FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2020

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2020

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED JUNE 30, 2020

INTRODUCTORY SECTION

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2020

SCHOOL BOARD

NAME	TERM ON BOARD EXPIRATION	BOARD POSITION
Wendy Hines	June 30, 2020	Board Chair
Akuorkor Ablorh	June 30, 2020	Secretary
Brenda Hill	June 30, 2020	Member
Jules Porter, Esq	June 30, 2020	Member
Maya Brown	June 30, 2020	Member
Katharine Manuel	June 30, 2020	Member
Ananysia Joseph	June 30, 2020	Member
Dr. B. Charvez Russell	-	Ex Officio

ADMINISTRATION

Dr. B. Charvez Russell	Executive Director
Mary Riley	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, 2020, 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.

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

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, 2020, 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 2019 financial statements of the governmental activities and each major fund, and we expressed unmodified opinions on those audited financial statements in our report dated December 4, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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, GERF Schedule of the School's Proportionate Share of the Net Pension Liability, and GERF 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 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 financial statements or to the 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 December 16, 2020, 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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 16, 2020

REQUIRED SUPPLEMENTARY INFORMATION

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

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, 2020. Please read it in conjunction with the School's financial statements, which immediately follow this section. Certain comparative information between the current year (2019-2020) and the prior year (2018-2019) is required to be presented in the Management's Discussion and Analysis.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2019-2020 fiscal years include the following:

- The fund balance of the General Fund increased $237,264 from the prior year for an ending fund balance of $1,507,514 at June 30, 2020.
- Total General Fund revenues and other financing sources were $3,141,127 as compared to $2,903,863 of expenditures and other financing uses.
- The Food Service Fund had an ending fund balance of $-0- at June 30, 2020.
- Total Food Service Fund revenues were $95,754 as compared to $103,488 of expenditures. A fund balance transfer of $7,734 was made from the General Fund in fiscal year 2020 to eliminate the deficit fund balance of the Food Service Fund.
- The Community Service Fund had a fund balance deficit of $4,339 at June 30, 2020.
- Total Community Service Fund revenues were $113,446 as compared to $113,446 of expenditures.
- The School opened a Building Company Fund in the current year. The Building Company ended the year with fund balance of $2,638,470.

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.

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.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's *combined* net position was ($732,870) on June 30, 2020 (see Table A-1).

Table A-1
The School's Net Position

	Governmental Activities as of June 30, 2020	Governmental Activities as of June 30, 2019	Percentage Change
Current and Other Assets	$ 6,519,157	$ 1,339,556	386.67 %
Capital Assets	5,424,533	24,690	21870.57
Total Assets	11,943,690	1,364,246	775.48
Deferred Outflows of Resources	991,790	1,291,367	(23.20)
Current Liabilities	2,412,237	73,645	3175.49
Net Pension Liability	1,144,289	1,074,331	6.51
Long-Term Liabilities	9,018,790	-	N/A
Total Liabilities	12,575,316	1,147,976	995.43
Deferred Inflows of Resources	1,093,034	1,296,950	(15.72)
Net Position:			
Net Investment in Capital Assets	(751,554)	63,706	(1279.72)
Restricted	524,183	-	N/A
Unrestricted	(505,499)	146,981	(443.92)
Total Net Position	$ (732,870)	$ 210,687	(447.85)

The School's net position decreased by $943,557 due to expenses exceeding revenues. The net position decrease is primarily related to GASB Statement No. 68, requiring the recording of liabilities related to the School's proportionate share of unfunded portions of statewide pension plans. Along with this the decrease was due to the School having multiple new debt issuances in the current year.

Changes in Net Position

The School's total entity-wide revenues were $2,926,713 for the year ended June 30, 2020 (see Table A-2). State formula aid accounted for 53% of total revenue for the year. The remaining 47% came from other general and program revenues.

Table A-2
Change in Net Position

	Governmental Activities for the Fiscal Year Ended June 30, 2020	2019	Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 21,514	$ 42,844	(49.79)%
Operating Grants and Contributions	693,395	673,938	2.89
General Revenues			
Unrestricted State Aid	1,568,035	1,442,659	8.69
Investment Earnings	14,911	1,832	713.92
Other	628,858	437,641	43.69
Total Revenues	2,926,713	2,598,914	12.61
Expenses			
Administration	223,227	157,346	41.87
District Support Services	816,741	333,320	145.03
Regular Instruction	1,271,572	677,102	87.80
Vocational Education Instruction	2,272	-	N/A
Special Education Instruction	453,480	433,145	4.69
Instructional Support Services	11,534	3,829	201.23
Pupil Support Services	337,570	141,322	138.87
Sites and Buildings	292,507	177,502	64.79
Fiscal and Other Fixed Cost Programs	19,896	5,100	290.12
Food Service	107,866	128,777	(16.24)
Community Service	114,908	111,178	3.35
Interest and Fiscal Charges on Long-Term Liabilities	218,697	-	N/A
Total Expenses	3,870,270	2,168,621	78.47
Change in Net Position	(943,557)	430,293	
Beginning Net Position	210,687	(219,606)	
Ending Net Position	$ (732,870)	$ 210,687	

