

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

Financial Statements

June 30, 2017



Yinghua Academy
Charter School No. 4140
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**Yinghua Academy
Charter School No. 4140
Board of Directors and Administration
June 30, 2017**

<u>Board of Directors</u>	<u>Position</u>
Lisa Matre	Board Chairperson
David Mair	Secretary
Amanda Schneider	Treasurer
Mei Chen	Member
Denny Grubish	Member
Emily Hanson	Member
Shu-Mei Lai	Member
Rosemary Lawrence	Member
Bo Liu	Member
Karen Lu	Member
Joel Luedtke	Member
Seth Werner	Member
Chrisopher Ziolkowski	Member
<u>Administration</u>	
Susan Berg	Executive Director
Dr. Luyi Lien	Academic Director
Jennifer Olsen	Business/Human Resources Manager
Jeremy Brewer	Dean of Students

YBC, Inc. Board of Directors

<u>Board of Directors</u>	<u>Position</u>
Doug Parish	Board Chair
Scott Jax	Treasurer
Cindy Moeller	Secretary



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, 2017, 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, 2017, 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 October 11, 2017, 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
October 11, 2017

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, 2017. 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 (2016-2017) and the prior year (2015-2016) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016-2017 year include the following:

- The total fund balance of the General Fund ended at a positive \$2,491,236
- Overall General Fund revenues were \$7,926,276 as compared to \$7,418,507 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.

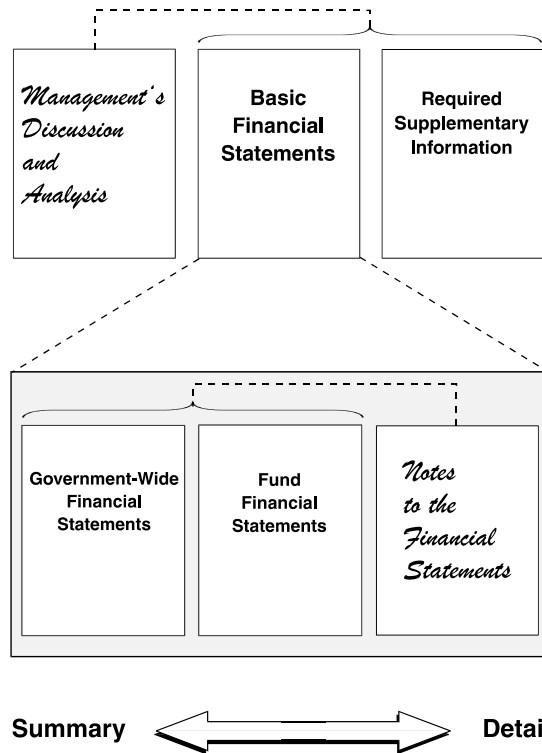
**Yinghua Academy
Charter School No. 4140
Management's Discussion and Analysis**

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 (\$2,007,818) on June 30, 2017 (See Table A-1).

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

	Governmental Activities		Change
	2017	2016	
Current and other assets	\$ 5,359,890	\$ 4,320,902	\$ 1,038,988
Capital and noncurrent assets	12,274,556	12,576,408	(301,852)
Total assets	\$ 17,634,446	\$ 16,897,310	\$ 737,136
Deferred inflow of resources	\$ 7,334,185	\$ 943,664	\$ 6,390,521
Current liabilities	\$ 1,300,549	\$ 1,020,743	\$ 279,806
Noncurrent liabilities	25,557,670	17,593,217	7,964,453
Total liabilities	\$ 26,858,219	\$ 18,613,960	\$ 8,244,259
Deferred inflow of resources	\$ 118,230	\$ 306,889	\$ (188,659)
Net position			
Net investment in capital assets	\$ (1,009,501)	\$ (728,456)	\$ (281,045)
Restricted	647,130	315,717	331,413
Unrestricted	(1,645,447)	(667,136)	(978,311)
Total net position	\$ (2,007,818)	\$ (1,079,875)	\$ (927,943)

