

**Yinghua Academy
Charter School No. 4140
Minneapolis, Minnesota**

Financial Statements

June 30, 2016



**Yinghua Academy
Charter School No. 4140
Table of Contents**

Board of Directors and Administration	1
Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	18
Statement of Activities	19
Fund Financial Statements	
Balance Sheet – Governmental Funds	20
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	23
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	24
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Food Service Fund	25
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Community Service Fund	26
Notes to Financial Statements	27
Required Supplementary Information	
Schedule of Academy's Proportionate Share of Net Pension Liability GERS Retirement Funds	54
Schedule of Academy's and Non-Employer Proportionate Share of Net Pension Liability TRA Retirement Funds	54
Schedule of Academy Contributions GERS Retirement Fund	55
Schedule of Academy Contributions TRA Retirement Fund	55
Notes to the Required Supplementary Information	56
Supplementary Information	
Uniform Financial Accounting and Reporting Standards Compliance Table	58
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59
Report on Legal Compliance	61
Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control	62

**Yinghua Academy
Charter School No. 4140
Board of Directors and Administration
June 30, 2016**

<u>Board of Directors</u>	<u>Position</u>
Karen Lu	Board Chairperson
Kimberly Gill	Secretary
Denny Grubish	Treasurer
Emily Hanson	Member
Suzanne Reider	Member
Jen Shadowens	Member
Dr. Rosemary Lawrence	Member
Sarah Whiting	Member
Seth Werner	Member
Joel Luedtke	Member
Lisa Matre	Member
Amanda Schneider	Member
Christopher Ziolkowski	Member
<u>Administration</u>	
Susan Berg	Executive Director
Dr. Luyi Lien	Academic Director
Jeremy Brewer	Dean of Students



Independent Auditor's Report

To the School Board
Yinghua Academy
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Yinghua Academy, Minneapolis, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Academy's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to in the first paragraph 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, 2016, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2016, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.

BergankDV Ltd.

Minneapolis, Minnesota
December 8, 2016

Yinghua Academy
Charter School No. 4140
Management's Discussion and Analysis

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, 2016. Please read it in conjunction with the Academy's financial statements, which immediately follow this section. The Management's Discussion and Analysis (MD&A) is a required element of required supplementary information specified in GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year (2015-2016) and the prior year (2014-2015) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015-2016 year include the following:

- The total fund balance of the General Fund ended at a positive \$1,983,467.
- Overall General Fund revenues were \$7,253,626 as compared to \$6,540,658 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.

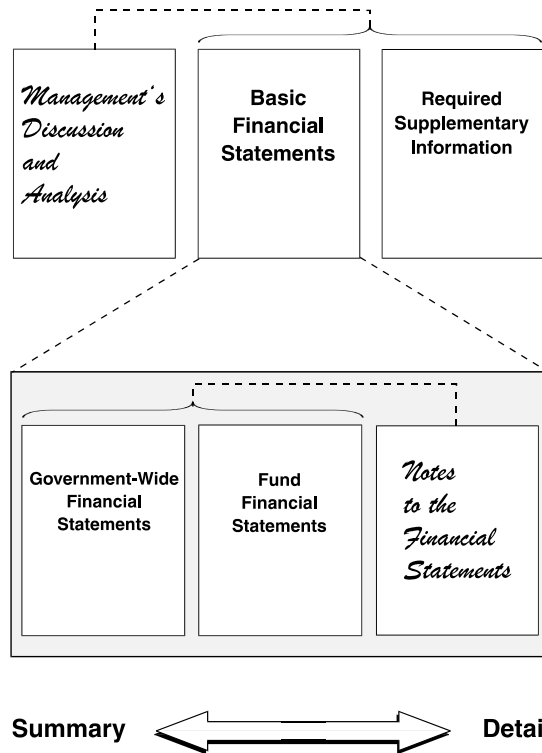
**Yinghua Academy
Charter School No. 4140
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

<i>Type of Statements</i>	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire school (except fiduciary funds) and the school's component units	The activities of the school that are not proprietary or fiduciary	Activities the school operates similar to private businesses: self insurance	Instances in which the school is the trustee or agent for someone else's resources
<i>Required financial statements</i>	♦ Statement of Net Position	♦ Balance Sheet	♦ Statement of Net Position	♦ Statement of Fiduciary Net
	♦ Statement of Activities	♦ Statement of Revenues, Expenditures and Changes in Fund Balances	♦ Statement of Revenues, Expenses and Changes in Fund Net Position ♦ Statement of Cash Flows	♦ Statement of Changes in Fiduciary Net Position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Academy's funds not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

**Yinghua Academy
Charter School No. 4140
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements (Continued)

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

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

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

Governmental Activities

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

FUND FINANCIAL STATEMENTS

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

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

The Academy has one kind of fund:

Governmental Funds

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

**Yinghua Academy
Charter School No. 4140
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Net Position

The Academy's combined net position was (\$1,079,875) on June 30, 2016 (See Table A-1).

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

	Governmental Activities		Change
	2016	2015	
Current and other assets	\$ 4,320,902	\$ 3,279,249	\$ 1,041,653
Capital and noncurrent assets	12,576,408	12,856,379	(279,971)
Total assets	<u>\$ 16,897,310</u>	<u>\$ 16,135,628</u>	<u>\$ 761,682</u>
Deferred inflow of resources	<u>\$ 943,664</u>	<u>\$ 491,725</u>	<u>\$ 451,939</u>
Current liabilities	\$ 1,020,743	\$ 857,299	\$ 163,444
Noncurrent liabilities	17,593,217	16,682,701	910,516
Total liabilities	<u>\$ 18,613,960</u>	<u>\$ 17,540,000</u>	<u>\$ 1,073,960</u>
Deferred inflow of resources	<u>\$ 306,889</u>	<u>\$ 705,430</u>	<u>\$ (398,541)</u>
Net position			
Net investment in capital assets	\$ (728,456)	\$ (454,292)	\$ (274,164)
Restricted	315,717	233,939	81,778
Unrestricted	<u>(667,136)</u>	<u>(1,397,724)</u>	<u>730,588</u>
Total net position	<u>\$ (1,079,875)</u>	<u>\$ (1,618,077)</u>	<u>\$ 538,202</u>

**Yinghua Academy
Charter School No. 4140
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (CONTINUED)

Changes in Net Position

The Academy's total revenues were \$8,003,212 for the period ended June 30, 2016. The majority of the revenues were from state/federal aids and the Community Service Fund, as well as federal grants, private grants and investment earnings (See Table A-2.).