Total revenues were less than expenses, decreasing the ending net position by $943,557. The increase to expenses was largely driven by the new debt and capital projects that the School took on during fiscal year 2020 related to the Building Company. Pension expenses related to GASB 68 also increased $462,962 due to changes in the actuarial valuations of PERA's and TRA's net pension liabilities and related deferred inflows of resources and deferred inflows of resources.

The cost of all *governmental* activities this year was $3,870,270.

- Some of the cost was paid by the users of the School's programs ($21,514).
- The federal and state government and private grant funds subsidized certain programs with grants and contributions ($693,395).
- Most of the School's costs were paid for by unrestricted state aid ($1,568,035).

Figure A-1
Sources of School's Revenues for Fiscal 2020

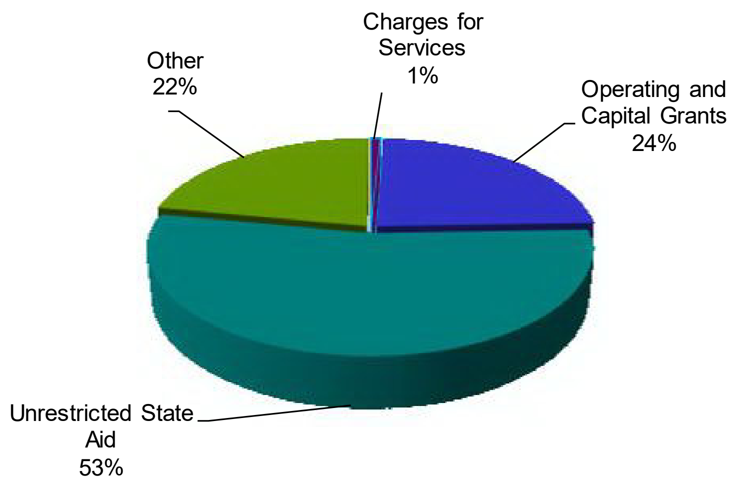
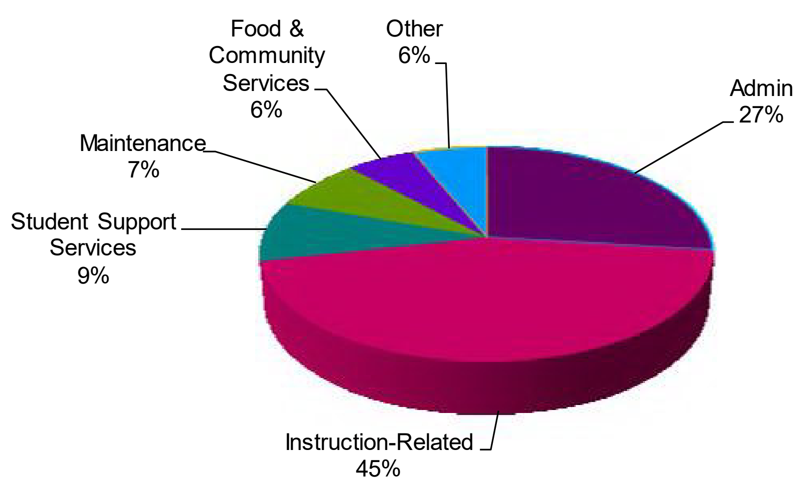


Figure A-2
School Expenses for Fiscal 2020



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	Net Cost of Services		Percentage
	2020	2019	Change	2020	2019	Change
Administration	$ 223,227	$ 157,346	41.87 %	$ 221,742	$ 171,830	29.05 %
District Support Services	816,741	333,320	145.03	794,392	332,097	139.20
Regular Instruction	1,271,572	677,102	87.80	1,181,684	599,361	97.16
Vocational Education Instruction	2,272	-	N/A	2,272	-	N/A
Special Education Instruction	453,480	433,145	4.69	39,841	(17,078)	(333.29)
Instructional Support Services	11,534	3,829	201.23	11,534	3,829	201.23
Pupil Support Services	337,570	141,322	138.87	335,747	138,441	142.52
Sites and Buildings	292,507	177,502	64.79	203,986	90,701	124.90
Fiscal and Other Fixed Cost Programs	19,896	5,100	290.12	19,896	5,100	290.12
Food Service	107,866	128,777	(16.24)	12,087	16,668	(27.48)
Community Service	114,908	111,178	0.03	113,483	110,890	0.02
Interest and Fiscal Charges on Long-Term Liabilities	218,697	-	N/A	218,697	-	N/A
Total	$ 3,870,270	$ 2,168,621	78.47	$ 3,155,361	$ 1,451,839	117.34

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 $11,953,312 while total expenditures and other financing uses were $9,077,578. This contributed to a *combined* fund balance of $4,141,645, which is $2,875,734 higher than last year's ending fund balance of $1,265,911.