**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 \$8,987,695 for the period ended June 30, 2017. 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
	2017	2016	
Revenues			
Program revenues			
Charges for services	\$ 919,793	\$ 830,100	\$ 89,693
Operating grants and contributions	1,902,838	1,727,230	175,608
General revenues			
Unrestricted federal and state aid	5,906,174	5,211,266	694,908
Other	258,890	234,616	24,274
Total revenues	<u>8,987,695</u>	<u>8,003,212</u>	<u>984,483</u>
Expenses			
Administration	371,464	251,727	119,737
District support services	691,929	504,655	187,274
Regular instruction	4,356,145	3,001,541	1,354,604
Special education instruction	797,743	562,381	235,362
Instructional support services	435,964	346,326	89,638
Pupil support services	558,845	444,809	114,036
Sites and buildings	927,879	788,642	139,237
Fiscal and other fixed cost programs	28,472	26,925	1,547
Food service	288,710	262,166	26,544
Community service	622,829	439,332	183,497
Interest and fiscal charges on long term debt	835,658	836,506	(848)
Total expenses	<u>9,915,638</u>	<u>7,465,010</u>	<u>2,450,628</u>
Change in net position	(927,943)	538,202	(1,466,145)
Net Position			
Beginning of year, restated	<u>(1,079,875)</u>	<u>(1,618,077)</u>	<u>538,202</u>
End of year	<u>\$ (2,007,818)</u>	<u>\$ (1,079,875)</u>	<u>\$ (927,943)</u>

Total cost of all programs was \$9,915,638. Revenue of \$8,987,695 were exceeded by expenses in the amount of \$927,943, resulting in end of the year net position of (\$2,007,818).

**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 2017

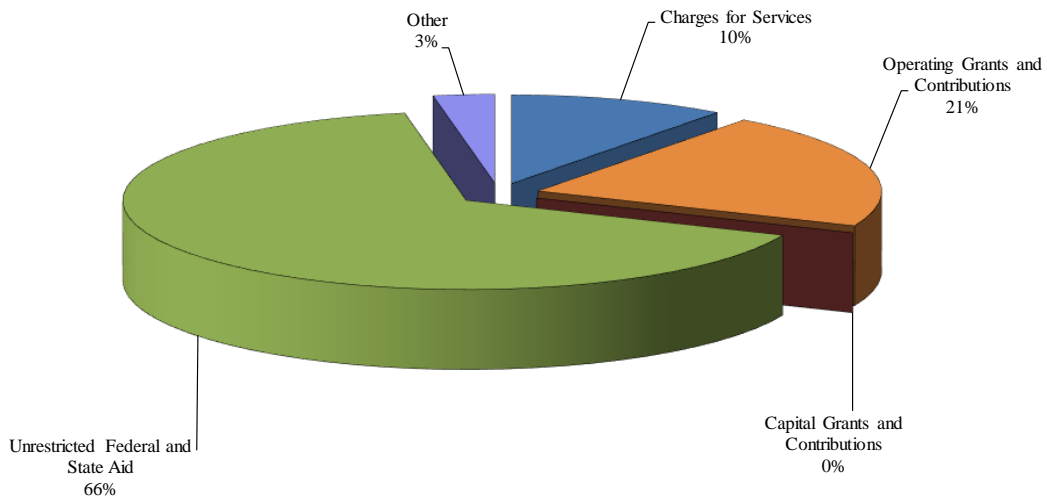
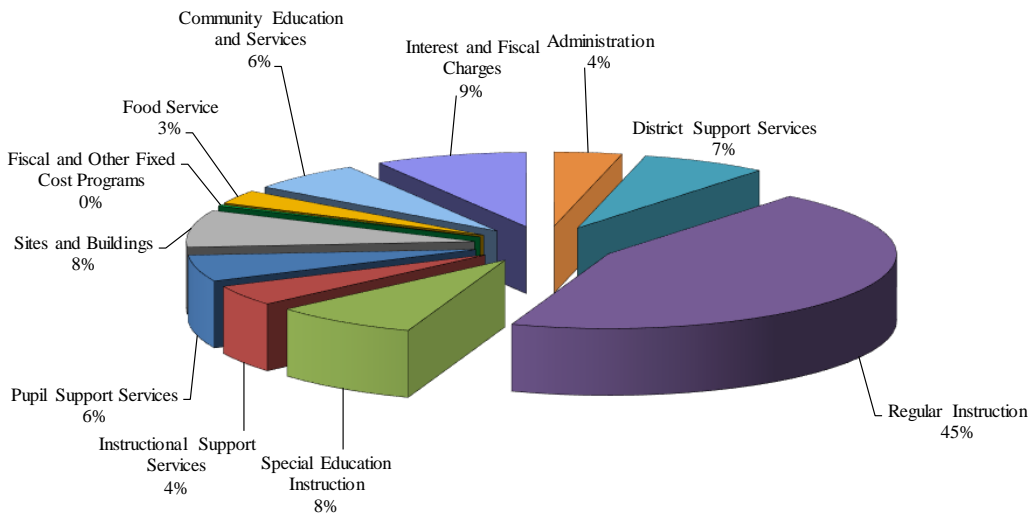


