

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2021



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**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2021**

INTRODUCTORY SECTION

SCHOOL BOARD AND ADMINISTRATION	1
---------------------------------	---

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	2
------------------------------	---

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS	5
--------------------------------------	---

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION	16
---------------------------	----

STATEMENT OF ACTIVITIES	17
-------------------------	----

BALANCE SHEET – GOVERNMENTAL FUNDS	18
------------------------------------	----

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	19
--	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS	20
---	----

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES	21
---	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	24
---	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – FOOD SERVICE FUND	25
--	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – COMMUNITY SERVICE FUND	26
---	----

NOTES TO BASIC FINANCIAL STATEMENTS	27
-------------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	52
--	----

TRA SCHEDULE OF SCHOOL CONTRIBUTIONS	57
--------------------------------------	----

GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	58
---	----

GERF SCHEDULE OF SCHOOL CONTRIBUTIONS	63
---------------------------------------	----

SUPPLEMENTARY INFORMATION

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	63
--	----

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED JUNE 30, 2021**

OTHER REQUIRED REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	64
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	66
SCHEDULE OF FINDINGS AND RESPONSES	67

INTRODUCTORY SECTION

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2021**

SCHOOL BOARD

<u>NAME</u>	<u>TERM ON BOARD EXPIRATION</u>	<u>BOARD POSITION</u>
Wendy Hines	June 30, 2021	Board Chair
Ananyasia Joseph	June 30, 2022	Co-Chair
Akuorkor Ablorh	June 30, 2022	Secretary
Brenda Hill	June 30, 2021	Member
Jules Porter, Esq	June 30, 2022	Member
Maya Brown	June 30, 2022	Member
Vannessa Buth	June 30, 2021	Member
Dr. B. Charvez Russell	-	Ex Officio

ADMINISTRATION

Dr. B. Charvez Russell
Mary Riley

Executive Director
Business Manager

School Office:

Charter School No. 4079
Friendship Academy of the Arts
2600 East 38th Street
Minneapolis, MN 55406
(612)-879-6703

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Members of the Board of Directors
Friendship Academy of the Arts
Charter School No. 4079
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Friendship Academy of the Arts as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Friendship Academy of the Arts' 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.

Auditors' 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 auditors' 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 entity'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 entity'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 above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Friendship Academy of the Arts as of June 30, 2021, and the respective changes in financial position and the respective budgetary comparisons 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

Report on Summarized Prior Year Information

We have previously audited Friendship Academy of the Arts 2020 financial statements, and we expressed unmodified opinions on the governmental activities and each major fund in our report dated December 16, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, TRA Schedule of the School's Proportionate Share of the Net Pension Liability, TRA Schedule of School Contributions, GERS Schedule of the School's Proportionate Share of the Net Pension Liability, and GERS Schedule of School Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Friendship Academy of the Arts' basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Uniform Financial Accounting and Reporting Standards Compliance Table 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Members of the Board of Directors
Friendship Academy of the Arts
Charter School No. 4079

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2022, on our consideration of Friendship Academy of the Arts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Friendship Academy of the Arts' 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 Friendship Academy of the Arts' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 29, 2022

REQUIRED SUPPLEMENTARY INFORMATION

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

This section of Friendship Academy of the Arts – Charter School No. 4079's annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2021. Please read it in conjunction with the School's financial statements, which immediately follow this section. Certain comparative information between the current year (2020-2021) and the prior year (2019-2020) is required to be presented in the Management's Discussion and Analysis.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2020-2021 fiscal years include the following:

- The fund balance of the General Fund decreased \$302,937 from the prior year for an ending fund balance of \$1,204,577 at June 30, 2021.
- Total General Fund revenues and other financing sources were \$4,237,249 as compared to \$4,540,186 of expenditures and other financing uses.
- The fund balance of the Food Service Fund increased \$17,177 from the prior year, ending at \$17,177 at June 30, 2021.
- Total Food Service Fund revenues were \$139,143 as compared to \$124,160 of expenditures. A fund balance transfer of \$2,194 was also made from the General Fund in fiscal year 2021.
- The Community Service Fund had a fund balance deficit of \$1,084 at June 30, 2020.
- Total Community Service Fund revenues were \$150,772 as compared to \$147,517 of expenditures.
- The Building Company ended the year with fund balance of \$562,491.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *School-wide financial statements* that provide both *short-term* and *long-term* information about the School's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School, reporting the School's operations in *more detail* than the School-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.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

School-Wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the School's assets, deferred outflows of resources, deferred inflows of resources, 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.

The two School-wide statements report the School's *net position* and how they have changed. Net position – the difference between the School's assets, deferred outflows of resources, deferred inflows of resources, and liabilities – is one way to measure the School's financial health or *position*.

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

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

- *Governmental Activities* – Most of the School's basic services are included here, such as regular and special education and administration. State aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's *funds* – focusing on its most significant or “major” funds – not the School as a whole. Funds are accounting devices the School 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 School may establish other funds to control and manage money for a specific purpose.

The School has the following fund type:

- *Governmental Funds* – Most of the School'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 School's programs. Because this information does not encompass the additional long-term focus of the School-wide statements, we provide additional information at the bottom of the governmental funds statements to explain the relationship (or differences) between them.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's *combined* net position was (\$1,010,105) on June 30, 2021 (see Table A-1).

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

	Governmental Activities as of June 30,		Percentage Change
	2021	2020	
Current and Other Assets	\$ 2,113,820	\$ 6,519,157	(67.58)%
Capital Assets	7,386,394	5,424,533	36.17
Total Assets	<u>9,500,214</u>	<u>11,943,690</u>	(20.46)
Deferred Outflows of Resources	833,109	991,790	(16.00)
Current Liabilities	365,384	2,412,237	(84.85)
Net Pension Liability	1,420,172	1,144,289	24.11
Long-Term Liabilities	8,778,359	9,018,790	N/A
Total Liabilities	<u>10,563,915</u>	<u>12,575,316</u>	(15.99)
Deferred Inflows of Resources	<u>779,513</u>	<u>1,093,034</u>	(28.68)
Net Position:			
Net Investment in Capital Assets	(167,651)	(63,394)	164.46
Restricted	912,771	524,183	74.13
Unrestricted	<u>(1,755,225)</u>	<u>(1,193,659)</u>	47.05
Total Net Position	<u>\$ (1,010,105)</u>	<u>\$ (732,870)</u>	37.83

The School's net position decreased by \$277,235 due to expenses exceeding revenues. The net position decrease is primarily related to operational expenses exceeding corresponding revenues, similar to that which occurred in the fund financial statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

Changes in Net Position

The School's total entity-wide revenues were \$4,828,871 for the year ended June 30, 2021 (see Table A-2). State formula aid accounted for 47% of total revenue for the year. The remaining 53% came from other general and program revenues.

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

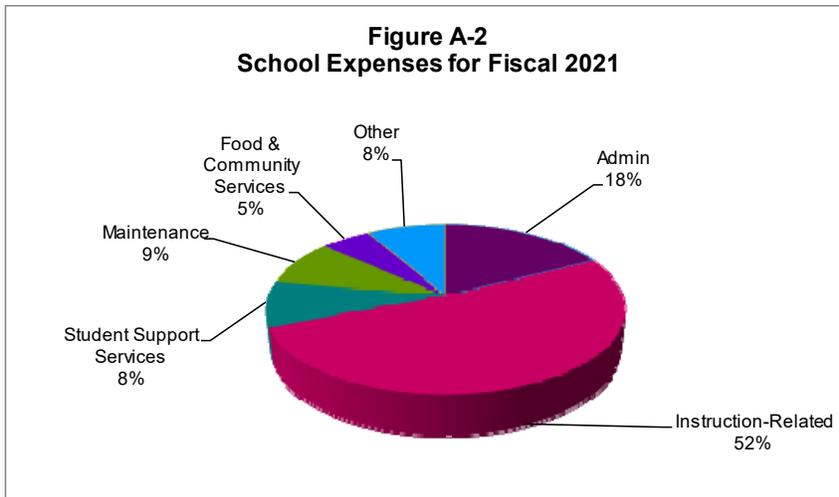
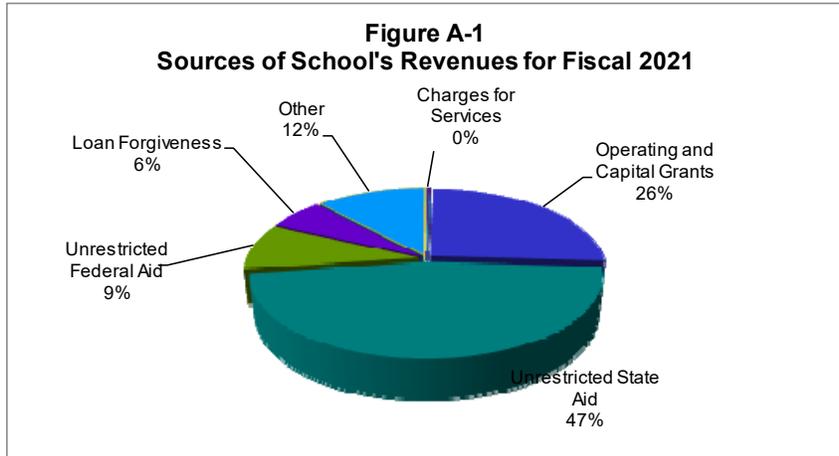
	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2021	2020	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 17,106	\$ 21,514	(20.49)%
Operating Grants and Contributions	1,233,098	805,461	53.09
<u>General Revenues</u>			
Unrestricted State Aid	2,272,626	1,568,035	44.93
Unrestricted Federal Aid	435,467	-	
Investment Earnings	725	14,911	(95.14)
Loan Forgiveness	293,277	-	
Other	576,572	516,792	11.57
Total Revenues	<u>4,828,871</u>	<u>2,926,713</u>	64.99
Expenses			
Administration	331,161	223,227	48.35
District Support Services	571,008	816,741	(30.09)
Regular Instruction	2,011,279	1,271,572	58.17
Vocational Education Instruction	-	2,272	N/A
Special Education Instruction	620,350	453,480	36.80
Instructional Support Services	142,507	11,534	1135.54
Pupil Support Services	289,630	337,570	(14.20)
Sites and Buildings	439,890	292,507	50.39
Fiscal and Other Fixed Cost Programs	27,290	19,896	37.16
Food Service	121,557	107,866	12.69
Community Service	149,692	114,908	30.27
Interest and Fiscal Charges on Long-Term Liabilities	401,742	218,697	N/A
Total Expenses	<u>5,106,106</u>	<u>3,870,270</u>	31.93
Change in Net Position	(277,235)	(943,557)	
Beginning Net Position	<u>(732,870)</u>	<u>210,687</u>	
Ending Net Position	<u>\$ (1,010,105)</u>	<u>\$ (732,870)</u>	