GENERAL FUND

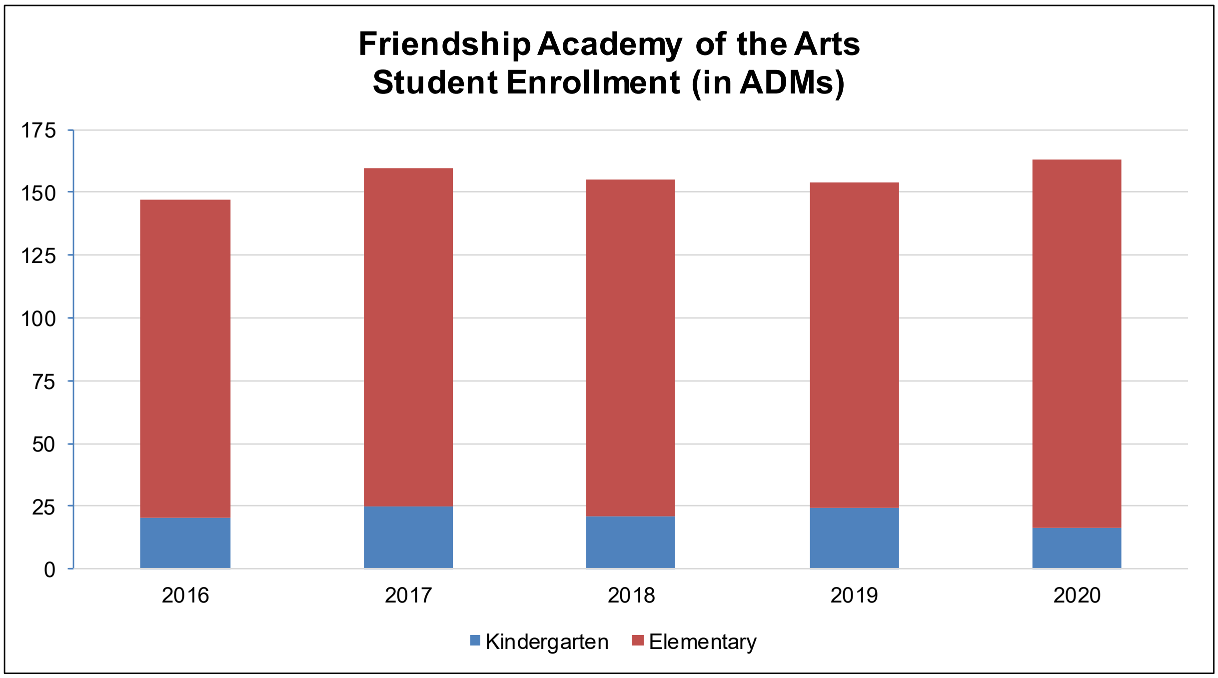
The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 6 including activities and capital outlay projects.

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.

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 nine from fiscal year 2019 to 2020.

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 2019-2020 was 163 students.

The following schedule presents a summary of General Fund Revenues.

Table A-5
General Fund Revenues

	Year Ended		Change	
	June 30, 2020	June 30, 2019	Increase (Decrease)	Percent Change
Local Sources:				
Earnings on Investments	$ 1,031	$ 1,832	$ (801)	(43.7)%
Other	520,129	326,719	193,410	59.2
State Sources	2,061,828	1,939,789	122,039	6.3
Federal Sources	114,862	143,186	(28,324)	(19.8)
Total General Fund Revenue	$ 2,697,850	$ 2,411,526	$ 286,324	11.9

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 $286,324 from the previous year. State revenue increased $122,039 with most of the increase attributable to general education revenue for enrollment growth and the 2% formula improvement provided by the Legislature. Other local sources increased $193,410 due to the School receiving more from local grants in the current year.

The following schedule presents a summary of General Fund Expenditures.