Figure A-4 Academy Expenses for 2017



**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		
	2017	2016	Change	2017	2016	Change
Administration	\$ 371,464	\$ 251,727	\$ 119,737	\$ 371,464	\$ 251,727	\$ 119,737
District support services	691,929	504,655	187,274	691,929	504,655	187,274
Regular instruction	4,356,145	3,001,541	1,354,604	4,113,776	2,680,700	1,433,076
Special education instruction	797,743	562,381	235,362	190,652	23,300	167,352
Instructional support services	435,964	346,326	89,638	435,964	346,326	89,638
Pupil support services	558,845	444,809	114,036	558,845	444,809	114,036
Sites and buildings	927,879	788,642	139,237	(129,094)	(159,185)	30,091
Fiscal and other fixed cost programs	28,472	26,925	1,547	28,472	26,925	1,547
Food service	288,710	262,166	26,544	5,990	2,538	3,452
Community education and services	622,829	439,332	183,497	(10,649)	(50,621)	39,972
Interest & fiscal charges on long term debt	835,658	836,506	(848)	835,658	836,506	(848)
Total	\$ 9,915,638	\$ 7,465,010	\$ 2,450,628	\$ 7,093,007	\$ 4,907,680	\$ 2,185,327

In 2016-2017, the Academy enrolled 112 students in kindergarten, 346 students in grades 1-3, 241 students in grades 4-6, and 102 students in grades 7-8.

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

The financial performance of the Academy as a whole is reflected in its governmental funds as well. As the Academy completed the year, its governmental funds reported a combined fund balance of \$4,572,754.

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
	2017	2016	
Other local revenues	\$ 331,336	\$ 414,163	\$ (82,827)
State sources	7,331,097	6,653,872	677,225
Federal sources	263,843	185,591	78,252
 Total general fund revenue	 <u>\$7,926,276</u>	 <u>\$7,253,626</u>	 <u>\$ 672,650</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 59% 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
	2017	2016	
Salaries	\$3,569,484	\$3,159,397	\$ 410,087
Employee Benefits	800,786	745,399	55,387
Purchased Services	2,500,881	2,235,030	265,851
Supplies and Materials	296,658	247,209	49,449
Capital Expenditures	215,189	125,484	89,705
Other Expenditures	35,509	28,139	7,370
 Total Expenditures	 <u>\$7,418,507</u>	 <u>\$6,540,658</u>	 <u>\$ 877,849</u>

In 2016-2017 General Fund revenues exceeded expenditures by \$507,769 increasing the fund balance to \$2,491,236.

**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 2017, the Academy had invested \$13,211,525 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 \$341,229.

**Table A-7
Capital Assets**

	2017	2016
Land	\$ 1,000,000	\$ 1,000,000
Furniture and equipment	598,365	572,988
Construction in Progress	-	-
Leasehold Improvements	3,925	3,925
Building and Improvements	11,609,235	11,595,235
Total Capital Assets	13,211,525	13,172,148
Less Accumulated Depreciation	(936,969)	(595,740)
Total	\$ 12,274,556	\$ 12,576,408

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, 2017**

	Governmental Activities
Assets	
Cash	\$ 2,143,314
Cash with fiscal agent	1,652,409
Accounts receivable	245,370
Due from Department of Education	1,198,735
Due from Federal Government through Department of Education	30,662
Prepaid items	89,400
Capital assets	
Land	1,000,000
Furniture and equipment	598,365
Leasehold improvements	3,925
Building and improvements	11,609,235
Less accumulated depreciation	(936,969)
Total assets	17,634,446
Deferred Outflows of Resources	
Deferred outflows related to pensions	7,334,185
Total assets and deferred outflows of resources	\$ 24,968,631
Liabilities	
Accounts payable	\$ 383,371
Salaries and benefits payable	367,385
Interest payable	418,413
Unearned revenue	36,380
Bonds payable	
Payable within one year	95,000
Payable after one year	14,205,032
Net pension liability	11,352,638
Total liabilities	26,858,219
Deferred Inflows of Resources	
Deferred inflows related to pensions	118,230
Net Position	
Net investment in capital assets	(1,009,501)
Restricted for	
Building company	313,325
Other purposes	333,805
Unrestricted	(1,645,447)
Total net position	(2,007,818)
Total liabilities, deferred inflows of resources, and net position	\$ 24,968,631

See notes to financial statements.

