				Total Expenditures	-	-	-
Total Revenue	\$ 218,263	\$ 218,263	\$ -	<i>Nonspendable:</i>			
Total Expenditures	206,534	206,533	1	460 Nonspendable Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted:</i>			
460 Nonspendable Fund Balance	548	548	-	464 Restricted Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Unassigned:</i>			
426 \$ 25 Taconite	-	-	-	463 Unassigned Fund Balance	-	-	-
431 Community Education	-	-	-				
432 ECFE	-	-	-				
444 School Readiness	-	-	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	117,922	117,922	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				



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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 year ending June 30, 2011, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 27, 2011. 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 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 October 27, 2011.

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, Viero, Ltd".

KERN, DEWENTER, VIERO, LTD.
Bloomington, Minnesota
October 27, 2011



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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 year ended June 30, 2011, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 27, 2011.

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.

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

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
October 27, 2011