Table A-6
General Fund Expenditures

	Year Ended		Change	
	June 30, 2020	June 30, 2019	Increase (Decrease)	Percent Change
Salaries	$ 1,339,227	$ 1,155,400	$ 183,827	15.9 %
Employee Benefits	270,481	220,696	49,785	22.6
Purchased Services	1,142,889	748,823	394,066	52.6
Supplies and Materials	103,376	98,306	5,070	5.2
Capital Expenditures	34,684	7,818	26,866	343.6
Other Expenditures	5,472	2,830	2,642	93.4
Total General Fund Expenditures	$ 2,896,129	$ 2,233,873	$ 662,256	29.6

Total General Fund expenditures increased $662,256 from the previous year. Salaries and benefits increased a combined total of $233,612. Purchased Services as well as Supplies and Materials increased a combined total of $399,136 due mainly to transportation costs and additional facility costs related to improvements.

Ending fund balance is the single best measure of overall financial health. General Fund ending fund balance was $1,507,514 at June 30, 2020, which represents 52% 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 $45,799 or 1.67%.

Actual expenditures were more than budgeted with a variance of $94,001 or 3.35%. The majority of the budget overages were found in the areas of district support services, pupil support services, and capital outlay. There overages were partially offset by site and buildings spending $54,506 less than budgeted.

The differences between actual revenues and other financing sources and expenditures and other financing uses resulted in an increase in fund balance for the year of $237,264, which was $313,743 more than had been reflected in the final amended budget.

OTHER MAJOR FUNDS

Revenues and other financing sources were equal to expenditures in the Food Service Fund which resulted in ending the year with a fund balance of $-0-.

For the Community Service Fund expenditures equaled revenue from local sources netting to $0 which resulted in ending the year with a fund balance deficit of $4,339.

For the Building Company Fund revenues and other financing sources exceeded expenditures by $2,638,470, which resulted in an ending fund balance of $2,638,470.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2019-2020 fiscal year, the School had invested $5,936,205 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 $21,714.

Table A-7
The School's Capital Assets

	2020	2019	Percentage Change
FFA Building Company			
Land	$ 867,500	$ -	N/A
Construction in Progress	4,547,293	-	N/A
Friendship Academy			
Leasehold Improvements	233,882	233,882	- %
Furniture and Equipment	287,530	280,766	2.4
Less: Accumulated Depreciation	(511,672)	(489,958)	4.4
Total Capital Assets	$ 5,424,533	$ 24,690	21870.6

Long-Term Liabilities

At year-end, the School had a net amount of $10,163,079 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

	2020	2019	Percentage Change
Lease Revenue Bonds	$ 8,250,000	$ -	N/A
Net Bond Premium and Discount	325,513	-	N/A
PPP Loan	293,277	-	N/A
Charter Fund Loan	150,000	-	N/A
Net Pension Liability	1,144,289	1,074,331	6.5 %
Total Long-Term Liabilities	$ 10,163,079	$ 1,074,331	846.0
Long-Term Liabilities:			
Due Within One Year	$ 96,290	$ -	
Due in More Than One Year	10,066,789	1,074,331	
Total	$ 10,163,079	$ 1,074,331	

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.

Due to the COVID-19 pandemic, the Governor of Minnesota issued a stay at home order which occurred during the year. This caused the School to go to distance learning for part of the school year.

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

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
STATEMENT OF NET POSITION
JUNE 30, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2019)

	Governmental Activities	
	2020	2019
ASSETS		
Cash and Investments	$ 6,053,968	$ 933,302
Receivables:		
Other Governments	445,610	366,460
Other	-	39,794
Prepaid Items	19,579	-
Capital Assets:		
Land and Construction in Progress	5,414,793	-
Other Capital Assets, Net of Depreciation	9,740	24,690
Total Assets	11,943,690	1,364,246
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pensions	991,790	1,291,367
LIABILITIES		
Salaries Payable	108,038	71,317
Accounts and Contracts Payable	2,269,474	2,328
Accrued Interest Payable	34,725	-
Long-Term Liabilities:		
Net Pension Liability	1,144,289	1,074,331
Other Long-Term Liabilities Due Within One Year	96,290	-
Other Long-Term Liabilities Due in More Than One Year	8,922,500	-
Total Liabilities	12,575,316	1,147,976
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Pensions	1,093,034	1,296,950
NET POSITION		
Net Investment in Capital Assets	(751,554)	63,706
Restricted for:		
Building Company Debt Service	524,183	-
Unrestricted	(505,499)	146,981
Total Net Position	$ (732,870)	$ 210,687

See accompanying Notes to Basic Financial Statements.