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

	Governmental Activities		Change
	2016	2015	
Revenues			
Program revenues			
Charges for services	\$ 830,100	\$ 658,380	\$ 171,720
Operating grants and contributions	1,727,230	1,645,541	81,689
General revenues			
Unrestricted federal and state aid	5,211,266	4,450,335	760,931
Other	234,616	217,076	17,540
 Total revenues	 <u>8,003,212</u>	 <u>6,971,332</u>	 <u>1,031,880</u>
Expenses			
Administration	251,727	200,678	51,049
District support services	504,655	413,103	91,552
Regular instruction	3,001,541	2,482,097	519,444
Special education instruction	562,381	477,062	85,319
Instructional support services	346,326	369,754	(23,428)
Pupil support services	444,809	258,717	186,092
Sites and buildings	788,642	651,323	137,319
Fiscal and other fixed cost programs	26,925	18,084	8,841
Food service	262,166	211,975	50,191
Community service	439,332	269,441	169,891
Interest and fiscal charges on long term debt	836,506	836,492	14
 Total expenses	 <u>7,465,010</u>	 <u>6,188,726</u>	 <u>1,276,284</u>
 Change in net position	 538,202	 782,606	 (244,404)
Net Position			
Beginning of year, restated	<u>(1,618,077)</u>	<u>(2,400,683)</u>	<u>782,606</u>
 End of year	 <u>\$ (1,079,875)</u>	 <u>\$ (1,618,077)</u>	 <u>\$ 538,202</u>

Total cost of all programs was \$7,465,010. Revenue of 8,003,212 exceeded expenses by \$538,202 resulting in end of the year net position of (\$1,079,875).

**Yinghua Academy
Charter School No. 4140
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (CONTINUED)

Figure A-3 Sources of Academy's Revenues for 2016

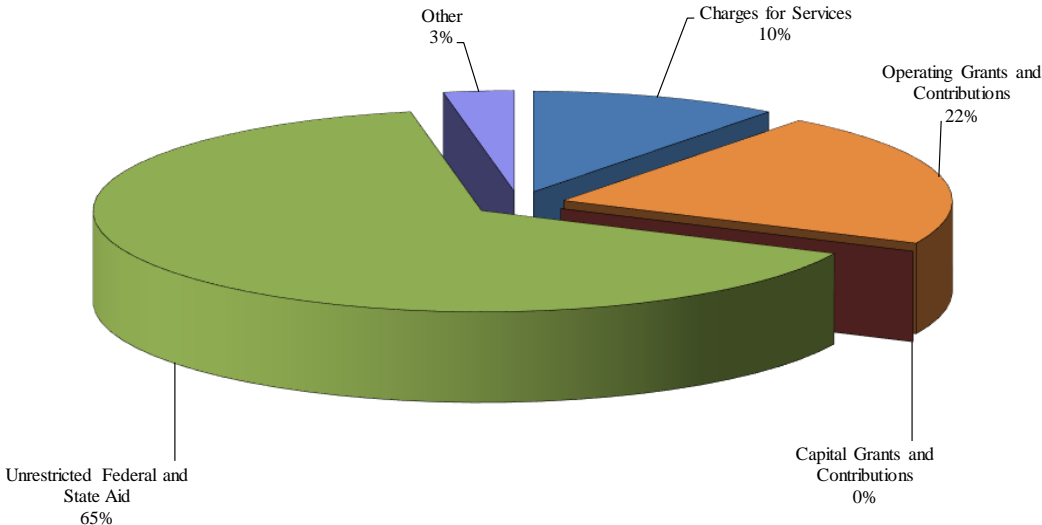
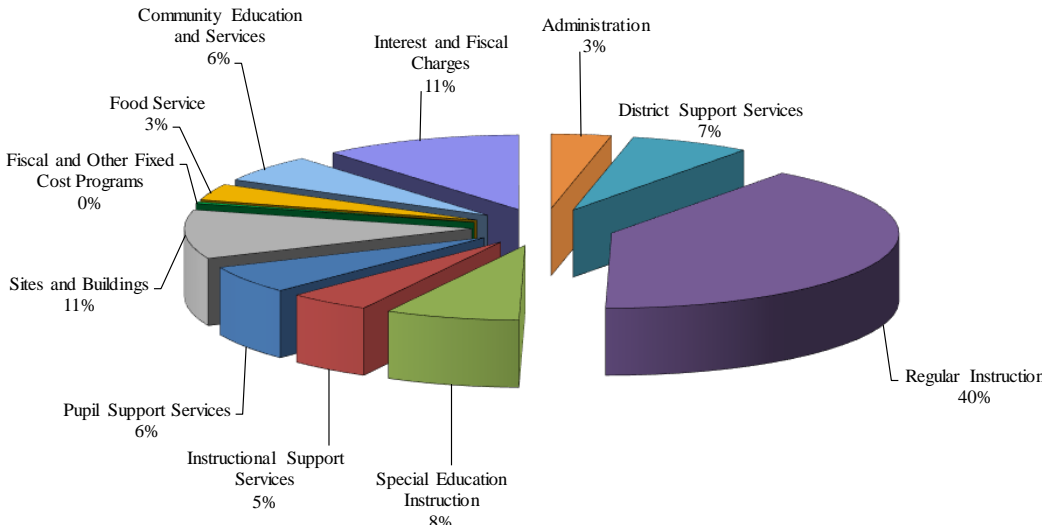