**Yinghua Academy
Charter School No. 4140
Statement of Activities
Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Administration	\$ 371,464	\$ -	\$ -	\$ -	\$ (371,464)
District support services	691,929	-	-	-	(691,929)
Regular instruction	4,356,145	106,039	136,330	-	(4,113,776)
Special education instruction	797,743	-	607,091	-	(190,652)
Instructional support services	435,964	-	-	-	(435,964)
Pupil support services	558,845	-	-	-	(558,845)
Sites and buildings	927,879	-	1,056,973	-	129,094
Fiscal and other fixed cost programs	28,472	-	-	-	(28,472)
Food service	288,710	180,276	102,444	-	(5,990)
Community education and services	622,829	633,478	-	-	10,649
Interest and fiscal charges on long-term debt	835,658	-	-	-	(835,658)
Total governmental activities	\$ 9,915,638	\$ 919,793	\$ 1,902,838	\$ -	(7,093,007)
General revenues					
State aid-formula grants					5,906,174
Other general revenues					253,327
Investment income					5,563
Total general revenues					<u>6,165,064</u>
Change in net position					(927,943)
Net position - beginning					<u>(1,079,875)</u>
Net position - ending					<u>\$ (2,007,818)</u>

Yinghua Academy
Charter School No. 4140
Balance Sheet - Governmental Funds
June 30, 2017

	General	Food Service	Community Service	Building Company	Total Governmental Funds
Assets					
Cash	\$ 1,728,941	\$ 40,818	\$ 373,555	\$ -	\$ 2,143,314
Cash with fiscal agent	-	-	-	1,652,409	1,652,409
Accounts receivable	2,758	-	4,459	238,153	245,370
Due from Department of Education	1,198,735	-	-	-	1,198,735
Due from Federal Government through Department of Education	30,662	-	-	-	30,662
Due from other funds	142,849	-	-	-	142,849
Prepaid items	89,400	-	-	-	89,400
Total assets	\$ 3,193,345	\$ 40,818	\$ 378,014	\$ 1,890,562	\$ 5,502,739
Liabilities					
Accounts payable	\$ 367,606	\$ 10,614	\$ 5,151	\$ -	\$ 383,371
Salaries and benefits payable	334,503	18,923	13,959	-	367,385
Due to other funds	-	-	-	142,849	142,849
Unearned revenue	-	-	36,380	-	36,380
Total liabilities	702,109	29,537	55,490	142,849	929,985
Fund Balances					
Nonspendable	89,400	-	-	-	89,400
Restricted	-	11,281	322,524	1,747,713	2,081,518
Unassigned	2,401,836	-	-	-	2,401,836
Total fund balances	2,491,236	11,281	322,524	1,747,713	4,572,754
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,193,345	\$ 40,818	\$ 378,014	\$ 1,890,562	\$ 5,502,739

**Yinghua Academy
Charter School No. 4140
Reconciliation of the Balance Sheet to the
Statement of Net Position - Governmental Funds
June 30, 2017**

Total fund balances - governmental funds	\$ 4,572,754
<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	13,211,525
Less accumulated depreciation	(936,969)
<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	(14,120,000)
Unamortized premium on bonds payable	(180,032)
Net pension liability	(11,352,638)
<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	7,334,185
Deferred inflows of resources related to pensions	(118,230)
Governmental funds do not report a liability for accrued interest on bonds until due and payable.	<u>(418,413)</u>
Total net position - governmental activities	<u><u>\$ (2,007,818)</u></u>

Yinghua Academy
Charter School No. 4140
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2017

	General	Food Service	Community Service	Building Company	Total Governmental Funds
Revenues					
Other local revenues	\$ 331,336	\$ -	\$ 633,478	\$ 1,201,090	\$ 2,165,904
Revenue from state sources	7,331,097	10,419	-	-	7,341,516
Revenue from federal sources	223,236	92,025	-	-	315,261
Sales and other conversion of assets	40,607	180,276	-	-	220,883
Total revenues	<u>7,926,276</u>	<u>282,720</u>	<u>633,478</u>	<u>1,201,090</u>	<u>10,043,564</u>
Expenditures					
Current					
Administration	295,382	-	-	-	295,382
District support services	585,782	-	-	-	585,782
Regular instruction	3,101,235	-	-	-	3,101,235
Special education instruction	630,836	-	-	-	630,836
Instructional support services	378,701	-	-	-	378,701
Pupil support services	552,226	-	-	-	552,226
Sites and buildings	1,630,684	-	-	74,418	1,705,102
Fiscal and other fixed cost programs	28,472	-	-	-	28,472
Food service	-	281,565	-	-	281,565
Community education and services	-	-	551,526	-	551,526
Capital outlay					
District support services	63,525	-	-	-	63,525
Regular instruction	44,120	-	-	-	44,120
Special education instruction	908	-	-	-	908
Sites and buildings	106,636	-	-	-	106,636
Food service	-	2,987	-	-	2,987
Community education and services	-	-	18,914	-	18,914
Debt service					
Principal	-	-	-	15,000	15,000
Interest	-	-	-	841,888	841,888
Total expenditures	<u>7,418,507</u>	<u>284,552</u>	<u>570,440</u>	<u>931,306</u>	<u>9,204,805</u>
Net change in fund balances	507,769	(1,832)	63,038	269,784	838,759
Fund Balances					
Beginning 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>
End of year	<u>\$ 2,491,236</u>	<u>\$ 11,281</u>	<u>\$ 322,524</u>	<u>\$ 1,747,713</u>	<u>\$ 4,572,754</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, 2017

Net change in fund balances - total governmental funds \$ 838,759

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	39,377
Depreciation expense	(341,229)

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities

15,000

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.