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2019)

	2020				2019
		Program Revenues		Net (Expense) Revenue and Change in Net Position	Net (Expense) Revenue and Change in Net Position
Functions	Expenses	Charges for Services	Operating Grants and Contributions	Total Governmental Activities	Total Governmental Activities
GOVERNMENTAL ACTIVITIES					
Administration	$ 223,227	$ 659	$ 826	$ (221,742)	$ (171,830)
District Support Services	816,741	-	22,349	(794,392)	(332,097)
Regular Instruction	1,271,572	20,855	69,033	(1,181,684)	(599,361)
Vocational Education Instruction	2,272	-	-	(2,272)	-
Special Education Instruction	453,480	-	413,639	(39,841)	17,078
Instructional Support Services	11,534	-	-	(11,534)	(3,829)
Pupil Support Services	337,570	-	1,823	(335,747)	(138,441)
Sites and Buildings	292,507	-	88,521	(203,986)	(90,701)
Fiscal and Other Fixed Cost Programs	19,896	-	-	(19,896)	(5,100)
Food Service	107,866	-	95,779	(12,087)	(16,668)
Community Service	114,908	-	1,425	(113,483)	(110,890)
Interest and Fiscal Charges on Long-Term Liabilities	218,697	-	-	(218,697)	-
Total School District	$ 3,870,270	$ 21,514	$ 693,395	(3,155,361)	(1,451,839)
GENERAL REVENUES					
State Aid Not Restricted to Specific Purposes				1,568,035	1,442,659
Earnings on Investments				14,911	1,832
Miscellaneous				628,858	437,641
Total General Revenues				2,211,804	1,882,132
CHANGE IN NET POSITION				(943,557)	430,293
Net Position - Beginning				210,687	(219,606)
NET POSITION - ENDING				$ (732,870)	$ 210,687

See accompanying Notes to Basic Financial Statements.

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2019)

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Building Company	2020	2019
ASSETS						
Cash and Investments	$ 905,404	$ 993	$ -	$ 5,151,910	$ 6,058,307	$ 933,302
Receivables:						
Due from Minnesota Department of Education	372,057	-	-	-	372,057	308,364
Due from Federal through Minnesota Department of Education	72,738	815	-	-	73,553	97,890
Due from Other Funds	266,013	-	-	-	266,013	46,176
Prepaids	19,579	-	-	-	19,579	-
Total Assets	$ 1,635,791	$ 1,808	$ -	$ 5,151,910	$ 6,789,509	$ 1,385,732
LIABILITIES AND FUND BALANCE						
Liabilities:						
Salaries Payable	$ 87,303	$ -	$ -	$ -	$ 87,303	$ 59,204
Payroll Deductions and Employer Contributions Payable	20,735	-	-	-	20,735	12,113
Accounts and Contracts Payable	20,239	1,808	-	2,247,427	2,269,474	2,328
Due to Other Funds	-	-	-	266,013	266,013	46,176
Cash Drawn in Excess of Deposits	-	-	4,339	-	4,339	-
Total Liabilities	128,277	1,808	4,339	2,513,440	2,647,864	119,821
Fund Balance:						
Nonspendable:						
Prepaids	19,579	-	-	-	19,579	-
Restricted for:						
Building Company	-	-	-	2,638,470	2,638,470	-
Assigned for:						
Strategic Planning and Business Plan	-	-	-	-	-	45,000
Unassigned	1,487,935	-	(4,339)	-	1,483,596	1,220,911
Total Fund Balance	1,507,514	-	(4,339)	2,638,470	4,141,645	1,265,911
Total Liabilities and Fund Balance	$ 1,635,791	$ 1,808	$ -	$ 5,151,910	$ 6,789,509	$ 1,385,732

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, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2019)

	2020	2019
Total Fund Balance for Governmental Funds	$ 4,141,645	$ 1,265,911
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	867,500	-
Construction in Progress	4,547,293	-
Equipment, Net of Accumulated Depreciation	9,740	24,690
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(34,725)	-
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:		
Net Pension Liability	(1,144,289)	(1,074,331)
Deferred Inflows of Resources - Pensions	(1,093,034)	(1,296,950)
Deferred Outflows of Resources - Pensions	991,790	1,291,367
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:		
Bonds Payable	(8,250,000)	-
Unamortized Premiums	(325,513)	-
PPP Loan	(293,277)	-
Charter Loan	(150,000)	-
Total Net Position of Governmental Activities	$ (732,870)	$ 210,687

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, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2019)