Total revenues were less than expenses, decreasing the ending net position by \$277,235. The increase to expenses was largely driven by the increase in regular and special education instruction as the School added a second building to its campus. The increase in interest expense related to debt taken out to finance the new building.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

The cost of all *governmental* activities this year was \$5,106,106.

- Some of the cost was paid by the users of the School's programs (\$17,106).
- The federal and state government and private grant funds subsidized certain programs with grants and contributions (\$1,082,326).
- Most of the School's costs were paid for by unrestricted state aid (\$2,272,626).



**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

All governmental funds include not only funds received for the general operation of the School which are used for classroom instruction, but also include resources from the Food Service Fund. Funding for the general operation of the School is controlled by the state.

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2021	2020		2021	2020	
Administration	\$ 331,161	\$ 223,227	48.35 %	\$ 326,170	\$ 221,742	47.09 %
District Support Services	571,008	816,741	(30.09)	533,986	794,392	(32.78)
Regular Instruction	2,011,279	1,271,572	58.17	1,910,766	1,181,684	61.70
Vocational Education Instruction	-	2,272	(100.00)	-	2,272	(100.00)
Special Education Instruction	620,350	453,480	36.80	268,113	39,841	572.96
Instructional Support Services	142,507	11,534	1135.54	46,507	11,534	303.22
Pupil Support Services	289,630	337,570	(14.20)	288,009	335,747	(14.22)
Sites and Buildings	439,890	292,507	50.39	72,104	203,986	(64.65)
Fiscal and Other Fixed Cost Programs	27,290	19,896	37.16	27,290	19,896	37.16
Food Service	121,557	107,866	12.69	(17,624)	12,087	(245.81)
Community Service	149,692	114,908	0.30	(1,161)	1,417	(1.82)
Interest and Fiscal Charges on Long-Term Liabilities	401,742	218,697	83.70	401,742	218,697	83.70
Total	<u>\$ 5,106,106</u>	<u>\$ 3,870,270</u>	31.93	<u>\$ 3,855,902</u>	<u>\$ 3,043,295</u>	26.70

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds. Revenues and other financing sources for the School's governmental funds were \$4,976,204 while total expenditures and other financing uses were \$7,334,688. This contributed to a *combined* fund balance of \$1,783,161, which is \$2,358,484 less than last year's ending fund balance of \$4,141,645.

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 6 including activities and capital outlay projects.

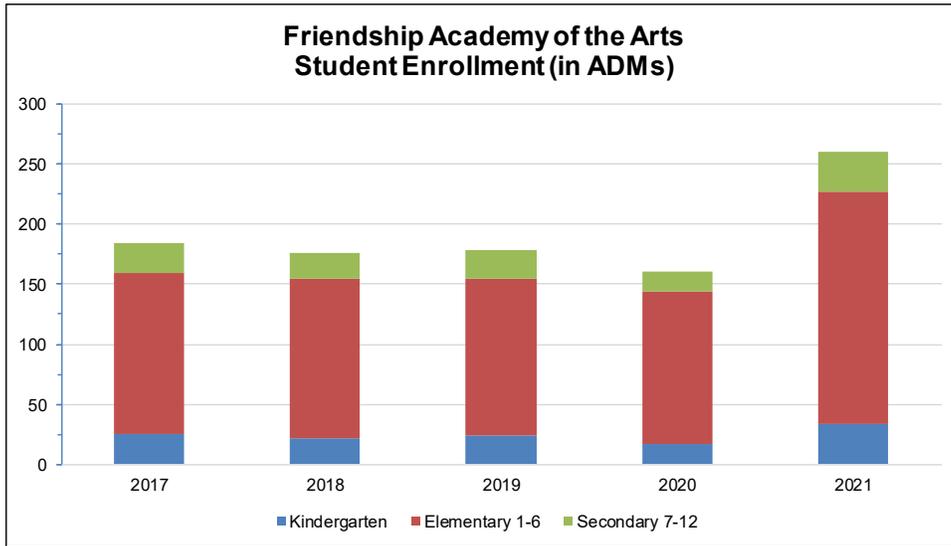
A large percentage of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

ENROLLMENT

Enrollment is a critical factor in determining revenue with a very high percentage of General Fund revenue being determined by enrollment. The following chart shows that the number of students served (ADMs) increased by approximately 106 from fiscal year 2020 to 2021.

**Table A-4
Five-Year Enrollment Trend
Average Daily Membership (ADM)**



Since opening in 2000, the School has experienced excellent stability in average daily membership. The average enrollment during 2020-2021 was 269 students.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

	Year Ended		Change	
	June 30, 2021	June 30, 2020	Increase (Decrease)	Percent Change
Local Sources:				
Earnings on Investments	\$ 537	\$ 1,031	\$ (494)	(47.9)%
Other	585,186	520,129	65,057	12.5
State Sources	2,962,558	2,061,828	900,730	43.7
Federal Sources	688,968	114,862	574,106	499.8
Total General Fund Revenue	<u>\$ 4,237,249</u>	<u>\$ 2,697,850</u>	<u>\$ 1,539,399</u>	57.1

Basic general education revenue is determined by multiple complex state formulas, largely enrollment driven, and consists of a specified minimum amount with variables such as socioeconomic indicators driving additional funding. For Minnesota charter schools the majority of all funding is made up of general education aid, special education aid and charter school lease aid. Other revenue consists of federal and private grant funding that is often expenditure driven.

Total General Fund Revenue increased by \$1,539,399 from the previous year. State revenue increased \$900,730 with most of the increase attributable to general education revenue for enrollment growth and the 2% formula improvement provided by the Legislature. Federal revenue increased \$574,106 largely due to additional federal aid provided to schools for continued expenditures related to the COVID-19 pandemic.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Change	
	June 30, 2021	June 30, 2020	Increase (Decrease)	Percent Change
Salaries	\$ 2,010,798	\$ 1,339,227	\$ 671,571	50.1 %
Employee Benefits	391,794	270,481	121,313	44.9
Purchased Services	1,668,088	1,142,889	525,199	46.0
Supplies and Materials	358,481	103,376	255,105	246.8
Capital Expenditures	75,470	34,684	40,786	117.6
Other Expenditures	33,361	5,472	27,889	509.7
Total General Fund Expenditures	<u>\$ 4,537,992</u>	<u>\$ 2,896,129</u>	<u>\$ 1,641,863</u>	56.7

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

Total General Fund expenditures increased \$1,641,863 from the previous year. Salaries and benefits increased a combined total of \$792,885. Purchased Services as well as Supplies and Materials increased a combined total of \$780,304 due mainly to addition of a second campus building and the related costs.

Ending fund balance is the single best measure of overall financial health. General Fund ending fund balance was \$1,204,577 at June 30, 2021, which represents 26.5% of annual expenditures.

General Fund Budgetary Highlights

The budget is approved prior to the beginning of the fiscal year. The School then may revise the annual operating budget in the fall and then again mid-year. These budget amendments fall into two main categories:

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

Actual revenues were less than budgeted with a variance of \$117,562 or 2.70%.

Actual expenditures were more than budgeted with a variance of \$42,516 or 0.95%.

The differences between actual revenues and other financing sources and expenditures and other financing uses resulted in a decrease in fund balance for the year of \$302,937, which was \$110,825 more than the decrease which had been reflected in the final amended budget.

OTHER MAJOR FUNDS

Revenues and other financing sources exceeded expenditures in the Food Service Fund which resulted in ending the year with a fund balance of \$17,177.

For the Community Service Fund revenues exceeded expenditures which resulted in ending the year with a fund balance deficit of \$1,084.

For the Building Company Fund expenditures exceeded revenues and other financing sources by \$2,075,979, which resulted in an ending fund balance of \$562,491.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2020-2021 fiscal year, the School had invested \$8,096,973 in a broad range of capital assets, including land, construction in progress, leasehold improvements and computers and other equipment (see Table A-7). More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$117,553.

**Table A-7
The School's Capital Assets**

	<u>2021</u>	<u>2020</u>	<u>Percentage Change</u>
FFA Building Company			
Land	\$ 867,500	\$ 867,500	- %
Construction in Progress	-	4,547,293	(100.0)
Buildings and Improvements	6,626,707	-	-
Friendship Academy			
Leasehold Improvements	279,077	233,882	19.3
Furniture and Equipment	323,689	287,530	12.6
Less: Accumulated Depreciation	<u>(710,579)</u>	<u>(511,672)</u>	38.9
Total Capital Assets	<u>\$ 7,386,394</u>	<u>\$ 5,424,533</u>	36.2

Long-Term Liabilities

At year-end, the School had a net amount of \$10,198,531 in long-term liabilities, some of which related to the School's proportionate share of PERA's and TRA's net pension liabilities. Most of the School's debt was related to various loans and debt that was added in the current year mostly related to the Building Company.