Figure A-4 Academy Expenses for 2016



**Yinghua Academy
Charter School No. 4140
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE (CONTINUED)

	Total Costs of Services			Net Costs of Services		
	2016	2015	Change	2016	2015	Change
Administration	\$ 251,727	\$ 200,678	\$ 51,049	\$ 251,727	\$ 200,678	\$ 51,049
District support services	504,655	413,103	91,552	504,655	413,103	91,552
Regular instruction	3,001,541	2,482,097	519,444	2,680,700	2,156,195	524,505
Special education instruction	562,381	477,062	85,319	23,300	11,810	11,490
Instructional support services	346,326	369,754	(23,428)	346,326	369,754	(23,428)
Pupil support services	444,809	258,717	186,092	444,809	258,717	186,092
Sites and buildings	788,642	651,323	137,319	(159,185)	(230,922)	71,737
Fiscal and other fixed cost programs	26,925	18,084	8,841	26,925	18,084	8,841
Food service	262,166	211,975	50,191	2,538	(20,901)	23,439
Community education and services	439,332	269,441	169,891	(50,621)	(128,205)	77,584
Interest & fiscal charges on long term debt	836,506	836,492	14	836,506	836,492	14
Total	\$ 7,465,010	\$ 6,188,726	\$ 1,276,284	\$4,907,680	\$ 3,884,805	\$ 1,022,875

In 2015-2016, the Academy enrolled 108 students in kindergarten, 349 students in grades 1-3, 179 students in grades 4-6, and 64 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 \$3,733,995.

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**

GENERAL FUND (CONTINUED)

**Table A-5
General Fund Revenues**

	Year Ended June 30,		Change
	2016	2015	
Other local revenues	\$ 414,163	\$ 319,979	\$ 94,184
State sources	6,653,872	5,773,108	880,764
Federal sources	185,591	239,916	(54,325)
 Total general fund revenue	 <u>\$7,253,626</u>	 <u>\$6,333,003</u>	 <u>\$ 920,623</u>

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 60% were personnel salaries and benefits. Another 34% of total expenditures were purchased services to continue developing the educational program, provide facility and administrative services and direct services to students. Table A-6 below presents a summary of General Fund expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended June 30,		Change
	2016	2015	
Salaries	\$3,159,397	\$2,819,989	\$ 339,408
Employee Benefits	745,399	644,964	100,435
Purchased Services	2,235,030	1,889,106	345,924
Supplies and Materials	247,209	215,928	31,281
Capital Expenditures	125,484	107,539	17,945
Other Expenditures	28,139	6,481	21,658
 Total Expenditures	 <u>\$6,540,658</u>	 <u>\$5,684,007</u>	 <u>\$ 856,651</u>

In 2015-2016 General Fund revenues exceeded expenditures by \$712,968 increasing the fund balance to \$1,983,467.

**Yinghua Academy
Charter School No. 4140
Management's Discussion and Analysis**

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

Capital Assets

By the end of 2016, the Academy had invested \$13,172,148 in capital assets, including land, building and improvements, 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 \$344,750.

**Table A-7
Capital Assets**

	2016	2015
Land	\$ 1,000,000	\$ -
Furniture and equipment	572,988	508,209
Construction in Progress	-	12,590,853
Leasehold Improvements	3,925	3,925
Building and Improvements	11,595,235	4,382
Total Capital Assets	13,172,148	13,107,369
Less Accumulated Depreciation	(595,740)	(250,990)
Total	\$ 12,576,408	\$ 12,856,379

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.

**Yinghua Academy
Charter School No. 4140
Management's Discussion and Analysis**

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.

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 Position
June 30, 2016**

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,400,196
Cash with fiscal agent	1,503,661
Accounts receivable	174,972
Due from Department of Education	1,084,544
Due from Federal Government through Department of Education	41,177
Prepaid items	116,352
Capital assets	
Land	1,000,000
Furniture and equipment	572,988
Leasehold improvements	3,925
Building and improvements	11,595,235
Less accumulated depreciation	<u>(595,740)</u>
Total assets	<u>16,897,310</u>
 Deferred Outflows of Resources	
Deferred outflows related to pensions	<u>943,664</u>
Total assets and deferred outflows of resources	<u><u>\$ 17,840,974</u></u>
 Liabilities	
Accounts payable	\$ 197,739
Salaries and benefits payable	346,893
Interest payable	418,836
Unearned revenue	42,275
Bonds payable	
Payable within one year	15,000
Payable after one year	14,305,839
Net pension liability	<u>3,287,378</u>
Total liabilities	<u>18,613,960</u>
 Deferred Inflows of Resources	
Deferred inflows related to pensions	<u>306,889</u>
 Net Position	
Net investment in capital assets	(728,456)
Restricted for	
Building company	43,118
Other purposes	272,599
Unrestricted	<u>(667,136)</u>
Total net position	<u>(1,079,875)</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 17,840,974</u></u>

See notes to financial statements.

Yinghua Academy
Charter School No. 4140
Balance Sheet - Governmental Funds
June 30, 2016

	General	Food Service	Community Service	Building Company	Total Governmental Funds
Assets					
Cash	\$ 1,087,560	\$ 37,105	\$ 275,531	\$ -	\$ 1,400,196
Cash with fiscal agent	-	-	-	1,503,661	1,503,661
Accounts receivable	13,917	339	43,599	117,117	174,972
Due from Department of Education	1,084,544	-	-	-	1,084,544
Due from Federal Government through Department of Education	41,177	-	-	-	41,177
Due from other funds	142,849	-	-	-	142,849
Prepaid items	115,104	18	1,230	-	116,352
Total assets	\$ 2,485,151	\$ 37,462	\$ 320,360	\$ 1,620,778	\$ 4,463,751
Liabilities					
Accounts payable	\$ 178,939	\$ 10,818	\$ 7,982	\$ -	\$ 197,739
Salaries and benefits payable	322,745	13,531	10,617	-	346,893
Due to other funds	-	-	-	142,849	142,849
Unearned revenue	-	-	42,275	-	42,275
Total liabilities	501,684	24,349	60,874	142,849	729,756
Fund Balances					
Nonspendable	115,104	18	1,230	-	116,352
Restricted	-	13,095	258,256	1,477,929	1,749,280
Unassigned	1,868,363	-	-	-	1,868,363
Total fund balances	1,983,467	13,113	259,486	1,477,929	3,733,995
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,485,151	\$ 37,462	\$ 320,360	\$ 1,620,778	\$ 4,463,751

Yinghua Academy
Charter School No. 4140
Reconciliation of the Balance Sheet to the
Statement of Net Position - Governmental Funds
June 30, 2016