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Building Company	2020	2019
REVENUES						
Local Sources:						
Earnings and Investments	$ 1,031	$ -	$ -	$ 13,880	$ 14,911	$ 1,832
Other	520,129	-	113,446	-	633,575	442,089
State Sources	2,061,828	5,055	-	-	2,066,883	1,946,860
Federal Sources	114,862	90,699	-	-	205,561	248,133
Total Revenues	2,697,850	95,754	113,446	13,880	2,920,930	2,638,914
EXPENDITURES						
Current:						
Administration	199,299	-	-	-	199,299	247,604
District Support Services	451,102	-	-	352,158	803,260	357,772
Elementary and Secondary Regular Instruction	1,134,877	-	-	-	1,134,877	875,286
Vocational Education Instruction	2,272	-	-	-	2,272	-
Special Education Instruction	427,791	-	-	-	427,791	433,145
Instructional Support Services	11,534	-	-	-	11,534	3,829
Pupil Support Services	337,570	-	-	-	337,570	141,322
Sites and Buildings	277,104	-	-	-	277,104	161,997
Fiscal and Other Fixed Cost Programs	19,896	-	-	-	19,896	5,100
Food Service	-	103,488	-	-	103,488	127,086
Community Service	-	-	113,446	-	113,446	117,069
Capital Outlay	34,684	-	-	5,414,793	5,449,477	7,818
Debt Service:						
Interest and Fiscal Charges	-	-	-	189,830	189,830	-
Total Expenditures	2,896,129	103,488	113,446	5,956,781	9,069,844	2,478,028
EXCESS (DEFICIENCY) OF REVENUE (OVER) UNDER EXPENDITURES	(198,279)	(7,734)	-	(5,942,901)	(6,148,914)	160,886
OTHER FINANCING SOURCES (USES)						
Sale of Bonds	-	-	-	8,250,000	8,250,000	-
Bond Premium	-	-	-	331,371	331,371	-
Proceeds from PPP Loan	293,277	-	-	-	293,277	-
Proceeds from Long-term Loan	150,000	-	-	-	150,000	-
Transfers In	-	7,734	-	-	7,734	15,068
Transfers Out	(7,734)	-	-	-	(7,734)	(15,068)
Total Other Financing Sources (Uses)	435,543	7,734	-	8,581,371	9,024,648	-
NET CHANGE IN FUND BALANCE	237,264	-	-	2,638,470	2,875,734	160,886
FUND BALANCE						
Beginning of Year	1,270,250	-	(4,339)	-	1,265,911	1,105,025
End of Year	$ 1,507,514	$ -	$ (4,339)	$ 2,638,470	$ 4,141,645	$ 1,265,911

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, 2020
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2019)

	2020	2019
Net Change in Fund Balance - Total Governmental Funds	$ 2,875,734	$ 160,886
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	5,421,557	-
Depreciation Expense	(21,714)	(27,936)
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.	(165,619)	297,343
The governmental funds report bond proceeds as 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 funds when it is due. The net effect of these differences in the treatment of lease revenue bonds and related items is as follows:		
Bonds Payable	(8,250,000)	-
Unamortized Premiums	(331,371)	-
PPP Loan	(293,277)	-
Long-term Loan	(150,000)	-
Change in Accrued Interest - Lease Revenue Bonds	(34,725)	-
Amortization of Bond Premium	5,858	-
Total	$ (943,557)	$ 430,293

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, 2020

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
REVENUES				
Local Sources:				
Earnings and Investments	$ -	$ 1,000	$ 1,031	$ 31
Other	426,000	441,000	520,129	79,129
State Sources	2,108,158	2,188,043	2,061,828	(126,215)
Federal Sources	107,000	113,606	114,862	1,256
Total Revenues	2,641,158	2,743,649	2,697,850	(45,799)
EXPENDITURES				
Current:				
Administration	242,818	198,686	199,299	613
District Support Services	380,985	420,035	451,102	31,067
Elementary and Secondary Regular Instruction	931,265	1,111,070	1,134,877	23,807
Vocational Education Instruction	-	-	2,272	2,272
Special Education Instruction	452,467	432,927	427,791	(5,136)
Instructional Support Services	-	-	11,534	11,534
Pupil Support Services	255,000	307,800	337,570	29,770
Sites and Buildings	300,517	331,610	277,104	(54,506)
Fiscal and Other Fixed Cost Programs	-	-	19,896	19,896
Capital Outlay	-	-	34,684	34,684
Total Expenditures	2,563,052	2,802,128	2,896,129	94,001
EXCESS (DEFICIENCY) OF REVENUE (OVER) UNDER EXPENDITURES	78,106	(58,479)	(198,279)	(139,800)
OTHER FINANCING USES				
Proceeds from PPP Loan	-	-	293,277	293,277
Proceeds from Long-term Loan	-	-	150,000	150,000
Transfers Out	(21,091)	(18,000)	(7,734)	10,266
Total Other Financing Sources (Uses)	(21,091)	(18,000)	435,543	453,543
NET CHANGE IN FUND BALANCE	$ 57,015	$ (76,479)	237,264	$ 313,743
FUND BALANCE				
Beginning of Year			1,270,250	
End of Year			$ 1,507,514	