**Table A-8
The School's Long-Term Liabilities**

	<u>2021</u>	<u>2020</u>	<u>Percentage Change</u>
Lease Revenue Bonds	\$ 8,250,000	\$ 8,250,000	- %
Net Bond Premium and Discount	310,555	325,513	(4.6)
PPP Loan	-	293,277	(100.0)
Charter Fund Loan	150,000	150,000	-
Net Pension Liability	1,420,172	1,144,289	24.1
Capital Assets Payable	67,804	-	N/A
Total Long-Term Liabilities	<u>\$ 10,198,531</u>	<u>\$ 10,163,079</u>	0.3
Long-Term Liabilities:			
Due Within One Year	\$ 192,080	\$ 96,290	
Due in More Than One Year	<u>10,006,451</u>	<u>10,066,789</u>	
Total	<u>\$ 10,198,531</u>	<u>\$ 10,163,079</u>	

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2021**

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School 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. In addition, enrollment levels have not reached expectations for the School making it difficult, but not impossible, to balance educational program needs against revenue resources.

The School will strive to maintain its commitment to academic excellence and educational opportunity for students. It is anticipated that enrollment will continue to grow and meet the capacity of the new facility and a middle school site in the near future. While state funding formulas may not be sufficient to meet instructional programming needs, the increase in planned enrollment is expected to provide the resources to balance future budgets and build a sufficient fund balance.

CONTACTING THE SCHOOL'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 School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dr. B. Charvez Russell, Executive Director, by telephone at 612-879-6703 or at Friendship Academy of the Arts No. 4079, 2600 East 38th Street Minneapolis, Minnesota 55406.

BASIC FINANCIAL STATEMENTS

BASIC FINANCIAL STATEMENTS

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
STATEMENT OF NET POSITION
JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2020)**

	Governmental Activities	
	2021	2020
ASSETS		
Cash and Investments	\$ 119,979	\$ 902,058
Restricted Cash and Investments	834,564	5,151,910
Receivables:		
Other Governments	1,141,773	445,610
Other	9,352	-
Prepaid Items	8,152	19,579
Capital Assets:		
Land and Construction in Progress	867,500	5,414,793
Other Capital Assets, Net of Depreciation	6,518,894	9,740
Total Assets	9,500,214	11,943,690
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pensions	833,109	991,790
LIABILITIES		
Salaries Payable	158,444	108,038
Accounts and Contracts Payable	172,215	2,269,474
Accrued Interest Payable	34,725	34,725
Long-Term Liabilities:		
Net Pension Liability	1,420,172	1,144,289
Other Long-Term Liabilities Due Within One Year	192,080	96,290
Other Long-Term Liabilities Due in More Than One Year	8,586,279	8,922,500
Total Liabilities	10,563,915	12,575,316
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Pensions	779,513	1,093,034
NET POSITION		
Net Investment in Capital Assets	(167,651)	(63,394)
Restricted for:		
Food Service	17,177	-
Building Company Debt Service	799,594	524,183
Expanded Summer Learning	96,000	-
Unrestricted	(1,755,225)	(1,193,659)
Total Net Position	\$ (1,010,105)	\$ (732,870)

See accompanying Notes to Basic Financial Statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2020)**

Functions	2021			2020	
	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position	Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities	Total Governmental Activities
GOVERNMENTAL ACTIVITIES					
Administration	\$ 331,161	\$ 3,902	\$ 1,089	\$ (326,170)	\$ (221,742)
District Support Services	571,008	-	37,022	(533,986)	(794,392)
Regular Instruction	2,011,279	10,158	90,355	(1,910,766)	(1,181,684)
Vocational Education Instruction	-	-	-	-	(2,272)
Special Education Instruction	620,350	-	352,237	(268,113)	(39,841)
Instructional Support Services	142,507	-	96,000	(46,507)	(11,534)
Pupil Support Services	289,630	-	1,621	(288,009)	(335,747)
Sites and Buildings	439,890	3,046	364,740	(72,104)	(203,986)
Fiscal and Other Fixed Cost Programs	27,290	-	-	(27,290)	(19,896)
Food Service	121,557	-	139,181	17,624	(12,087)
Community Service	149,692	-	150,853	1,161	(1,417)
Interest and Fiscal Charges on Long-Term Liabilities	401,742	-	-	(401,742)	(218,697)
Total School District	<u>\$ 5,106,106</u>	<u>\$ 17,106</u>	<u>\$ 1,233,098</u>	(3,855,902)	(3,043,295)
GENERAL REVENUES					
				2,272,626	1,568,035
State Aid Not Restricted to Specific Purposes				435,467	-
Federal Aid Not Restricted to Specific Purposes				725	14,911
Earnings on Investments				576,572	516,792
Miscellaneous				293,277	-
Loan Forgiveness				<u>3,578,667</u>	<u>2,099,738</u>
Total General Revenues					
CHANGE IN NET POSITION				(277,235)	(943,557)
Net Position - Beginning				(732,870)	210,687
NET POSITION - ENDING				<u>\$ (1,010,105)</u>	<u>\$ (732,870)</u>

See accompanying Notes to Basic Financial Statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2020)**

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Building Company	2021	2020
ASSETS						
Cash and Investments	\$ 109,304	\$ 10,675	\$ -	\$ -	\$ 119,979	\$ 906,397
Restricted Cash and Investments	-	-	-	834,564	834,564	5,151,910
Receivables:						
Due from Minnesota Department of Education	720,368	588	-	-	720,956	372,057
Due from Federal through Minnesota Department of Education	398,176	22,641	-	-	420,817	73,553
Other Receivables	-	-	9,352	-	9,352	-
Due from Other Funds	272,073	-	-	-	272,073	266,013
Prepaid Items	8,152	-	-	-	8,152	19,579
Total Assets	\$ 1,508,073	\$ 33,904	\$ 9,352	\$ 834,564	\$ 2,385,893	\$ 6,789,509
LIABILITIES AND FUND BALANCE						
Liabilities:						
Salaries Payable	\$ 130,337	\$ -	\$ -	\$ -	\$ 130,337	\$ 87,303
Payroll Deductions and Employer Contributions Payable	28,107	-	-	-	28,107	20,735
Accounts and Contracts Payable	145,052	16,727	10,436	-	172,215	2,273,813
Due to Other Funds	-	-	-	272,073	272,073	266,013
Total Liabilities	303,496	16,727	10,436	272,073	602,732	2,647,864
Fund Balance:						
Nonspendable:						
Prepaid Items	8,152	-	-	-	8,152	19,579
Restricted for:						
Food Service	-	17,177	-	-	17,177	-
Building Company	-	-	-	834,564	834,564	2,638,470
Assigned for:						
Expanded Summer Learning	96,000	-	-	-	96,000	-
Unassigned	1,100,425	-	(1,084)	(272,073)	827,268	1,483,596
Total Fund Balance	1,204,577	17,177	(1,084)	562,491	1,783,161	4,141,645
Total Liabilities and Fund Balance	\$ 1,508,073	\$ 33,904	\$ 9,352	\$ 834,564	\$ 2,385,893	\$ 6,789,509

See accompanying Notes to Basic Financial Statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2020)**

	2021	2020
Total Fund Balance for Governmental Funds	\$ 1,783,161	\$ 4,141,645
<p>Total net position reported for governmental activities in the statement of net position is different because:</p> <p>Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:</p>		
Land	867,500	867,500
Construction in Progress	-	4,547,293
Buildings and Improvements, Net of Accumulated Depreciation	6,461,039	-
Equipment, Net of Accumulated Depreciation	57,855	9,740
<p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p>		
	(34,725)	(34,725)
<p>The School's net pension liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:</p>		
Net Pension Liability	(1,420,172)	(1,144,289)
Deferred Inflows of Resources - Pensions	(779,513)	(1,093,034)
Deferred Outflows of Resources - Pensions	833,109	991,790
<p>Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:</p>		
Bonds Payable	(8,250,000)	(8,250,000)
Unamortized Premiums	(310,555)	(325,513)
PPP Loan	-	(293,277)
Other Loans Payable	(150,000)	(150,000)
Compensated Absences Payable	(67,804)	-
Total Net Position of Governmental Activities	\$ (1,010,105)	\$ (732,870)

See accompanying Notes to Basic Financial Statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2020)**