Total fund balances - governmental funds	\$ 3,733,995
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.</p>	
Cost of capital assets	13,172,148
Less accumulated depreciation	(595,740)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>	
Bonds payable	(14,135,000)
Unamortized premium on bonds payable	(185,839)
Net pension liability	(3,287,378)
<p>Deferred Outflows of Resources and Deferred Inflows of Resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.</p>	
Deferred outflows of resources related to pensions	943,664
Deferred inflows of resources related to pensions	(306,889)
Governmental funds do not report a liability for accrued interest on bonds until due and payable.	(418,836)
Total net position - governmental activities	\$ (1,079,875)

Yinghua Academy
Charter School No. 4140
Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2016

	General	Food Service	Community Service	Building Company	Total Governmental Funds
Revenues					
Other local revenues	\$ 414,163	\$ -	\$ 489,953	\$ 1,072,624	\$ 1,976,740
Revenue from state sources	6,653,872	10,083	-	-	6,663,955
Revenue from federal sources	185,591	81,774	-	-	267,365
Sales and other conversion of assets	-	167,771	-	-	167,771
Total revenues	<u>7,253,626</u>	<u>259,628</u>	<u>489,953</u>	<u>1,072,624</u>	<u>9,075,831</u>
Expenditures					
Current					
Administration	251,471	-	-	-	251,471
District support services	481,066	-	-	-	481,066
Regular instruction	2,887,335	-	-	-	2,887,335
Special education instruction	548,252	-	-	-	548,252
Instructional support services	319,857	-	-	-	319,857
Pupil support services	444,994	-	-	-	444,994
Sites and buildings	1,455,274	-	-	88,730	1,544,004
Fiscal and other fixed cost programs	26,925	-	-	-	26,925
Food service	-	257,920	-	-	257,920
Community education and services	-	-	438,504	-	438,504
Capital outlay					
District support services	43,546	-	-	-	43,546
Regular instruction	28,195	-	-	-	28,195
Special education instruction	1,798	-	-	-	1,798
Instructional support services	20,822	-	-	-	20,822
Sites and buildings	31,123	-	-	-	31,123
Food service	-	4,958	-	-	4,958
Community education and services	-	-	9,539	-	9,539
Debt service					
Interest	-	-	-	842,300	842,300
Total expenditures	<u>6,540,658</u>	<u>262,878</u>	<u>448,043</u>	<u>931,030</u>	<u>8,182,609</u>
Net change in fund balances	712,968	(3,250)	41,910	141,594	893,222
Fund Balances					
Beginning of year	<u>1,270,499</u>	<u>16,363</u>	<u>217,576</u>	<u>1,336,335</u>	<u>2,840,773</u>
End of year	<u>\$ 1,983,467</u>	<u>\$ 13,113</u>	<u>\$ 259,486</u>	<u>\$ 1,477,929</u>	<u>\$ 3,733,995</u>

Yinghua Academy
Charter School No. 4140
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2016

Net change in fund balances - total governmental funds \$ 893,222

Amounts reported for governmental activities in the Statement of Activities are different because:

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.

Capital outlay	64,779
Depreciation expense	(344,750)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

(13)

Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.

Pension expense	(80,843)
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Governmental funds report the effects of bond premiums, discounts and issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

5,807

Change in net position - governmental activities	<u><u>\$ 538,202</u></u>
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Yinghua Academy
Charter School No. 4140
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Other local revenues	\$ 227,200	\$ 227,200	\$ 414,163	\$ 186,963
Revenue from state sources	6,181,985	6,418,258	6,653,872	235,614
Revenue from federal sources	176,200	176,200	185,591	9,391
Total revenues	<u>6,585,385</u>	<u>6,821,658</u>	<u>7,253,626</u>	<u>431,968</u>
Expenditures				
Current				
Administration	215,175	243,925	251,471	7,546
District support services	507,398	492,509	481,066	(11,443)
Regular instruction	2,778,872	2,894,357	2,887,335	(7,022)
Special education instruction	599,092	596,420	548,252	(48,168)
Instructional support services	362,955	354,955	319,857	(35,098)
Pupil support services	322,390	449,720	444,994	(4,726)
Sites and buildings	1,483,405	1,425,705	1,455,274	29,569
Fiscal and other fixed cost programs	27,000	27,000	26,925	(75)
Capital outlay				
District support services	27,280	44,280	43,546	(734)
Regular instruction	18,520	38,000	28,195	(9,805)
Special education instruction	-	-	1,798	1,798
Instructional support services	4,500	20,000	20,822	822
Sites and buildings	20,000	34,220	31,123	(3,097)
Total expenditures	<u>6,366,587</u>	<u>6,621,091</u>	<u>6,540,658</u>	<u>(80,433)</u>
Net change in fund balance	<u>\$ 218,798</u>	<u>\$ 200,567</u>	712,968	<u>\$ 512,401</u>
Fund Balance				
Beginning of year			<u>1,270,499</u>	
End of year			<u>\$ 1,983,467</u>	

Yinghua Academy
Charter School No. 4140
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget And Actual - Food Service Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Revenue from state sources	\$ 8,300	\$ 8,300	\$ 10,083	\$ 1,783
Revenue from federal sources	57,100	57,100	81,774	24,674
Sales and other conversion of assets	120,100	120,100	167,771	47,671
Total revenues	185,500	185,500	259,628	74,128
Expenditures				
Current				
Food service	191,500	191,500	257,920	66,420
Capital outlay				
Food service	5,000	5,000	4,958	(42)
Total expenditures	196,500	196,500	262,878	66,378
Net change in fund balance	\$ (11,000)	\$ (11,000)	(3,250)	\$ 7,750
Fund Balance				
Beginning of year			16,363	
End of year			\$ 13,113	

Yinghua Academy
Charter School No. 4140
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Other local revenues	\$ 365,900	\$ 365,900	\$ 489,953	\$ 124,053
Expenditures				
Current				
Community education and services	187,850	312,900	438,504	125,604
Capital outlay				
Community education and services	128,050	3,000	9,539	6,539
Total expenditures	<u>315,900</u>	<u>315,900</u>	<u>448,043</u>	<u>132,143</u>
Net change in fund balance	<u>\$ 50,000</u>	<u>\$ 50,000</u>	41,910	<u>\$ (8,090)</u>
Fund Balance				
Beginning of year			<u>217,576</u>	
End of year			<u>\$ 259,486</u>	

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Academy is a nonprofit corporation that was formed and began operating in June 2004, as Harriet Bishop Academy, in accordance with *Minnesota Statutes* 317A. The Academy subsequently changed its name to Yinghua Academy. The Academy is sponsored by Friends of Education. The Academy is a public school which served grades K-8 in the 2014-2015 school year. The mission of the Academy is to provide a challenging and comprehensive learning environment that will nurture the students' natural inquisitiveness and will prepare them to be engaged and productive global citizens. The governing body consists of a Board of Directors composed of a Chairperson, Treasurer, Secretary, and such other members.