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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.

(1,486,080)

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

\$ (927,943)

Yinghua Academy
Charter School No. 4140
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	with Final Budget - Over (Under)
Revenues				
Other local revenues	\$ 317,902	\$ 317,902	\$ 331,336	\$ 13,434
Revenue from state sources	6,838,725	6,955,536	7,331,097	375,561
Revenue from federal sources	179,724	179,724	223,236	43,512
Sales and other conversion of assets	53,176	53,176	40,607	(12,569)
Total revenues	7,389,527	7,506,338	7,926,276	419,938
Expenditures				
Current				
Administration	288,781	288,781	295,382	6,601
District support services	661,772	656,572	585,782	(70,790)
Regular instruction	3,056,734	3,081,734	3,101,235	19,501
Special education instruction	651,442	651,442	630,836	(20,606)
Instructional support services	406,473	406,473	378,701	(27,772)
Pupil support services	549,027	549,027	552,226	3,199
Sites and buildings	1,472,362	1,517,072	1,630,684	113,612
Fiscal and other fixed cost programs	29,470	29,470	28,472	(998)
Capital outlay				
District support services	56,692	56,692	63,525	6,833
Regular instruction	48,168	48,168	44,120	(4,048)
Special education instruction	942	942	908	(34)
Sites and buildings	19,527	29,527	106,636	77,109
Total expenditures	7,241,390	7,315,900	7,418,507	102,607
Net change in fund balance	\$ 148,137	\$ 190,438	507,769	\$ 317,331
Fund Balance				
Beginning of year			1,983,467	
End of year			\$ 2,491,236	

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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Revenue from state sources	\$ 8,515	\$ 8,515	\$ 10,419	\$ 1,904
Revenue from federal sources	57,610	57,610	92,025	34,415
Sales and other conversion of assets	176,524	176,524	180,276	3,752
Total revenues	242,649	242,649	282,720	40,071
Expenditures				
Current				
Food service	239,661	239,661	281,565	41,904
Capital outlay				
Food service	2,988	2,988	2,987	(1)
Total expenditures	242,649	242,649	284,552	41,903
Net change in fund balance	\$ -	\$ -	(1,832)	\$ (1,832)
Fund Balance				
Beginning of year			13,113	
End of year			\$ 11,281	

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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Other local revenues	\$ 486,680	\$ 604,680	\$ 633,478	\$ 28,798
Expenditures				
Current				
Community education and services	204,049	539,433	551,526	12,093
Capital outlay				
Community education and services	232,631	15,247	18,914	3,667
Total expenditures	<u>436,680</u>	<u>554,680</u>	<u>570,440</u>	<u>15,760</u>
Net change in fund balance	<u>\$ 50,000</u>	<u>\$ 50,000</u>	63,038	<u>\$ 13,038</u>
Fund Balance				
Beginning of year			<u>259,486</u>	
End of year			<u>\$ 322,524</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 2016-2017 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

In April of 2017, the Academy's blended component unit, Educational Properties Yinghua transferred all property and assets to YBC, Inc. As a result, Educational Properties Yinghua's debt obligations and rental agreement were assigned to YBC, Inc. YBC, Inc. will serve the Academy in the same role as Educational Properties Yinghua had previously, therefore activity for both legal entities is recorded in the Building Company Fund.

YBC, Inc. 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.

YBC, Inc. 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.

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

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.

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.

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.

**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)

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 Building Company 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.

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.

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Cash and investments at June 30, 2017, 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.

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 an expenditure at the time of consumption.

F. Capital Assets

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

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

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2017, 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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Pensions (Continued)

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.

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, 2017.

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, 2017, 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.

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. The Academy's policy states that full collateralization is required on all demand deposit accounts exceeding FDIC coverage. As of June 30, 20177, \$484,043 of the Academy's bank balance of \$2,261,705 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, 2017, is as follows:

Cash	\$ 2,143,314
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B. Investments

Investments at June 30, 2017, were comprised of \$1,652,409 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 interments or collateral securities that in the possession of an outside party. The Academy's investment policy requires all investments to be held in third-party safekeeping by an institution designated as a custodial agent. The custodial agent may be any Federal Reserve Bank, any bank authorized under the laws of the United States, or any state to exercise corporate trust powers, a primary reporting dealer in the United States Government securities to the Federal Reserve Bank of New York, or a securities broker-dealer defined by Minnesota State Statute.