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Building Company	2021	2020
REVENUES						
Local Sources:						
Earnings and Investments	\$ 537	\$ -	\$ -	\$ 188	\$ 725	\$ 14,911
Other	585,186	-	150,772	446,658	1,182,616	633,575
State Sources	2,962,558	3,447	-	-	2,966,005	2,066,883
Federal Sources	688,968	135,696	-	-	824,664	205,561
Total Revenues	<u>4,237,249</u>	<u>139,143</u>	<u>150,772</u>	<u>446,846</u>	<u>4,974,010</u>	<u>2,920,930</u>
EXPENDITURES						
Current:						
Administration	302,905	-	-	-	302,905	159,073
District Support Services	530,307	-	-	26,711	557,018	803,260
Elementary and Secondary Regular Instruction	1,720,427	-	-	-	1,720,427	1,134,877
Special Education Instruction	597,102	-	-	-	597,102	427,791
Instructional Support Services	115,548	-	-	-	115,548	13,806
Pupil Support Services	285,603	-	-	-	285,603	340,647
Sites and Buildings	883,340	-	-	-	883,340	314,253
Fiscal and Other Fixed Cost Programs	27,290	-	-	-	27,290	19,896
Food Service	-	118,276	-	-	118,276	103,488
Community Service	-	-	147,517	-	147,517	113,446
Capital Outlay	75,470	5,884	-	2,079,414	2,160,768	5,449,477
Debt Service:						
Interest and Fiscal Charges	-	-	-	416,700	416,700	189,830
Total Expenditures	<u>4,537,992</u>	<u>124,160</u>	<u>147,517</u>	<u>2,522,825</u>	<u>7,332,494</u>	<u>9,069,844</u>
EXCESS (DEFICIENCY) OF REVENUE (OVER) UNDER EXPENDITURES	(300,743)	14,983	3,255	(2,075,979)	(2,358,484)	(6,148,914)
OTHER FINANCING SOURCES (USES)						
Sale of Bonds	-	-	-	-	-	8,250,000
Bond Premium	-	-	-	-	-	331,371
PPP Loan Issued	-	-	-	-	-	293,277
Long-term Loan Issued	-	-	-	-	-	150,000
Transfers In	-	2,194	-	-	2,194	7,734
Transfers Out	(2,194)	-	-	-	(2,194)	(7,734)
Total Other Financing Sources (Uses)	<u>(2,194)</u>	<u>2,194</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,024,648</u>
NET CHANGE IN FUND BALANCE	(302,937)	17,177	3,255	(2,075,979)	(2,358,484)	2,875,734
FUND BALANCE						
Beginning of Year	1,507,514	-	(4,339)	2,638,470	4,141,645	1,265,911
End of Year	<u>\$ 1,204,577</u>	<u>\$ 17,177</u>	<u>\$ (1,084)</u>	<u>\$ 562,491</u>	<u>\$ 1,783,161</u>	<u>\$ 4,141,645</u>

See accompanying Notes to Basic Financial Statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2020)**

	2021	2020
Net Change in Fund Balance - Total Governmental Funds	\$ (2,358,484)	\$ 2,875,734

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation in the current period is:

Capital Outlays	2,160,768	5,421,557
Depreciation Expense	(198,907)	(21,714)

Pension expenditures in the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources.

	(121,043)	(165,619)
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In the statement of activities, certain expenses - compensated absences - are measure by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (amounts actually paid).

	(67,804)	-
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The governmental funds report bond proceeds as other financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental governmental funds when it is due. The net effect of these differences in the treatment of bonds, loans, and related items is as follows:

Issuance of Bonds Payable	-	(8,250,000)
Premiums on Bonds Issued	-	(331,371)
PPP Loan Forgiveness	293,277	-
PPP Loan Issued	-	(293,277)
Other Long-Term Loan Issued	-	(150,000)
Change in Accrued Interest - Lease Revenue Bonds	-	(34,725)
Amortization of Bond Premium	14,958	5,858
	<u>\$ (277,235)</u>	<u>\$ (943,557)</u>
Total	<u>\$ (277,235)</u>	<u>\$ (943,557)</u>

See accompanying Notes to Basic Financial Statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings and Investments	\$ 1,000	\$ 500	\$ 537	\$ 37
Other	403,000	687,500	585,186	(102,314)
State Sources	3,729,375	3,078,992	2,962,558	(116,434)
Federal Sources	95,675	587,819	688,968	101,149
Total Revenues	<u>4,229,050</u>	<u>4,354,811</u>	<u>4,237,249</u>	<u>(117,562)</u>
EXPENDITURES				
Current:				
Administration	248,485	276,705	302,905	26,200
District Support Services	480,607	484,520	530,307	45,787
Elementary and Secondary Regular Instruction	1,739,270	1,976,321	1,720,427	(255,894)
Special Education Instruction	570,193	517,898	597,102	79,204
Instructional Support Services	22,500	6,000	115,548	109,548
Pupil Support Services	235,500	221,514	285,603	64,089
Sites and Buildings	759,266	881,150	883,340	2,190
Fiscal and Other Fixed Cost Programs	-	-	27,290	27,290
Capital Outlay	170,000	131,368	75,470	(55,898)
Total Expenditures	<u>4,225,821</u>	<u>4,495,476</u>	<u>4,537,992</u>	<u>42,516</u>
EXCESS (DEFICIENCY) OF REVENUE (OVER) UNDER EXPENDITURES	3,229	(140,665)	(300,743)	(160,078)
OTHER FINANCING USES				
PPP Loan Issued	-	-	-	-
Long-term Loan Issued	-	-	-	-
Transfers Out	(26,032)	(51,447)	(2,194)	49,253
Total Other Financing Sources (Uses)	<u>(26,032)</u>	<u>(51,447)</u>	<u>(2,194)</u>	<u>49,253</u>
NET CHANGE IN FUND BALANCE	<u>\$ (22,803)</u>	<u>\$ (192,112)</u>	(302,937)	<u>\$ (110,825)</u>
FUND BALANCE				
Beginning of Year			1,507,514	
End of Year			<u>\$ 1,204,577</u>	

See accompanying Notes to Basic Financial Statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Other - Primarily Meal Sales	\$ -	\$ 5,884	\$ -	\$ (5,884)
State Sources	13,422	2,012	3,447	1,435
Federal Sources	216,370	73,029	135,696	62,667
Total Revenues	<u>229,792</u>	<u>80,925</u>	<u>139,143</u>	<u>58,218</u>
EXPENDITURES				
Current:				
Food Service	255,823	132,372	118,276	(14,096)
Capital Outlay	-	-	5,884	5,884
Total Expenditures	<u>255,823</u>	<u>132,372</u>	<u>124,160</u>	<u>(8,212)</u>
EXCESS (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(26,031)	(51,447)	14,983	66,430
OTHER FINANCING SOURCES				
Transfers In	<u>26,031</u>	<u>51,447</u>	<u>2,194</u>	<u>(49,253)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	17,177	<u>\$ 17,177</u>
FUND BALANCE				
Beginning of Year			-	
End of Year			<u>\$ 17,177</u>	

See accompanying Notes to Basic Financial Statements.

**FRIENDSHIP ACADEMY OF THE ARTS
 CHARTER SCHOOL NO. 4079
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL
 COMMUNITY SERVICE FUND
 YEAR ENDED JUNE 30, 2021**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Other - Primarily Tuition and Fees	\$ 110,000	\$ 99,147	\$ 150,772	\$ 51,625
EXPENDITURES				
Current:				
Community Service	86,317	99,147	147,517	48,370
NET CHANGE IN FUND BALANCE	\$ 23,683	\$ -	3,255	\$ 3,255
FUND BALANCE				
Beginning of Year			(4,339)	
End of Year			\$ (1,084)	

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Charter School No. 4079 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

Charter School No. 4079, also known as Friendship Academy of the Arts (the School), is a nonprofit corporation that was formed in August of 2000, in accordance with Minnesota Statutes. The School was sponsored by Pillsbury United Communities and was operating under a contract extending through June 30, 2021. This contract was then extended for five additional years through June 30, 2026. The governing body consists of a board of directors composed of at least five members and up to eleven members elected by voters of the general membership of the School (consisting of all staff members and parents of students enrolled in the School). Each director holds office for a one-year term.

The School's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the School is considered to be financially accountable.

Component units are legally separate entities for which the School is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there is one organization that is considered to be a blended component unit of the School. FFA Building Company (the Building Company) is a Minnesota nonprofit corporation holding IRS classification as a 501(c)(3) tax-exempt organization which owns the real estate and buildings and leases the educational site to the School for its operations. The Building Company is governed by a separate board appointed by the Board of the School. The Building Company is included within the financial statements of the School and no separate financial statements are issued for the Building Company.

Aside from its sponsorship, Pillsbury United Communities has no authority, control, power, or administrative responsibilities over Friendship Academy of the Arts. Therefore, the School is not considered a component unit of Pillsbury United Communities.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

The School-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 School.

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

The School applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the School-wide financial statements. Separate fund financial statements are provided for governmental funds.

D. 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. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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 GAAP. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other miscellaneous revenue (except investment earnings) is recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

Description of Funds

As required by state statute, the School operates as a nonprofit corporation under Minnesota Statutes §317A. However, state law also requires that the School comply with Uniform Financial Accounting and Reporting Standards for Minnesota School Districts (UFARS) 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 balance, revenues, and expenditures. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the School, as well as the capital related activities such as maintenance of facilities and equipment purchases.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures (Continued)

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Primary sources of revenue in the Food Service Fund are from meal sales and state and federal aids.

Community Service Special Revenue Fund

The Community Service Fund is used to account for before and after school programming. Primary sources of revenue in the Community Service Fund are from tuition payments from families utilizing the service.

Building Company Special Revenue Fund

The Building Company Fund accounts for all activities of FAA Building Company. Primary revenue sources in the Building Company are rent received and interest earnings.

E. Income Taxes

The School is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable sections of the Minnesota income tax statutes.

F. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

G. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with GAAP. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund, the Food Service Fund, and the Community Service Fund. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Executive Director submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgeting (Continued)

Budgeted amounts include a mid-year budget amendment that changed revenue and expenditures budgets as follows:

	Original Budget	Amendments	Amended Budget
<u>Revenues</u>			
General Fund	\$ 4,229,050	\$ 125,761	\$ 4,354,811
Special Revenue Funds:			
Food Service Fund	229,792	(148,867)	80,925
Community Service Fund	110,000	(10,853)	99,147
<u>Expenditures</u>			
General Fund	\$ 4,225,821	\$ 269,655	\$ 4,495,476
Special Revenue Funds:			
Food Service Fund	255,823	(123,451)	132,372
Community Service Fund	86,317	12,830	99,147

At the end of each fiscal year, if the General Fund has a net unassigned deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota schools which excludes certain restricted balances specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

H. Cash and Investments

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations.

I. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the School. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

K. Capital Assets

Capital 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 School maintains a threshold level of \$1,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the School-wide financial statement but are not reported in the Fund financial statements. Capital assets are depreciated using the 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 School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 5 years for equipment. The useful lives of leasehold improvements are the shorter of the remaining period of the related lease or the useful life of the asset.

Capital assets not being depreciated include construction in process, if any.

The School does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

L. 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.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences

Under the terms of the employee handbook, employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation upon separation. Compensated absences are accrued in the governmental fund financial statements only when used or matured prior to year-end due to employee termination or similar circumstances and are paid by the General Fund and special revenue funds. Unused vacation pay is accrued when incurred in the government-wide financial statements.

N. 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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types report the face amount of debt as well as any premiums received on debt issuances as other financing sources. Issuance costs are reported as debt service expenditures/expenses on both the government-wide and fund financial statements.

O. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation and natural disasters. The School purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the School's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

P. Restricted Assets

Restricted assets are cash and investments whose use is limited by legal requirements, such as a bond indenture. Restricted assets are those held in the Building Company's escrow accounts.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the School-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulation 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 School-wide financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

R. Fund Balance

In the fund financial statements, governmental funds report fund balances in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – portions of fund balance related to prepaid items.

Restricted – funds are constrained by outside parties (statute, grantors, contributors, bond agreements, etc.).

Assigned – consists of internally imposed constraints. The School Board passed a resolution authorizing the Executive Director to assign fund balances and their intended uses.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the School's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which assigned and unassigned amounts are available, it is the District's policy to use assigned first and then unassigned amounts. The School formally adopted a fund balance policy for the General Fund, which establishes a year-end minimum unassigned fund balance of 5% - 30% of the annual budget.

S. Summarized Comparative Data

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2020, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

The School maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "Cash and Investments." In accordance with applicable Minnesota Statutes, the School maintains deposits at depository banks authorized by the School's Board.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

The School's carrying and bank balances of deposits at June 30, 2021 were \$119,979 and \$232,757, respectively. The School's deposits in banks at June 30, 2021 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

The School may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- General obligations rated “A” or better; revenue obligations rated “AA” or better
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers
- General obligations of the Minnesota Housing Finance Agency rate “A” or better
- Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less

At June 30, 2021, the Building Company’s investment balances were as follows:

Cash and Investments Held by Trustee

	Percentage of Total Investments	Maturity Date	Cost
MSILF Treasury #8354	100.00%	N/A	\$ 834,564

These investments are held by an escrow agent in accordance with escrow agreements established with the sale of the Lease Revenue Bonds Mortgage Loan Series 2019.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The School does not have a formal investment policy.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2021, the Building Company had an investment in the MSILF Treasury #8354, which is rated Aaa-mf by Moody's Investor Service.

Concentration of Credit Risk

The School places no limit on the amount that the School may invest in any one issuer.

The deposits and investments are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 119,979
Restricted Cash and Investments - Statement of Net Position	834,564
Total Cash and Investments	\$ 954,543

C. Fair Value Measurements

The School uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The School follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the School has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Fair Value Measurements (Continued)

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

The School did not hold any investments measured at fair value as of June 30, 2021. The money market fund investments held by the Building Company’s escrow agent are valued at amortized cost.

NOTE 3 INTERFUND BALANCES

At June 30, 2021, the following were the interfund balances:

	Due from Other Fund	Due to Other Fund
General Fund	\$ 272,073	\$ -
Building Company	-	272,073
Total	\$ 272,073	\$ 272,073

During the year, the General Fund made expenditures on the Building Company’s behalf. The interfund balances are the result of the remaining expenditures paid for by the General Fund not yet reimbursed by the Building Company.

During fiscal 2021, the following transfer was also made to assist the food service fund with operations:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 2,194
Special Revenue Fund:		
Food Service Fund	2,194	-
Total	\$ 2,194	\$ 2,194

NOTE 4 STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Expenditures	Excess
General Fund	\$ 4,495,476	\$ 4,537,992	\$ 42,516
Special Revenue Fund:			
Community Service Fund	99,147	147,517	48,370

The overages were considered necessary for the operation of the School and were approved of by the school board.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Reclassifications	Ending Balance
Governmental Activities					
Capital Assets, Not Being Depreciated:					
FFA Building Company					
Land	\$ 867,500	\$ -	\$ -	\$ -	\$ 867,500
Construction in Progress	4,547,293	2,079,414	-	(6,626,707)	-
Total Capital Assets, Not Being Depreciated	5,414,793	2,079,414	-	(6,626,707)	867,500
Capital Assets, Being Depreciated:					
FFA Building Company					
Buildings and Improvements	-	-	-	6,626,707	6,626,707
Friendship Academy					
Leasehold Improvements	233,882	-	-	45,195	279,077
Equipment	287,530	81,354	-	(45,195)	323,689
Total Capital Assets, Being Depreciated	521,412	81,354	-	6,626,707	7,229,473
Accumulated Depreciation for:					
FFA Building Company					
Buildings and Improvements	-	(165,668)	-	-	(165,668)
Friendship Academy					
Leasehold Improvements	(233,882)	(3,080)	-	(42,115)	(279,077)
Equipment	(277,790)	(30,159)	-	42,115	(265,834)
Total Accumulated Depreciation	(511,672)	(198,907)	-	-	(710,579)
Total Capital Assets, Being Depreciated, Net	9,740	(117,553)	-	6,626,707	6,518,894
Governmental Activities Capital Assets, Net	<u>\$ 5,424,533</u>	<u>\$ 1,961,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,386,394</u>

Depreciation expense was charged to functions of the School as follows:

Governmental Activities	
Regular Instruction	\$ 168,399
Instructional Support Services	24,243
Sites and Buildings	3,081
Food Service	3,184
Total Depreciation Expense, Governmental Activities	<u>\$ 198,907</u>

NOTE 6 SHORT-TERM BORROWING

The School amended an existing financing agreement on May 15, 2019 which expires on May 15, 2022. The agreement provided for maximum working capital advances to \$125,000. The note is secured by all the School's bank deposits including all balances of the date of the agreement plus all future deposits, interest, and other credit thereto. The agreement includes a variable interest rate of 1% above the Wall Street Journal Prime Rate with a minimum rate of 5.5%. No borrowing took place under the terms of this line of credit during fiscal 2021 and the agreement had no outstanding balance at June 30, 2021.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 7 DEBT

In May of 2020, the School received a loan from Charter School Growth Fund in the amount of \$150,000. The promissory note requires the total amount with interest from the date of funding will be due in November of 2021. The note requires interest of 0% per annum and under the agreement would be considered in default if the School fails to make any payments that are due, uses any portion of the proceeds in an unauthorized manner, or fails to comply with covenants of the agreement.

In December 2019, the School entered into a loan agreement with the City of Minneapolis in the amount of \$8,070,000 for the 2019A Series Lease Revenue Bonds, and \$180,000 for the 2019B Series Taxable Lease Revenue bonds to open a Building Company Fund. Proceeds of the Series 2019 Bonds were loaned to the Building Company in order to: (i) finance the acquisition, renovation, expansion, and equipping of an approximately 30,400 square-foot school facility located on approximately 1.5 acres at 3320 East 41st Street in the Minneapolis, which is owned by the Building Company and leased to and operated by the School; (ii) fund a debt service reserve fund; and (iii) pay the costs of issuing the Bonds.

As additional security for the Series 2019 Bonds, the School has pledged certain amounts of its revenues to the Trustee for payments on the Series 2019 Bonds as necessary, pursuant to a Pledge and Covenant Agreement, dated as of December 1, 2019, from the School to the Trustee. The Pledge Agreement provides that building lease aid, general education funding from the State, and other special State and federal pass-through education funding sources shall be applied to the payments due under the Lease. The total pledged revenue reported by the School for the year ended June 30, 2021 amounted to \$3,119,142, of which \$446,658 (or 14.2%) was remitted during the current year as lease payments to the Building Company. Total principal and interest payments made on the bonds in 2021 were \$0 and \$416,700, respectively, while remaining principal and interest on the bonds at June 30, 2021 totaled \$17,299,110.

The resulting loan is payable in semi-annual installments of principal and interest beginning June 1, 2020 through December 1, 2052. The note is based on annual interest rates of between 4.00% and 5.25%, respectively, and is secured by a mortgage agreement covering the related land, school building, and building contents.

The agreement also includes default provisions, which notes that if the School does not meet one of the loan covenants it would not constitute an event of default until actual notice is given by the trustee, at which time the School will have 30 days to correct the default. In an event of default the trustee and registered owners may then declare the remaining outstanding principal on the bonds to be immediately due and payable. During fiscal year 2021 there were several covenants which were not met by the School, however as of June 23, 2022 no notices of default have been received by the School.

See also Note 10 for additional information about the PPP loan.