A. Reporting Entity

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

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

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

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

1. Blended Component Unit

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

Educational Properties Yinghua was organized to operate exclusively in support of the Academy and in particular to purchase, own and/or construct a school house for lease to the Academy. The component unit's total debt outstanding is expected to be repaid entirely with resources of the Academy. Repayment generally occurs through a rent payment by the Academy to the building company, that in turn, pledges those payments as the primary source of repayment for its debt.

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

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

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the Academy.

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

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

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

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

The Academy applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available.

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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 listed below.

Major Funds:

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

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

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

Building Company Fund – This Fund is used to account for financial activity of the building company, including resources used for the acquisition or construction of major capital facilities authorized by bond issue and payment of, general obligation (G.O.) bonds, interest, and related costs.

D. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The Academy categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investment held by a 2.a.7 and/or a 2.a.7 like investment pool are measured at amortized cost.

Cash and investments at June 30, 2016, were comprised of deposits and brokered money markets.

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.

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Minnesota Statutes authorizes the Academy to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase, and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days.

E. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as expenditure at the time of consumption.

F. Capital Assets

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

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

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

Capital assets are depreciated using the half-year straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the Academy, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 5 to 20 years for furniture and equipment and 39 years for buildings.

Capital assets not being depreciated include land and construction in progress. The Academy does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

G. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The Academy has one item that qualifies for reporting in this category. A deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Academy has one item which qualifies for reporting in this category. A deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

H. Long-Term Obligations

In the government-wide financial statements long-term debt and other long term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

I. Compensated Absences

Certain Academy employees earn paid leave time (PLT). Academy employees may not carryover PLT to subsequent years so, at June 30, 2016, no liability exists.

J. Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in TRA Note 7.G.

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Risk Management

The Academy is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the Academy carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the Academy's insurance coverage during the year ending June 30, 2016.

L. 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, 2016, the Academy's policy is to maintain a minimum unassigned general fund balance of 20 percent of the annual budget.

M. Net Position

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

N. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Tax Status

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

The Academy is required to assess whether an uncertain tax position exists and if there should be recognition of a related benefit or liability in the financial statements. The Academy has determined there are not amounts to record as assets or liabilities related to uncertain tax positions.

P. Budgetary Information

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

1. Prior to July 1, the Director of Academy submits to the Academy's Board of Directors, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
3. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America
4. Budgets are as originally adopted or as amended by the Academy's Board of Directors. Budgeted expenditure appropriations lapse at year-end.

NOTE 2– 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: This is the risk that, in the event of the failure of a depository financial institution, the Academy will not be able to recover deposits or collateral securities that are in the possession of an outside party. *Minnesota Statutes* 118A requires all deposits be protected by federal depository insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The Academy's policy states that full collateralization is required on all demand deposit accounts exceeding FDIC coverage. As of June 30, 2016, \$591,489 of the Academy's bank balance of \$1,492,641 was exposed to custodial credit risk as it was not adequately secured by FDIC and collateral pledged to the Academy.

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 2– DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Deposits are presented in the Statement of Net Position at June 30, 2016, is as follows:

Cash	\$ <u>1,400,196</u>
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B. Investments

Investments at June 30, 2016, were comprised of \$1,503,661 in Wells Fargo Treasury Money Market.

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

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

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

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

The Academy has the following recurring fair value measurements as of June 30, 2016:

- \$1,503,661 of \$1,503,661 are valued using a quoted market prices (Level 1 inputs)

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 2– DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments

The following is a summary of total deposits and investments:

Academy Governmental Funds	
Deposits	\$ 1,400,196
Investments	<u>1,503,661</u>
Total deposits and investments	<u><u>\$ 2,903,857</u></u>

Deposits and investments are presented in the June 30, 2016, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 1,400,196
Cash with fiscal agent	<u>1,503,661</u>
Total deposits and investments	<u><u>\$ 2,903,857</u></u>

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Construction in progress	12,590,853	-	(12,590,853)	-
Total capital assets not being depreciated	<u>12,590,853</u>	<u>1,000,000</u>	<u>(12,590,853)</u>	<u>1,000,000</u>
Capital assets being depreciated				
Furniture and equipment	508,209	64,779	-	572,988
Leasehold improvements	3,925	-	-	3,925
Building and improvements	4,382	11,590,853	-	11,595,235
Total capital assets being depreciated	<u>516,516</u>	<u>11,655,632</u>	<u>-</u>	<u>12,172,148</u>
Less accumulated depreciation for				
Furniture and equipment	248,498	46,812	-	295,310
Leasehold improvements	2,244	561	-	2,805
Building and improvements	248	297,377	-	297,625
Total accumulated depreciation	<u>250,990</u>	<u>344,750</u>	<u>-</u>	<u>595,740</u>
Total capital assets being depreciated, Net	<u>265,526</u>	<u>11,310,882</u>	<u>-</u>	<u>11,576,408</u>
Governmental activities, capital assets, net	<u>\$ 12,856,379</u>	<u>\$ 12,310,882</u>	<u>\$ (12,590,853)</u>	<u>\$ 12,576,408</u>

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2016, was charged to the following functions:

Administration	\$ 317
District support services	10,485
Regular instruction	23,187
Special education	31
Food service	789
Community service	466
Site and buildings	<u>309,475</u>
Total depreciation expense	<u><u>\$ 344,750</u></u>

NOTE 4 – INTERFUND ACTIVITY

As of June 30, 2016, the amount due to the General Fund from the Building Company is \$142,849. The amount is money advanced by the Academy to the Building Company for a contractor. It will be reimbursed over a 3-4 year period through excess lease aid.