C. Deposits and Investments

The following is a summary of total deposits and investments:

Academy Governmental Funds	
Deposits	\$ 2,143,314
Investments	1,652,409
	<hr/>
Total deposits and investments	\$ 3,795,723
	<hr/> <hr/>

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 2– DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments (Continued)

Deposits and investments are presented in the June 30, 2017, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 2,143,314
Cash with fiscal agent	<u>1,652,409</u>
Total deposits and investments	<u><u>\$ 3,795,723</u></u>

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,000,000	\$ -	\$ -	\$ 1,000,000
Capital assets being depreciated				
Furniture and equipment	572,988	25,377	-	598,365
Leasehold improvements	3,925	-	-	3,925
Building and improvements	11,595,235	14,000	-	11,609,235
Total capital assets being depreciated	<u>12,172,148</u>	<u>39,377</u>	<u>-</u>	<u>12,211,525</u>
Less accumulated depreciation for				
Furniture and equipment	295,310	42,825	-	338,135
Leasehold improvements	2,805	561	-	3,366
Building and improvements	297,625	297,843	-	595,468
Total accumulated depreciation	<u>595,740</u>	<u>341,229</u>	<u>-</u>	<u>936,969</u>
Total capital assets being depreciated, Net	<u>11,576,408</u>	<u>(301,852)</u>	<u>-</u>	<u>11,274,556</u>
Governmental activities, capital assets, net	<u><u>\$ 12,576,408</u></u>	<u><u>\$ (301,852)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 12,274,556</u></u>

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

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2017, was charged to the following functions:

District support services	\$ 9,567
Regular instruction	19,985
Special education	31
Food service	710
Community service	1,255
Site and buildings	<u>309,681</u>
 Total depreciation expense	 <u><u>\$ 341,229</u></u>

NOTE 4 – INTERFUND ACTIVITY

As of June 30, 2017, 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 payments.

NOTE 5 – SHORT-TERM DEBT

The Academy maintains a line of credit (LOC) of \$350,000 that expires on January 15, 2018. The agreement requires interest on all borrowings at 5.5% and was secured by assets of the Academy. At June 30, 2017, 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	\$ 14,120,000	\$ 95,000
Bond premium					<u>180,032</u>	<u>-</u>
Total long-term liabilities					<u><u>\$ 14,300,032</u></u>	<u><u>\$ 95,000</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
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	205,000	805,850	1,010,850
2023-2027	1,190,000	3,850,175	5,040,175
2028-2032	1,580,000	3,443,025	5,023,025
2033-2037	2,105,000	2,893,275	4,998,275
2038-2042	2,815,000	2,160,375	4,975,375
2043-2047	3,785,000	1,173,484	4,958,484
2048-2049	1,855,000	115,303	1,970,303
Total	<u>\$ 14,120,000</u>	<u>\$ 17,754,063</u>	<u>\$ 31,874,063</u>

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	\$ 14,135,000	\$ -	\$ 15,000	\$ 14,120,000
Bond premium	185,839	-	5,807	180,032
Total long-term liabilities	<u>\$ 14,332,454</u>	<u>\$ -</u>	<u>\$ 20,807</u>	<u>\$ 14,300,032</u>

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2017 was \$1,919,605. The components of pension expense are noted in the following plan summaries.

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

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

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 cities of Duluth and 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 1 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 each fiscal year ended June 30, 2015, June 30, 2016, and June 30, 2017, 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	\$ 354,961,140
Deduct Employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	<u>(442,978)</u>
Total employer contributions	354,544,518
Total non-employer contributions	<u>35,587,410</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 390,131,928</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. Actuarial Assumptions

The total pension liability in the June 30, 2016, 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

Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the single equivalent interest rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50-9.50%
Cost of living adjustment	2.00%

Mortality Assumption

Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of set rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, 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)

D. Actuarial Assumptions (Continued)

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	100 %	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2016 is six years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions", and "Changes in Proportion" use the amortization period of six 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 five years as required by GASB 68.

E. Discount Rate

The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 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 depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at the prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

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

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2017, the Academy reported a liability of \$9,874,888 for its proportionate share of the 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 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 0.0414% at the end of the measurement period and 0.0389% 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	\$ 9,874,888
State's proportionate share of the net pension liability associated with the Academy	992,150

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 remain level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.

For the year ended June 30, 2017, the Academy recognized pension expense of \$1,708,436. It recognized \$138,537 as an increase to this pension expense for the support provided by direct aid.