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, 2020

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
REVENUES				
State Sources	$ -	$ 5,293	$ 5,055	$ (238)
Federal Sources	103,400	89,800	90,699	899
Total Revenues	103,400	95,093	95,754	661
EXPENDITURES				
Current:				
Food Service	124,491	113,093	103,488	(9,605)
DEFICIENCY OF REVENUE UNDER EXPENDITURES	(21,091)	(18,000)	(7,734)	10,266
OTHER FINANCING SOURCES				
Transfers In	21,091	18,000	7,734	(10,266)
NET CHANGE IN FUND BALANCE	$ -	$ -	-	$ -
FUND BALANCE				
Beginning of Year			-	
End of Year			$ -	

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, 2020

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
REVENUES				
Local Sources:				
Other - Primarily Tuition and Fees	$ 110,000	$ 121,500	$ 113,446	$ (8,054)
EXPENDITURES				
Current:				
Community Service	110,000	105,564	113,446	7,882
NET CHANGE IN FUND BALANCE	$ -	$ 15,936	-	$ (15,936)
FUND BALANCE				
Beginning of Year			(4,339)	
End of Year			$ (4,339)	

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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 is operating under a contract extending through June 30, 2021. 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 will own the real estate and buildings and will lease the educational site to the School for its operations commencing in fiscal year 2020. The Building Company is governed by a separate board appointed by the Board of the School.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, student activity accounts are included in the School's basic financial statements as part of the General Fund.

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.

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.

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.

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 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.

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
Revenues			
General Fund	$ 2,641,158	$ 102,491	$ 2,743,649
Special Revenue Funds:			
Food Service Fund	103,400	(8,307)	95,093
Community Service Fund	110,000	11,500	121,500
Expenditures			
General Fund	$ 2,563,052	$ 239,076	$ 2,802,128
Special Revenue Funds:			
Food Service Fund	124,491	(11,398)	113,093
Community Service Fund	110,000	(4,436)	105,564

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 position 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 financial 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 position 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 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

M. Accrued Employee Benefits

Unpaid Sick and Personal Leave

Unpaid sick and personal leave has not been accrued in any funds as these benefits do not vest to employees.

N. 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.

O. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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, 2019, from which the summarized information was derived. Certain comparative information has been reclassified to conform with the current year presentation.

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, 2020 were $902,247 and $1,020,319, respectively. The School's deposits in banks at June 30, 2020 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

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, 2020, 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	$ 5,151,910

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.

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, 2020, 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	$ 6,053,968

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.

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, 2020. 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, 2020, the following were the interfund balances:

	Due from Other Fund	Due to Other Fund
General Fund	$ 266,013	$ -
Building Company	-	266,013
Total	$ 266,013	$ 266,013

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 2020, the following transfer was also made to eliminate the operational deficit of the Food Service Fund.

	Transfers In	Transfers Out
General Fund	$ -	$ 7,734
Special Revenue Fund:		
Food Service Fund	7,734	-
Total	$ 7,734	$ 7,734

NOTE 4 STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Expenditures	Excess
General Fund	$ 2,802,128	$ 2,896,129	$ 94,001
Special Revenue Fund:			
Community Service Fund	105,564	113,446	7,882

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

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
FFA Building Company				
Land	$ -	$ 867,500	$ -	$ 867,500
Construction in Progress	-	4,547,293	-	4,547,293
Total Capital Assets, Not Being Depreciated	-	5,414,793	-	5,414,793
Capital Assets, Being Depreciated:				
Friendship Academy				
Leasehold Improvements	233,882	-	-	233,882
Equipment	280,766	6,764	-	287,530
Total Capital Assets, Being Depreciated	514,648	6,764	-	521,412
Accumulated Depreciation for:				
Friendship Academy				
Leasehold Improvements	(233,882)	-	-	(233,882)
Equipment	(256,076)	(21,714)	-	(277,790)
Total Accumulated Depreciation	(489,958)	(21,714)	-	(511,672)
Total Capital Assets, Being Depreciated, Net	24,690	(14,950)	-	9,740
Governmental Activities Capital Assets, Net	$ 24,690	$ 5,399,843	$ -	$ 5,424,533

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

Governmental Activities	
Regular Instruction	$ 2,767
Sites and Buildings	15,403
Food Service	3,544
Total Depreciation Expense, Governmental Activities	$ 21,714

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 2020 and the agreement had no outstanding balance at June 30, 2020.

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.

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. This loan was agreed upon for the school to open a Building Company Fund in the current year. 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 will be 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, 2020 amounted to $1,678,585, of which $-0- (or -0.0-%) was remitted during the current year as lease payments to the Building Company, or was due to the Building Company at the end of the current year and reported as accounts payable.

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, (the rates of the related lease revenue bonds) and is secured by a mortgage agreement covering the related land, school building, and building contents.