NOTE 5 – SHORT-TERM DEBT

The Academy maintains a line of credit (LOC) of \$350,000 that expires on January 15, 2017. The agreement requires interest on all borrowings at 6.5% and was secured by assets of the Academy. At June 30, 2016, the Academy had a balance of \$0 outstanding on the LOC and had not utilized it during the year.

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-term liabilities						
Charter School Lease Revenue						
Bonds, 2013A	06/25/13	5.000% -6.125 %	\$ 14,135,000	07/01/48	\$ 14,135,000	\$ 15,000
Bond Premium					<u>185,839</u>	<u>-</u>
Total long-term liabilities					<u><u>\$ 14,320,839</u></u>	<u><u>\$ 15,000</u></u>

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

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 6 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds and Loans

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

Year Ending June 30,	Charter School Lease Revenue Bonds		
	Principal	Interest	Total
2017	\$ 15,000	\$ 841,888	\$ 856,888
2018	95,000	838,863	933,863
2019	125,000	832,813	957,813
2020	170,000	825,050	995,050
2021	195,000	815,850	1,010,850
2022-2026	1,130,000	3,914,350	5,044,350
2027-2031	1,490,000	3,535,125	5,025,125
2032-2036	1,990,000	3,016,125	5,006,125
2037-2041	2,655,000	2,324,475	4,979,475
2042-2046	3,565,000	1,396,459	4,961,459
2047-2049	2,705,000	254,953	2,959,953
Total	<u>\$ 14,135,000</u>	<u>\$ 18,595,951</u>	<u>\$ 32,730,951</u>

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	\$ 14,135,000	\$ -	\$ -	\$ 14,135,000
Bond premium	191,646	-	5,807	185,839
Total long-term liabilities	<u>\$ 14,332,454</u>	<u>\$ -</u>	<u>\$ 5,807</u>	<u>\$ 14,320,839</u>

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Summary of Significant Accounting Policies

Teachers' Retirement Association

A. Plan Description

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

Teachers employed in Minnesota's public elementary and secondary school, charter schools and certain educational institutions maintained by the state (except those teachers employed by the city of St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

B. Benefits Provided

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

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier I Benefits

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

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- 3% per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

Tier II Benefits

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

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

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

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

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for years ended June 30, 2015 and June 30, 2016, were:

	Employee	Employer
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 340,207,590
Deduct Employer contributions not related to future contribution efforts	(740,635)
Deduct TRA's contributions not included in allocation	<u>(435,999)</u>
Total employer contributions	339,066,956
Total non-employer contributions	<u>41,587,410</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 380,654,366</u></u>

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Merger of DTRFA

Legislation enacted in 2014 merged the DTRFA with TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	<u>6/30/14 CAFR</u>	<u>Restated</u>
Total pension liability	\$ 24,901,612,000	\$ 25,299,564,000
Plan fiduciary net position	<u>20,293,684,000</u>	<u>20,519,756,000</u>
Net pension liability	<u>\$ 4,607,928,000</u>	<u>\$ 4,779,808,000</u>

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Measurement date	June 30, 2015
Valuation date	July 1, 2015
Experience study	October 30, 2009
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	8.25%
Wage inflation	3.00%
Projected salary increase	3.5-12%, based on years of service
Cost of living adjustment	2.00%

Mortality assumption

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back five years and female rates set back seven years
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back two years and female rates set back three years
Post-disability	RP 2000 disabled retiree mortality, without adjustment

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

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

Asset Class	Target	Long-Term
Domestic stocks	45 %	5.50 %
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	2	0.50
Total	<u>100 %</u>	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2015 is 5.73 years. The "Difference between Expected and Actual Experience" and "Changes of Assumptions" use the amortization period of 5.73 years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5 years as required by GASB 68. The "Changes in Proportion" uses a rounded amortization period of 5.0 years.

F. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2016 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

G. Net Pension Liability

On June 30, 2016, the Academy reported a liability of \$2,406,350 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. Academy proportionate share was 0.0389% at the end of the measurement period and 0.0338% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the Academy as its proportionate share of the net pension liability, the direct aid and total portion of the net pension liability that was associated with the Academy were as follows:

Academy's proportionate share of net pension liability	\$ 2,406,350
State's proportionate share of the net pension liability associated with the Academy	295,355

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to be 2.0% annually with no increase to 2.5% projected. The prior year valuation assumed a 2.5% increase commencing July 1, 2034.

For the year ended June 30, 2016, the Academy recognized pension expense of \$292,213. It also recognized \$52,215 as an increase to pension expense for the support provided by direct aid.

On June 30, 2016, the Academy had deferred resources related to pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 123,301	\$ -
Net difference between projected and actual earnings on plan investments	-	184,043
Changes in assumptions	184,984	-
Changes in proportion	322,044	-
Academy's contribution to TRA subsequent to the measurement date	<u>164,050</u>	<u>-</u>
Total	<u>\$ 794,379</u>	<u>\$ 184,043</u>

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

G. Net Pension Liability (Continued)

\$164,050 reported as deferred outflows of resources related to pensions resulting from Academy contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

2017	\$	60,642
2018		60,642
2019		60,643
2020		192,427
2021		71,932

H. Pension Liability Sensitivity

The following presents the Academy's proportionate share of the net pension liability calculated using the discount rate of 8.0% as well as the liability measured using 1% lower and 1% higher.

Academy proportionate share of NPL		
1% decrease (7.0%)	Current (8.0%)	1% increase (9.0%)
\$ 3,662,776	\$ 2,406,350	\$ 1,357,826

The Employer's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

I. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That can be obtained at www.MinnesotaTRA.org, or by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000, or by calling (651) 296-2409 or (800) 657-3669.

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association

A. Plan Description

The Academy participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the Academy other than teachers are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. PERA benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following 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.

GERF Benefits

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 ten 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 ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions

Minnesota Statutes Chapter 353 set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the Academy was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The Academy's contributions to the GERF for the year ended June 30, 2016, were \$86,247. The Academy's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

GERF Pension Costs

At June 30, 2016, the Academy reported a liability of \$3,711,024 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Academy's proportion of the net pension liability was based on the Academy's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the Academy's proportion was 0.0170%, which was no change from its proportion measured as of June 30, 2014.