On June 30, 2017, the Academy had deferred resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 79,208	\$ 275
Net difference between projected and actual earnings on plan investments	470,743	-
Changes in assumptions	5,621,663	-
Changes in proportion	337,636	-
Academy's contribution to TRA subsequent to the measurement date	<u>201,442</u>	<u>-</u>
Total	<u>\$ 6,710,692</u>	<u>\$ 275</u>

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

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

\$201,442 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, 2018.

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

2018		\$ 1,329,887
2019		1,329,887
2020		1,444,393
2021		1,283,932
2022		<u>1,120,876</u>
 Total		 <u><u>\$ 6,508,975</u></u>

G. Pension Liability Sensitivity

The following presents the Academy's proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using 1 percent lower and 1 percent higher.

Academy proportionate share of NPL		
1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
\$ 12,721,324	\$ 9,874,888	\$ 7,556,559

The Academy'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.

H. 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 Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the Academy other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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.

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 receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

General Employees Plan 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 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 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.

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.

General Employees Plan Contributions

Basic Plan members and Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2017. The Academy was required to contribute 7.5% for Coordinated Plan members. The Academy's contributions to the General Employees Plan for the year ended June 30, 2017, were \$87,803. The Academy's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Plan Pension Costs

At June 30, 2017, the Academy reported a liability of \$1,477,750 for its proportionate share of the General Employees Plan's net pension liability. The Academy's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the Academy totaled \$19,261. The net pension liability was measured as of June 30, 2017, 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, 2015, 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 0.0182%, which was an increase of 0.0012% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Academy recognized pension expense of \$211,169 for its proportionate share of General Employees Plan's pension expense. The Academy recognized \$5,743 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

**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, 2017, the Academy reported its proportionate share of General Employees Plan'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	\$ 4,086	\$ 117,955
Changes in actuarial assumptions	316,778	-
Difference between projected and actual investments earnings	168,182	-
Changes in proportion	46,644	-
Academy's contributions to GERP subsequent to the measurement date	<u>87,803</u>	<u>-</u>
Total	<u><u>\$ 623,493</u></u>	<u><u>\$ 117,955</u></u>

\$87,803 reported as deferred outflows of resources related to pensions resulting from Academy contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ 119,548
2019	88,029
2020	156,779
2021	53,379
2022	<u>-</u>
Total	<u><u>\$ 417,735</u></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)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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 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.

**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 (Continued)

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 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>	

F. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. 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 (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5)%
Academy's proportionate share of the GERP net pension liability	\$ 2,098,843	\$ 1,477,750	\$ 966,138

H. Pension Plan Fiduciary Net Position

Detailed information about the General Employees Fund's fiduciary net position is available in a separately-issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Yinghua Academy
Charter School No. 4140
Notes to Financial Statements

NOTE 8 – COMMITMENTS

Lease Commitments and Terms

For 2017, 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 \$1,056,973.

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

On June 25, 2013, the Academy (Lessee) signed a lease for educational space with Educational Properties Yinghua, LLC (Lessor), in Minneapolis, Minnesota. In April of 2017, Educational Properties Yinghua, LLC was assumed by YBC, Inc. YBC, Inc. became the Lessor, and the terms of the lease did not change. The term of the lease agreement covers periods through June 30, 2053. 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 2017, minimum rental payments of \$82,669 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.

REQUIRED SUPPLEMENTARY INFORMATION

Yinghua Academy
Schedule of Academy's and Non-Employer Proportionate Share
(if applicable) of Net Pension Liability
Last Ten Years GERS 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)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	Academy's Covered Payroll	Academy's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0170%	\$ 798,575	\$ -	\$ 798,575	\$ 891,779	89.55%	78.75%
2015	0.0170%	881,028	-	881,028	983,960	89.54%	78.19%
2016	0.0182%	1,477,750	19,261	1,497,011	1,127,880	131.02%	68.91%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

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 Payroll	Academy's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered 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%
2016	0.0414%	9,874,888	992,150	10,867,038	2,155,693	458.1%	44.9%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

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

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Academy's Covered Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 64,654	\$ 64,654	\$ -	\$ 891,779	7.25%
2015	73,797	73,797	-	983,960	7.50%
2016	84,591	84,591	-	1,127,880	7.50%
2017	87,803	87,803	-	1,170,707	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of Academy Contributions
TRA Retirement Funds
Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Academy's Covered Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 108,134	\$ 108,134	\$ -	\$ 1,544,770	7.00%
2015	148,085	148,085	-	1,974,467	7.50%
2016	161,677	161,677	-	2,155,693	7.50%
2017	201,442	201,442	-	2,685,893	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

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

TRA Retirement Funds

2016 Changes

Changes in Actuarial Assumptions

- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

Changes of Benefit Terms

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

Changes in Actuarial 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%.