Governmental compensated absences are typically liquidated (paid) by the General Fund and special revenue funds.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 7 DEBT (CONTINUED)

Changes in long-term debt are as follows:

	June 30, 2020	Additions	Retirements	June 30, 2021	Due Within One Year
Series 2019 A&B Bonds	\$ 8,250,000	\$ -	\$ -	\$ 8,250,000	\$ -
2019 Bond Premium	325,513	-	14,958	310,555	14,958
Direct Placements:					
PPP Loan	293,277	-	293,277	-	-
Charter School Fund Loan	150,000	-	-	150,000	150,000
Compensated Absences Payable	-	98,780	30,976	67,804	27,122
Total	<u>\$ 9,018,790</u>	<u>\$ 98,780</u>	<u>\$ 339,211</u>	<u>\$ 8,778,359</u>	<u>\$ 192,080</u>

Following are maturities of long-term debt for the School and the FAA Building Company for each of the next five years and thereafter ended June 30:

Year Ending June 30,	Lease Revenue Bonds Payable	
	Principal	Interest
2022	\$ -	\$ 416,700
2023	110,000	414,363
2024	115,000	409,637
2025	120,000	404,850
2026	125,000	399,950
2027-2031	720,000	1,917,650
2032-2036	900,000	1,739,375
2037-2041	1,170,000	1,470,000
2042-2046	1,515,000	1,119,131
2047-2051	1,975,000	663,479
2052-2053	1,500,000	93,975
Total	<u>\$ 8,250,000</u>	<u>\$ 9,049,110</u>

Direct Placements: Charter School Fund Loan			
Year Ending June 30,	Principal	Interest	Total
2022	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ 150,000</u>

NOTE 8 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

1. General Employees Retirement Plan

The General Employees Retirement Plan covers certain full-time and part-time employees of the Friendship Academy of the Arts. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

2. Teachers Retirement Fund (TRA)

The Teacher's 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.

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Plan (DCP) administered by Minnesota State.

B. Benefits Provided

PERA and TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. 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.

1. General Employees Retirement Plan

General Employees Plan 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 Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% for each of the first 10 years of service and 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years 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.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. General Employee Retirement Plan (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. Recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

2. TRA Benefits

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

Step Rate Formula	Percentage
First Ten Years of Service	2.2% per Year
All Years After	2.7% per Year
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

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0% per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Or

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

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. 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 plan provisions in effect at the time they last terminated their public service.

C. Contributions

1. General Employee Fund Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2021 and the School was required to contribute 7.50% for Coordinated Plan members. The School's contributions to the General Employees Fund for the year ended June 30, 2021 were \$58,676. The School's contributions were equal to the required contributions as set by state statute.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Continued)

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 rates for the fiscal year for coordinated were 7.5% for the employee and 8.13% for the employer. Basic rates were 11.00% for the employee and 12.13% for the employer.

The School's contributions to TRA for the plan's fiscal year ended June 30, 2021 were \$102,427. The School's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At June 30, 2021, the School reported a liability of \$533,596 for its proportionate share of the General Employees Fund's net pension liability. The School's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million. The state of Minnesota is considered a nonemployer 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 School totaled \$16,500. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The School's proportion of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The School's proportionate share was 0.0089% at the end of the measurement period and 0.0079% for the beginning of the period.

For the year ended June 30, 2021, the School recognized pension expense of \$60,395 for its proportionate share of General Employees Fund's pension expense. In addition, the School recognized an additional \$1,436 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

At June 30, 2021, the School reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 4,865	\$ 2,019
Changes in Actuarial Assumptions	-	19,782
Net Difference Between Projected and Actual		
Earnings on Plan Investments	9,218	-
Changes in Proportion and Differences Between		
District Contributions and Proportionate		
Share of Contributions	66,665	-
District Contributions Subsequent to the		
Measurement Date	58,676	-
Total	<u>\$ 139,424</u>	<u>\$ 21,801</u>

A total of \$58,676 reported as deferred outflows of resources related to pensions resulting from School contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	Pension Expense Amount
2022	\$ (1,666)
2023	21,650
2024	26,071
2025	12,892
2026	
Thereafter	-

2. TRA Pension Costs

At June 30, 2021, the School reported a liability of \$886,576 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School'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. The School's proportionate share was .0120% at the end of the measurement period and .0111% for the beginning of the period.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the School 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 School were as follows:

Description	Amount
School's Proportionate Share of the TRA Net Pension Liability	\$ 886,576
State's Proportionate Share of the Net Pension Liability Associated with the School	74,265
Total	<u>\$ 960,841</u>

For the year ended June 30, 2021, the School recognized pension expense of \$218,835. It also recognized \$6,806 as pension expense for the support provided by direct aid.

At June 30, 2021, the School reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 17,779	\$ 13,438
Changes in Actuarial Assumptions	318,105	744,274
Net Difference Between Projected and Actual Earnings on Plan Investments	13,728	-
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	241,646	-
District Contributions Subsequent to the Measurement Date	102,427	-
Total	<u>\$ 693,685</u>	<u>\$ 757,712</u>

A total of \$102,427 reported as deferred outflows of resources related to pensions resulting from School contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30.	Pension Expense Amount
2022	\$ 104,564
2023	(203,170)
2024	(131,678)
2025	44,917
2026	18,913
Thereafter	-

3. Total Pension Expense

The School's total pension expense, including related to indirect aid, for all plans for the year ended June 30, 2021 was \$287,472.

E. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.25% per Year	2.50% per Year
Active Member Payroll Growth	3.00% per Year	2.85% before July 1, 2028 and 3.25% thereafter
Investment Rate of Return	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on Pub-2010 General Employee Mortality table for the General Employees Plan for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study for the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

TRA post-retirement mortality rates were based on 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. Postretirement mortality rates were based on 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. Post-disability mortality rates were based on the RP-2014 disabled retiree mortality table, without adjustment. TRA cost of living benefit increase 1.0% for January 2020 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

The following changes for PERA occurred in 2020:

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

The following changes for TRA occurred in 2020:

Changes in Actuarial Assumptions:

- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses MP-2015 scale.
- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

The State Board of Investment, which manages the investments of PERA and TRA, prepares an analysis of the reasonableness on a regular basis 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.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	35.50 %	5.10 %
International Stocks	17.50	5.30
Bonds (Fixed Income)	20.00	0.75
Alternative Assets (Private Markets)	25.00	5.90
Cash	2.00	-
Totals	<u>100.00 %</u>	

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate

The discount rate used to measure the PERA General Employees Plan liability in 2020 was 7.50%. 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 of the General Employees Fund were 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.

The discount rate used to measure the TRA pension liability was 7.50%. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contribution will be made at the fiscal year 2020 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 not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

G. Pension Liability Sensitivity

The following presents the School'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 School's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.50%	7.50%	8.50%
School's Proportionate Share of the GERF Net Pension Liability	\$ 855,169	\$ 533,596	\$ 268,324
<u>TRA Discount Rate</u>	6.50%	7.50%	8.50%
School's Proportionate Share of the TRA Net Pension Liability	\$ 1,357,339	\$ 886,576	\$ 498,692

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Pension Plan Fiduciary Net Position

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

Detailed information about TRA's fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, Minnesota, 55103-4000; or by calling (651) 296-2409 or 1-800-657-3669.

NOTE 9 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

B. Lease Commitments and Terms – School Sites

The School leases its main educational site at 2600 East 38th Street, Minneapolis, Minnesota from Greater Friendship Missionary Baptist Church (GFMBC). Under the terms of the revised lease agreement, the lease term is for the period beginning July 1, 2017 and ending June 30, 2021. The School pays a fixed rent of \$8,943 per month with a 2% increase in rent on the anniversary date of the lease starting July 1 each year.

Effective with the purchase and construction of a second educational site by the Friendship Academy of the Arts, the School leased the site from the Building Company of Friendship Academy of the Arts (a blended component unit). Under the terms of the lease agreement, the lease term is for the period beginning December 4, 2019 and ending June 30, 2053.

The net annual base rent for the term of the lease agreement is tied closely to the debt service requirements of FFA Building, including amounts held in escrow as part of the respective loan agreements. In addition, the School is responsible for all interior and exterior repair and maintenance costs as well as all utility costs. The total amount of rent paid by the School to FFA Building Company under the terms of the lease agreement for fiscal 2021 was \$446,658.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Lease Commitments and Terms – School Sites (Continued)

The total amount of lease payments paid and allowed under the terms of MDE-approved leases was \$592,658 for fiscal 2021. For fiscal 2021, the School qualified for state charter school lease aid in the amount of \$364,740 based on a statutory cap of 90% of the MDE-approved amount paid. This entitlement is subject to proration by the Minnesota Department of Education to the extent the overall funding that has been provided is insufficient to meet all amounts owed to Minnesota charter schools. This entitlement is subject to proration by the Minnesota Department of Education to the extent the overall funding that has been provided is insufficient to meet all amounts owed to Minnesota charter schools.