GERF benefit provision changes during the measurement period include (1) the merger of the former Minneapolis Employees Retirement Fund division into GERF, effective January 1, 2015, and (2) revisions to *Minnesota Statutes* to make changes to contribution rates less prescriptive and more flexible.

The discount rate used to calculate liabilities for the June 30, 2015, measurement date was 7.9%. The Legislature has since set the discount rate in statute at 8%. Beginning with the June 30, 2016, measurement date the discount rate used when calculating liabilities based on GASB 68 accounting requirements will be increased to 8% to be consistent with the rate set in statute used for funding purposes.

For the year ended June 30, 2016, the Academy recognized pension expense of \$94,597 for its proportionate share of GERF's pension expense.

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

At June 30, 2016, the Academy reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 8,171	\$ 44,419
Changes in actuarial assumptions	54,867	-
Difference between projected and actual investments earnings	-	78,427
Academy's contributions to GERF subsequent to the measurement date	<u>86,247</u>	<u>-</u>
Total	<u><u>\$ 149,285</u></u>	<u><u>\$ 122,846</u></u>

\$86,247 reported as deferred outflows of resources related to pensions resulting from Academy contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>June 30,</u>	<u>Amount</u>
2017	\$ (16,380)
2018	(16,380)
2019	(47,899)
2020	20,851

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

GERF

Assumptions	GERF
Inflation	2.75 % Per year
Active member payroll growth	3.50 Per year
Investment rate of return	7.90

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014.

The long-term expected rate of return on pension plan investments is 7.9% for GERF. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term
Domestic stocks	45%	5.50 %
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
Total	<u>100%</u>	

**Yinghua Academy
Charter School No. 4140
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

The following table presents the Academy's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the Academy's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's proprionate share of the GERF net pension liability	\$ 1,385,290	\$ 881,028	\$ 464,586

H. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary net position is available in a separately-issued PERA financial report. 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 1-800-652-9026.

NOTE 8 – COMMITMENTS

Lease Commitments and Terms

For 2015, the Academy qualified for state charter school lease aid which equaled the lesser of 90% of the approved lease cost or \$1,314 per pupil units served, or \$992,030.

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 Financial Statements**

NOTE 8 – COMMITMENTS (CONTINUED)

Lease Commitments and Terms (Continued)

On June 25, 2013, the Academy (Lessee) signed a lease for educational space with Educational Properties Yinghua, LLC (Lessor), in Minneapolis, Minnesota. The term of the lease agreement covers periods through June 30, 2053 and assumes the remaining lease term from CSDC. Beginning on July 1, 2014, the annual base rent will be the greater of (1) an amount equivalent to (A) 1.0x of Landlord's annual debt service (plus issuer, trustee and rating agency fees) if a Certificate of Occupancy has not been obtained for the new addition, or (B) if a Certificate of Occupancy for the new addition has been obtained, 1.1x of Landlord's annual debt service or (2) the maximum amount. The Academy is also responsible for all operating costs associated with all utilities, water, sewer, garbage removal, telecommunication, janitorial, cleaning, maintenance, repairs, replacements, landscaping, snow removal, and all other costs of operating the premises. Payments under the lease began on July 5, 2013, for the period beginning July 1, 2013. For 2016, minimum rental payments of \$78,294 were due on a monthly basis.

NOTE 9 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

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REQUIRED SUPPLEMENTARY INFORMATION

Yinghua Academy
Schedule of Academy's and Non-Employer Proportionate Share
of Net Pension Liability
GERF Retirement Funds

For Fiscal Year Ended June 30,	Academy's Proportion of the Net Pension Liability (Asset)	Academy's Proportionate Share of the Net Pension Liability (Asset)	Academy's Covered- Employee Payroll	Academy's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0170%	\$ 798,575	\$ 891,779	89.55%	78.75%
2015	0.0170%	881,028	983,960	89.54%	78.19%

Schedule of Academy's and Non-Employer Proportionate Share
of Net Pension Liability
TRA Retirement Funds

For Fiscal Year Ended June 30,	Academy's Proportion of the Net Pension Liability (Asset)	Academy's Proportionate Share of the Net Pension Liability (Asset)	Academy's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	Academy's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	Academy's Covered- Employee Payroll	Academy's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0338%	\$ 1,557,480	\$ 109,634	\$ 1,667,114	\$ 1,544,770	100.8%	81.5%
2015	0.0389%	2,406,350	295,355	2,701,705	1,974,467	121.9%	76.8%

Yinghua Academy
Schedule of Academy Contributions
GERF Retirement Funds
Last Ten Years

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Statutorily</u> <u>Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Statutorily</u> <u>Required</u> <u>Contributions</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>Academy's</u> <u>Covered-</u> <u>Employee Payroll</u>	<u>Contributions as a</u> <u>Percentage of</u> <u>Covered-</u> <u>Employee Payroll</u>
2014	\$ 64,654	\$ 64,654	\$ -	\$ 891,779	7.25%
2015	73,797	73,797	-	983,960	7.50%
2016	86,247	86,247	-	1,149,960	7.50%

Schedule of Academy Contributions
TRA Retirement Funds
Last Ten Years

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Statutorily</u> <u>Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Statutorily</u> <u>Required</u> <u>Contributions</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>Academy's</u> <u>Covered-</u> <u>Employee Payroll</u>	<u>Contributions as a</u> <u>Percentage of</u> <u>Covered-</u> <u>Employee Payroll</u>
2014	\$ 108,134	\$ 108,134	\$ -	\$ 1,544,770	7.00%
2015	148,085	148,085	-	1,974,467	7.50%
2016	164,050	164,050	-	2,187,333	7.50%

Yinghua Academy
Charter School No. 4140
Notes to the Required Supplementary Information

TRA Retirement Funds

Changes of benefit terms

The DTRFA was merged into TRA on June 30, 2015.

Changes of assumptions

The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%. Details, if necessary, can be obtained from the TRA CAFR.