General Employees Fund

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

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

General Employees Fund (Continued)

2016 Changes (Continued)

- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

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SUPPLEMENTARY INFORMATION

Yinghua Academy
Charter School No. 4140
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2017

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 General Fund				06			
Total revenue	\$ 7,926,276	\$ 7,926,278	\$ (2)	Total revenue	\$ -	\$ -	\$ -
Total expenditures	7,418,507	7,418,510	(3)	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	89,400	89,400	-	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	-	-	-				
416 Levy Reduction	-	-	-	07 Debt Service Fund			
417 Taconite Building Maintenance	-	-	-	Total revenue	\$ -	\$ -	\$ -
424 Operating Capital	-	-	-	Total expenditures	-	-	-
426 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable fund balance	-	-	-
428 Learning And Development	-	-	-	<i>Restricted/reserved:</i>			
434 Area Learning Center	-	-	-	425 Bond refunding	-	-	-
435 Contracted Alternative Programs	-	-	-	451 QZAB and QSCB payments	-	-	-
436 State Approved Alternative Program	-	-	-	<i>Restricted:</i>			
438 Gifted and Talented	-	-	-	464 Restricted fund balance	-	-	-
440 Teacher Development and Evaluation	-	-	-	<i>Unassigned:</i>			
441 Basic Skills Programs	-	-	-	463 Unassigned fund balance	-	-	-
445 Career Technical Programs	-	-	-				
446 First Grade Preparedness	-	-	-	08 Trust Fund			
448 Achievement and Integration Revenue	-	-	-	Total revenue	\$ -	\$ -	\$ -
449 Safe School Crime	-	-	-	Total expenditures	-	-	-
450 Transition for Pre-kindergarten	-	-	-	<i>Unassigned:</i>			
451 QZAB and QSCB payments	-	-	-	422 Unassigned fund balance (net position)	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-				
453 Unfunded Severance and Retirement Levy	-	-	-	20 Internal Service Fund			
<i>Restricted:</i>				Total revenue	\$ -	\$ -	\$ -
464 Restricted fund balance	-	-	-	Total expenditures	-	-	-
<i>Committed:</i>				<i>Unassigned:</i>			
418 Committed for separation	-	-	-	422 Unassigned fund balance (net position)	-	-	-
461 Committed	-	-	-				
<i>Assigned:</i>				25 OPEB Revocable Trust			
462 Assigned fund balance	-	-	-	Total revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total expenditures	-	-	-
422 Unassigned fund balance (net position)	2,401,836	2,401,836	-	<i>Unassigned:</i>			
				422 Unassigned fund balance (net position)	-	-	-
02 Food Services Fund				45 OPEB Irrevocable Trust			
Total revenue	\$ 282,720	\$ 282,720	\$ -	Total revenue	\$ -	\$ -	\$ -
Total expenditures	284,552	284,552	-	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable fund balance	-	-	-	422 Unassigned fund balance (net position)	-	-	-
≈							
452 OPEB liabilities not held in trust	-	-	-	47 OPEB Debt Service			
<i>Restricted:</i>				Total revenue	\$ -	\$ -	\$ -
464 Restricted fund balance	11,281	11,280	1	Total expenditures	-	-	-
<i>Unassigned:</i>				<i>Nonspendable:</i>			
463 Unassigned fund balance	-	-	-	460 Nonspendable fund balance	-	-	-
				<i>Restricted:</i>			
04 Community Service Fund				464 Restricted fund balance	-	-	-
Total revenue	\$ 633,478	\$ 633,478	\$ -	<i>Unassigned:</i>			
Total expenditures	570,440	570,440	-	463 Unassigned fund balance	-	-	-
<i>Nonspendable:</i>							
460 Nonspendable fund balance	-	-	-				
<i>Restricted/reserved:</i>							
426 \$25 Taconite	-	-	-				
431 Community Education	-	-	-				
432 ECFE	-	-	-				
440 Teacher Development and Evaluation	-	-	-				
444 School Readiness	-	-	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted fund balance	322,524	322,525	(1)				
<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, 2017, and the related notes to financial statements, which collectively comprise the Academy's basic financial statements and have issued our report thereon dated October 11, 2017.

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 Academy's 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

October 11, 2017



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, 2017, and the related notes to financial statements, and have issued our report thereon dated October 11, 2017.

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.

A handwritten signature in black ink that reads 'BerganKDV Ltd.' with a period at the end.

Minneapolis, Minnesota
October 11, 2017

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

CURRENT AND PRIOR 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, 2017, 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.