Below is the schedule of future base rents payable in accordance with the lease agreements summarized above:

<u>Year Ending June 30,</u>	<u>Building Company Lease Payments</u>
2022	\$ 517,492
2023	583,354
2024	583,339
2025	583,254
2026	583,030
2027-2031	2,925,500
2032-2036	2,927,458
2037-2041	2,922,554
2042-2046	2,907,185
2047-2051	2,902,260
2052-2054	835,129
Total	<u>\$ 18,270,555</u>

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2021**

NOTE 10 PAYCHECK PROTECTION PROGRAM

On May 1, 2020, Friendship Academy of the Arts received a loan from Associated Bank in the amount of \$293,277 to fund payroll, rent, and utilities through the Paycheck Protection Program (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, has a term of two years, and is unsecured and guaranteed by the U.S. Small Business Administration. Payment of principal and interest is deferred until the date on which the amount of forgiveness is remitted to the lender or, if Friendship Academy of the Arts fails to apply for forgiveness within 10 months after the covered period, beginning on February 15, 2020 and ending on December 31, 2020, then payment of principal and interest shall begin on that date. The School received full forgiveness of the outstanding principal on the loan on May 24, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SEVEN MEASUREMENT PERIODS ***

**TRA Schedule of the School's Proportionate Share of the
Net Pension Liability**

	Measurement Date June 30,						
	2020	2019	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.0120%	0.0111%	0.0105%	0.0092%	0.0083%	0.0060%	0.0062%
School's Proportionate Share of the Net Pension Liability	\$ 886,576	\$ 707,516	\$ 658,262	\$ 1,836,487	\$ 1,979,748	\$ 371,159	\$ 285,692
State's Proportionate Share of the Net Pension Liability Associated with School	74,265	62,613	62,034	177,715	197,995	45,283	19,989
Total	<u>\$ 960,841</u>	<u>\$ 770,129</u>	<u>\$ 720,296</u>	<u>\$ 2,014,202</u>	<u>\$ 2,177,743</u>	<u>\$ 416,442</u>	<u>\$ 305,681</u>
School's Covered Payroll	\$ 728,561	\$ 622,568	\$ 570,987	\$ 544,840	\$ 449,480	\$ 544,840	\$ 282,029
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	121.69%	113.64%	115.29%	337.07%	440.45%	68.12%	101.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.10%	78.21%	78.07%	51.57%	44.88%	76.80%	81.50%

*The School implemented GASB Statement No. 68 in fiscal 2015, and the above table will be expanded to 10 years as information is available.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SEVEN MEASUREMENT PERIODS ***

The following changes were reflected in the valuation performed on behalf of the Teachers Retirement Association for the years ended June 30:

2020

Changes in Actuarial Assumptions:

- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses MP-2015 scale.
- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

Changes in Plan Provisions:

- There have been no changes since the prior valuation.

2019

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2018

Changes in Actuarial Assumptions

- The investment return assumption was changed from 8.5% to 7.5%.
- The price inflation assumption was lowered from 3.0% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The wage inflation assumption (above price inflation) was reduced from 0.75% to 0.35% for the next 10 years, and 0.75% thereafter.
- The total salary increase assumption was adjusted by the wage inflation change.
- The amortization date for the funding of the Unfunded Actuarial Accrual Liability (UAAL) was reset to June 30, 2048 (30 years).
- The mechanism in the law that provided the TRA Board with some authority is set contribution rates was eliminated.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SEVEN MEASUREMENT PERIODS ***

2018 (Continued)

Changes in Plan Provisions

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 5 years, (7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017

Changes in Actuarial Assumptions

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- Adjustment were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SEVEN MEASUREMENT PERIODS ***

2016

Changes in Actuarial Assumptions

- The cost of living adjustment was not assumed to increase (it remained at 2.0% for all future years).
- The price inflation assumption was lowered from 3.0% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes at 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 postretirement 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 adjustments.
- 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 forms of payment at retirement were made.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015

Changes in Actuarial Assumptions

- The cost of living adjustment was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2037.
- The investment return assumption was changed from 8.25% to 8.0%.

Changes in Plan Provisions

- The Duluth Teachers Retirement Fund Association was merged into TRA on June 30, 2015. This also resulted in a state-provided contribution stream of \$14.377 million until the System becomes fully funded.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SEVEN MEASUREMENT PERIODS ***

2014

Changes in Actuarial Assumptions

- The cost of living adjustment was assumed to increase from 2.0% annually to 2.5% annually once the legally specified criteria was met. This was estimated to occur July 1, 2031.

Changes in Plan Provisions

- The increase in the postretirement benefit adjustment (COLA) will be made once the System is 90% funded (on a market value basis) in two consecutive years, rather than just one year.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TRA SCHEDULE OF SCHOOL CONTRIBUTIONS
LAST EIGHT FISCAL YEARS ***

**TRA Schedule of School Contributions
Last Eight Fiscal Years**

	Fiscal Year Ended June 30,							
	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily Required Contribution	\$ 102,427	\$ 57,702	\$ 48,000	\$ 42,824	\$ 40,863	\$ 33,711	\$ 40,863	\$ 19,742
Contributions in Relation to the Statutorily Required Contribution	(102,427)	(57,702)	(48,000)	(42,824)	(40,863)	(33,711)	(40,863)	(19,742)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School's Covered Payroll	\$ 1,259,865	\$ 728,561	\$ 622,568	\$ 570,987	\$ 544,840	\$ 449,480	\$ 544,840	\$ 282,029
Contributions as a Percentage of Covered Payroll	8.13%	7.92%	7.71%	7.50%	7.50%	7.50%	7.50%	7.00%

*The School implemented GASB Statement No. 68 in fiscal 2015, and the above table will be expanded to 10 years as information is available.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SEVEN MEASUREMENT PERIODS ***

**GERF Schedule of the School's Proportionate Share of the
Net Pension Liability**

	Measurement Date June 30,						
	2020	2019	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.0089%	0.0079%	0.0075%	0.0071%	0.0064%	0.0062%	0.0112%
School's Proportionate Share of the Net Pension Liability	\$ 533,596	\$ 436,773	\$ 416,069	\$ 453,259	\$ 519,648	\$ 321,316	\$ 526,120
State's Proportionate Share of the Net Pension Liability Associated with School	16,500	13,666	13,567	5,701	6,804	-	-
Total	<u>\$ 630,787</u>	<u>\$ 450,439</u>	<u>\$ 429,636</u>	<u>\$ 458,960</u>	<u>\$ 526,452</u>	<u>\$ 321,316</u>	<u>\$ 526,120</u>
School's Covered Payroll	\$ 630,787	\$ 561,680	\$ 510,973	\$ 398,707	\$ 365,653	\$ 366,739	\$ 196,317
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	84.59%	77.76%	81.43%	113.68%	142.11%	87.61%	267.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.10%	80.23%	79.53%	75.90%	68.90%	78.20%	78.70%

*The School implemented GASB Statement No. 68 in fiscal 2015, and the above table will be expanded to 10 years as information is available.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SEVEN MEASUREMENT PERIODS ***

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the years ended June 30:

General Employees Fund

2020

Changes in Actuarial Assumptions:

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SEVEN MEASUREMENT PERIODS ***

2019

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreased from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018

Changes in Actuarial Assumption

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed postretirement benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

Changes in Plan Provisions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio to 50.00% of the Social Security Cost of Living Adjustment, not less than 1.00% and not more than 1.50% beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SEVEN MEASUREMENT PERIODS ***

2017

Changes in Actuarial Assumption

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5 % per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The state's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

2016

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2035 and 2.50% per year thereafter to 1.00% per year for all future years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate was changed from 7.90% to 7.50%.
- 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.

Changes in Actuarial Plan Provisions

- There have been no changes since the prior valuation.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST SEVEN MEASUREMENT PERIODS ***

2015

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2030 and 2.50% per year thereafter to 1.00% per year through 2035 and 2.50% per year thereafter.

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; the state's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
GERF SCHEDULE OF SCHOOL CONTRIBUTIONS
LAST EIGHT FISCAL YEARS ***

**GERF Schedule of School Contributions
Last Eight Fiscal Years**

	Fiscal Year Ended June 30,							
	2021	2020	2019	2018	2017	2016	2015	2014
Statutorily Required Contribution	\$ 58,676	\$ 47,309	\$ 42,126	\$ 38,323	\$ 29,903	\$ 27,424	\$ 27,047	\$ 14,233
Contributions in Relation to the Statutorily Required Contribution	(58,676)	(47,309)	(42,126)	(38,323)	(29,903)	(27,424)	(27,047)	(14,233)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School's Covered Payroll	\$ 782,347	\$ 630,787	\$ 561,680	\$ 510,973	\$ 398,707	\$ 365,653	\$ 366,739	\$ 196,317
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.38%	7.25%

*The School implemented GASB Statement No. 68 in fiscal 2015, and the above table will be expanded to 10 years as information is available.

SUPPLEMENTARY INFORMATION

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2021**

	AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND			
Total Revenue	\$ 4,237,249	\$ 4,354,634 *	\$ (117,385)
Total Expenditures	4,537,992	4,539,947 *	(1,955)
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	8,152	8,152	-
<i>Restricted:</i>			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health and Safety	-	-	-
407 Capital Project Levy	-	-	-
408 Cooperative Programs	-	-	-
413 Projects Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	-	-	-
426 \$25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State-Approved Alternative Programs	-	-	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluations	-	-	-
441 Basic Skills Programs	-	-	-
445 Career and Technical Programs	-	-	-
448 Achievement and Integration	-	-	-
449 Sage Schools Crime Levy	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-
453 Unfunded Severance & Retirement Levy	-	-	-
464 Restricted Fund Balance	-	-	-
<i>Committed:</i>			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	-	-	-
<i>Assigned:</i>			
462 Assigned Fund Balance	96,000	- *	96,000
<i>Unassigned:</i>			
422 Unassigned Fund Balance	1,196,425	1,313,810 *	(117,385)
02 FOOD SERVICE			
Total Revenue	139,143	139,960 *	(817)
Total Expenditures	124,160	124,162	(2)
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>			
452 OPEB Liability Not Held in Trust	-	-	-
464 Restricted Fund Balance	17,177	17,177	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	150,772	150,772	-
Total Expenditures	147,517	147,517	-
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>			
426 \$25 Taconite	-	-	-
431 Community Education	-	-	-
432 E.C.F.E.	-	-	-
440 Teacher Development and Evaluations	-	-	-
444 School Readiness	-	-	-
447 Adult Basic Education	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-
464 Restricted Fund Balance	-	-	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	(1,084)	(1,084)	-

* Variances between the audited amounts and the November 30 UFARS upload amounts were due to audit entries made in December after the UFARS upload deadline.