SUPPLEMENTARY INFORMATION

Yinghua Academy
Charter School No. 4140
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2016

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 General Fund				06 Building Construction Fund			
Total revenue	\$ 7,253,626	\$ 7,253,627	\$ (1)	Total revenue	\$ -	\$ -	\$ -
Total expenditures	6,540,658	6,540,656	2	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	115,104	115,104	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health And Safety	-	-	-	413 Building Projects Funded By Cop/lp	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted fund balance	-	-	-
409 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
413 Building Projects Funded by COP/LP	-	-	-	463 Unassigned fund balance	-	-	-
414 Operating Debt	-	-	-	07 Debt Service Fund			
416 Levy Reduction	-	-	-	Total revenue	\$ -	\$ -	\$ -
417 Taconite Building Maintenance	-	-	-	Total expenditures	-	-	-
424 Operating Capital	-	-	-	<i>Nonspendable:</i>			
426 \$ 25 Taconite	-	-	-	460 Nonspendable fund balance	-	-	-
427 Disabled Accessibility	-	-	-	<i>Restricted/reserved:</i>			
428 Learning And Development	-	-	-	425 Bond refunding	-	-	-
434 Area Learning Center	-	-	-	451 QZAB and QSCB payments	-	-	-
435 Contracted Alternative Programs	-	-	-	<i>Restricted:</i>			
436 State Approved Alternative Program	-	-	-	464 Restricted Fund Balance	-	-	-
438 Gifted and Talented	-	-	-	<i>Unassigned:</i>			
440 Teacher Development and Evaluation	-	-	-	463 Unassigned Fund Balance	-	-	-
441 Basic Skills Programs	-	-	-	08 Trust Fund			
445 Career Technical Programs	-	-	-	Total revenue	\$ -	\$ -	\$ -
446 First Grade Preparedness	-	-	-	Total expenditures	-	-	-
448 Achievement and Integration Revenue	-	-	-	<i>Unassigned:</i>			
449 Safe School Crime	-	-	-	422 Unassigned fund balance (net position)	-	-	-
450 Transition for Pre-kindergarten	-	-	-	20 Internal Service Fund			
451 QZAB and QSCB 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 (net position)	-	-	-
464 Restricted fund balance	-	-	-	25 OPEB Revocable Trust			
<i>Committed:</i>				Total revenue	\$ -	\$ -	\$ -
418 Committed for separation	-	-	-	Total expenditures	-	-	-
461 Committed	-	-	-	<i>Unassigned:</i>			
<i>Assigned:</i>				422 Unassigned fund balance (net position)	-	-	-
462 Assigned fund balance	-	-	-	45 OPEB Irrevocable Trust			
<i>Unassigned:</i>				Total revenue	\$ -	\$ -	\$ -
422 Unassigned fund balance (net position)	1,868,363	1,868,365	(2)	Total expenditures	-	-	-
02 Food Services Fund				<i>Unassigned:</i>			
Total revenue	\$ 259,628	\$ 259,627	\$ 1	422 Unassigned fund balance (net position)	-	-	-
Total expenditures	262,878	262,879	(1)	47 OPEB Debt Service			
<i>Nonspendable:</i>				Total revenue	\$ -	\$ -	\$ -
460 Nonspendable fund balance	18	18	-	Total expenditures	-	-	-
<i>Restricted/reserved:</i>				<i>Nonspendable:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	460 Nonspendable fund balance	-	-	-
<i>Restricted:</i>				<i>Restricted:</i>			
464 Restricted fund balance	13,095	13,095	-	464 Restricted fund balance	-	-	-
<i>Unassigned:</i>				<i>Unassigned:</i>			
463 Unassigned fund balance	-	-	-	463 Unassigned fund balance	-	-	-
04 Community Service Fund				06 Building Construction Fund			
Total revenue	\$ 489,953	\$ 489,954	\$ (1)	Total revenue	\$ -	\$ -	\$ -
Total expenditures	448,043	448,042	1	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	1,230	1,230	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted:</i>			
426 \$ 25 Taconite	-	-	-	464 Restricted fund balance	-	-	-
431 Community Education	-	-	-	<i>Unassigned:</i>			
432 ECFE	-	-	-	463 Unassigned fund balance	-	-	-
440 Teacher Development and Evaluation	-	-	-	07 Debt Service Fund			
444 School Readiness	-	-	-	Total revenue	\$ -	\$ -	\$ -
447 Adult Basic Education	-	-	-	Total expenditures	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-	<i>Nonspendable:</i>			
<i>Restricted:</i>				460 Nonspendable fund balance	-	-	-
464 Restricted fund balance	258,256	258,256	-	<i>Restricted:</i>			
<i>Unassigned:</i>				464 Restricted fund balance	-	-	-
463 Unassigned fund balance	-	-	-	<i>Unassigned:</i>			
				463 Unassigned fund balance	-	-	-



**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

To the Board of Directors
Yinghua Academy
Minneapolis, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Yinghua Academy, Minneapolis, Minnesota, as of and for the year ending June 30, 2016, and the related notes to financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated December 8, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

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

Purpose of this Report

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

BergankDV Ltd.

Minneapolis, Minnesota
December 8, 2016



Report on Legal Compliance

Independent Auditor's Report

To the Board of Directors
Yinghua Academy
Minneapolis, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Yinghua Academy, Minneapolis, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, and have issued our report thereon dated December 8, 2016.

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

In connection with our audit, nothing came to our attention that caused us to believe that the Academy failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*, except as described in the Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Academy's noncompliance with the above referenced provisions.

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

BerganKDV Ltd.

Minneapolis, Minnesota
December 8, 2016

Yinghua Academy
Charter School No. 4140
Schedule of Findings and Corrective Action Plans
on Legal Compliance and Internal Control

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Obtain Sufficient Collateral

The depositories of public funds and public investment laws of *Minnesota Statutes* 118A.01 and 118A.08 requires that all deposits with financial institutions must be collateralized in an amount equal to 110% of deposits in excess of Federal Depository Insurance Corporation (FDIC) insurance.

At June 30, 2016, one Academy account exceeded FDIC limits without a collateral pledge.

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The Academy will obtain collateral on deposits in excess of FDIC limits or allocate deposits to stay within FDIC limits and existing collateral pledged.
3. Official Responsible for Ensuring CAP
Susan Berg, Executive Director, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is immediate.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this cap.