OTHER REQUIRED REPORTS



**INDEPENDENT AUDITORS' 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**

Members of the Board of Directors
Friendship Academy of the Arts
Charter School No. 4079
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, financial statements of the governmental activities and each major fund of Friendship Academy of the Arts as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated June 29, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Friendship Academy of the Arts' internal control over financial reporting (internal control) as a basis for designing 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 Friendship Academy of the Arts' internal control. Accordingly, we do not express an opinion on the effectiveness of Friendship Academy of the Arts' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2021-001 through 2021-003 to be material weaknesses.

Members of the Board of Directors
Friendship Academy of the Arts
Charter School No. 4079

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2021-004 and 2021-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Friendship Academy of the Arts' 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 2021-003.

The School's Response to Findings

The School's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 29, 2022



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Members of the Board of Directors
Friendship Academy of the Arts
Charter School No. 4079
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 Friendship Academy of the Arts (the School) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated June 29, 2022.

In connection with our audit, we noted that Friendship Academy of the Arts failed to comply with provisions of the Uniform Financial Accounting and Reporting Standards section of *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters, as described in the Schedule of Findings and Responses as item 2021-006. Also, in connection with our audit, nothing came to our attention that caused us to believe that Friendship Academy of the Arts failed to comply with the provisions of the charter schools sections of the *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. 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 charter school's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

Friendship Academy of the Arts' written response to the legal compliance findings identified in our audit are described in the Schedule of Findings and Responses. Friendship Academy of the Arts' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools* and the results of that testing, and not to provide an opinion on the effectiveness of the School's compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
June 29, 2022



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**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2021**

FINDING: 2021-001 MATERIAL AUDIT ADJUSTMENTS

Material Weakness in Internal Control over Financial Reporting

Condition: Journal entries were proposed to correct two material misstatements identified by the auditors. The first entry adjusted building company capital assets by \$2,079,414 and subsequently decreased capital outlay in the statement of activities. The second adjustment related to decreasing the compensated absences liability by \$80,180.

Criteria or specific requirement: The School should have controls in place to prevent or detect a material misstatement in the annual financial statements in a timely manner.

Effect: The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the School's internal controls.

Cause: Activity and capital outlay in the Building Company fund was not properly reviewed so as to identify all activity which was related to capital assets and which should have been capitalized. The data used to calculate the compensated absences liability was incorrectly compiled and employees and hours were duplicated in the calculation.

Repeat Finding: This is a repeat finding, see prior year finding 2020-001.

Recommendation: We recommend the School continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with Generally Accepted Accounting Principles (GAAP).

Views of responsible officials and planned corrective actions: There is no disagreement with the audit finding. The Business Manager and contracted accounting company will continue training staff and will implement additional procedures to ensure all year-end balances are reviewed, including those related to the government-wide financial statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2021**

FINDING: 2021-002 JOURNAL ENTRY REVIEW

Material Weakness in Internal Control over Financial Reporting

Condition: During our testing of five journal entries selected from a list of journal entries posted throughout the year, we noted three of them did not contain documentation of proper review and approval.

Criteria or specific requirement: The School should have controls in place to ensure all journal entries posted to the School's finance system are properly reviewed and approved and all controls are documented.

Effect: The potential exists that an inappropriate or incorrect journal entry could be posted to the School's accounts and not be detected.

Cause: The School did not have sufficient, consistent procedures in place to ensure all journal entries were properly approved and that documentation was retained.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the School review its procedures over the review of journal entries to ensure all are properly approved and documentation of the approval is retained.

Views of responsible officials and planned corrective actions: There is no disagreement with the audit finding. The Business Manager and contracted accounting company will continue training staff and will implement additional procedures to ensure all journal entries are properly reviewed.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2021**

FINDING: 2021-003 BOND COVENANT COMPLIANCE

Material Weakness in Internal Control over Financial Reporting and Compliance and Other Matters

Condition:

During our testing of the covenants that accompany the Building Company's lease revenue bonds, series 2019A and 2019B, it was noted that the School did not meet several of the bond covenants including the following:

- Audited financial statements were not furnished to the Trustee and EMMA by no later than 150 days after the close of the fiscal year
- The proposed budget for the School must be submitted to the Trustee and EMMA by no later than June 30 of each year for the next succeeding fiscal year. The fiscal year 2021 budget was not posted until 5/14/21 and the fiscal year 2022 budget was not posted until 11/16/21.
- Quarterly reports, including student attendance and budget and financial reports, must be submitted to the Trustee and EMMA on or about the 15th day of each February, May, August, and November. We noted that the report for the quarter ending 9/30/20 was not posted until 3/10/21 and the report for the quarter ending 12/31/20 was not posted until 3/10/21.
- The School must make all necessary applications or submissions to the Minnesota Department of Education necessary to receive any Title I, Title II, or Title IV federal funding on or before September 30 of each year. It was noted that the Title I application for fiscal year 2021 was not submitted until 12/1/20.
- The School is to maintain unrestricted cash on hand in the general fund on June 30 of each year equal to or greater than 45 days cash on hand. It was noted that at June 30, 2021 the School had 8.79 days cash on hand.
- In the event the School's cash on hand is less than 45 days as of any July 30 the School shall retain an independent management consultant to review and analyze the reports required by the pledge agreement. The School did not retain such a consultant despite having cash on hand less than 45 days.
- The School is required to provide notice to the Trustee, EMMA, the Majority Bondholder, and any Significant Bondholder if the School's annual audit shows the Cash on Hand to be below the amounts required. We were unable to locate this required notice on EMMA.
- The School is required to carry workers' compensation insurance to the extent required by Minnesota law. The School did not furnish evidence of carrying this insurance .
- The School is required to prepare and submit to the Trustee and EMMA on or before November 15 of each year, a notice of an annual investor conference call, which shall be held before December 15 of each year. There were no such notices posted on EMMA.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2021**

FINDING: 2021-003

BOND COVENANT COMPLIANCE (COMPLIANCE)

Criteria or specific requirement:

The School should have procedures and controls in place to ensure that all bond covenants are met. In addition, the School should have a continuous monitoring process to review covenants throughout the year.

Effect:

The bond agreement includes default provisions, which note that if the School does not meet one of the covenants it would not constitute an event of default until actual notice is given by the trustee, at which time the School will have 30 days to correct the default. As the School was not in compliance with several of the bond covenants, there is the possibility that the bondholders could choose to provide a notice of default. The agreement also notes that if the school does not remedy the covenant noncompliance within 60 days of receipt of the notice, the trustee and registered owners may then declare the remaining outstanding principal on the bonds to be immediately due and payable. As of June 23, 2022 no notices of default have been received by the School.

Cause:

The School did not have a sufficient process to track and monitor compliance with bond covenants.

Repeat Finding:

This is not a repeat finding.

Recommendation:

We recommend the School review its procedures over the monitoring of all bond covenants and related processes.

Views of responsible officials and planned corrective actions:

There is no disagreement with the audit finding. The Business Manager and contracted accounting company will continue training staff and will implement additional procedures to track and monitor bond covenants.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2021**

FINDING: 2021-004 PAYROLL CONTRACTS

Significant Deficiency in Internal Control over Financial Reporting

Condition: During our testing of a sample of payroll transactions we noted one employment contract which was not signed by either the employee or the executive director and one employee contract which was \$3,000 higher than the correct salary amount.

Criteria or specific requirement: The School should have controls in place to ensure all employment contracts are sufficiently reviewed and approved, and this review should be supported by documentation.

Effect: The potential exists that contracts could be altered or employees could be paid incorrect amounts if contracts are not required to have an approval signature on them when entered into the payroll system.

Cause: The School did not have sufficient, consistent procedures in place to ensure all employment contracts were approved with appropriate documentation and verified to be the correct amount.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the School review its procedures over the review of employment contracts to ensure all are properly approved.

Views of responsible officials and planned corrective actions: There is no disagreement with the audit finding. The Business Manager and contracted accounting company will continue training staff and will implement additional procedures to ensure all employment contracts are properly approved and include correct amounts.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2021**

FINDING: 2021-005 CASH RECEIPT CONTROLS

Significant Deficiency in Internal Control over Financial Reporting

Condition: During our review of internal controls over cash receipts received at the School, it was noted that the School was no longer utilizing its previous cash log procedures, which involved two office personnel counting and reconciling all receipts as well as preparing the deposit.

Criteria or specific requirement: The School should have controls in place to ensure all processes and transactions include proper segregation of duties, especially regarding assets that could be susceptible to theft.

Effect: The potential exists that cash receipts could be stolen or errors made in the deposit process.

Cause: During the pandemic the School altered some of its previously established procedures and no longer practiced its cash reconciliation procedures.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend the School review its procedures over the receipt and reconciliation of payments received at the School to ensure proper segregation of duties are implemented.

Views of responsible officials and planned corrective actions: There is no disagreement with the audit finding. The Business Manager will work with office staff to ensure proper segregation of duties are implemented in the procedures around collecting and reconciling receipts.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
JUNE 30, 2021**

FINDING: 2021-006

UFARS CODING

Condition:

During our testing of a sample of 25 payroll disbursements, we noted 4 which contained the incorrect UFARS account coding.

Criteria or specific requirement:

The School should have procedures in place to ensure all transactions are properly coded within the Uniform Financial Accounting and Reporting System.

Effect:

Miscoding could result in inaccurate reports provided to MDE and other stakeholders, as well as impact future budgeting processes.

Cause:

The School did not have procedures in place to ensure all coding is reviewed.

Repeat Finding:

This is not a repeat finding.

Recommendation:

We recommend the School implement procedures to ensure all coding is reviewed for accuracy.

Views of responsible officials and planned corrective actions:

There is no disagreement with the audit finding. The Business Manager and contracted accounting company will continue training staff and will implement additional procedures to ensure all financial transactions are properly coded within the UFARS system.

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