Changes in long-term debt are as follows:

	June 30, 2019	Additions	Retirements	June 30, 2020	Principal Due Within One Year
Series 2019 A&B Bonds	$ -	$ 8,250,000	$ -	$ 8,250,000	$ -
2019 Bond Premium	-	331,371	5,858	325,513	-
PPP Loan	-	293,277	-	293,277	96,290
Charter School Fund Loan	-	150,000	-	150,000	-
Total	$ -	$ 9,024,648	$ 5,858	$ 9,018,790	$ 96,290

NOTE 7 DEBT (CONTINUED)

Following are estimated 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:

	Lease Revenue Bonds Payable	
Year Ending June 30,	Principal	Interest
2021	$ -	$ 416,700
2022	-	416,700
2023	110,000	414,363
2024	115,000	409,637
2025	120,000	404,850
2026-2030	690,000	1,945,850
2031-2035	855,000	1,782,475
2036-2040	1,110,000	1,529,850
2041-2045	1,440,000	1,196,700
2046-2050	1,875,000	764,541
2051-2053	1,935,000	184,144
Total	$ 8,250,000	$ 9,465,810

Charter School Fund Loan			
Year Ending June 30,	Principal	Interest	Total
2021	$ -	$ -	$ -
2022	150,000	-	150,000
Total	$ 150,000	$ -	$ 150,000

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

NOTE 8 DEFINED BENEFIT PENSION PLANS

Substantially all employees of the Friendship Academy of the Arts are required by state law to belong to pension plans administered by Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a statewide basis. Disclosures relating to these plans follow:

A. Plan Description

The School participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (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.

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

1. General Employees Retirement Plan (GERF)

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

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 University of Minnesota System).

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 Plan Benefits

General Benefits 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% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be 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%.

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. General Employee Plan Benefits (Continued)

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. For 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

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.

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 2020 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, 2020 were $47,309. The School’s contributions were equal to the required contributions as set by state statute.

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 7.92% for the employer. Basic rates were 11.00% for the employee and 11.92% for the employer.

The School's contributions to TRA for the plan's fiscal year ended June 30, 2020 were $57,702. 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, 2020, the School reported a liability of $436,773 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 to the fund in 2019. 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 $13,666. The net pension liability was measured as of June 30, 2019, 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, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers.

As of the June 30, 2019 measurement date, the School's proportion was .0079% which was an increase of .004% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the School recognized pension expense of $79,753 for its proportionate share of General Employees Fund's pension expense. In addition, the School recognized an additional $1,023 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.

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

At June 30, 2020, 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	$ 12,105	$ -
Changes in Actuarial Assumptions	-	34,331
Net Difference Between Projected and Actual Earnings on Plan Investments	-	44,272
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	42,220	-
District Contributions Subsequent to the Measurement Date	47,309	-
Total	$ 101,634	$ 78,603

A total of $47,309 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, 2021.

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

Year Ending June 30,	Pension Expense Amount
2021	$ 33
2022	(22,494)
2023	(2,521)
2024	704
2025	
Thereafter	-

2. TRA Pension Costs

At June 30, 2020, the School reported a liability of $707,516 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2019, 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 .0111% at the end of the measurement period and .0105% for the beginning of the period.

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	$ 707,516
State's Proportionate Share of the Net Pension Liability Associated with the School	62,613
Total	$ 770,129

For the year ended June 30, 2020, the School recognized pension expense of $191,287. It also recognized $4,759 as pension expense for the support provided by direct aid.

At June 30, 2020, 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	$ 101	$ 17,188
Changes in Actuarial Assumptions	595,404	938,621
Net Difference Between Projected and Actual Earnings on Plan Investments	-	58,622
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	236,949	-
District Contributions Subsequent to the Measurement Date	57,702	-
Total	$ 890,156	$ 1,014,431

A total of $57,702 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, 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
2021	$ 112,461
2022	68,246
2023	(218,096)
2024	(153,024)
2025	8,436
Thereafter	-

3. Total Pension Expense

The School's total pension expense for all plans for the year ended June 30, 2020 was $276,813. The School's total pension liability for all plans for the year ended June 30, 2020 was $1,144,289.

E. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.50% per Year	2.50% per Year
Active Member Payroll Growth	3.25% per Year	2.85% before July1, 2028 and 3.25%, thereafter
Investment Rate of Return	7.50%	7.50%

PERA Salary increases were based on a service-related table. PERA mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. PERA cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan and 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually for TRA.

TRA pre-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.

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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 increases 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes for PERA occurred in 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, decreasing 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.

The following changes for TRA occurred in 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.

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.

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rate

The discount rate used to measure the PERA General Employees Plan liability in 2019 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 positions 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 2019 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).

NOTE 8 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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
GERF Discount Rate	6.50%	7.50%	8.50%
School's Proportionate Share of the GERF Net Pension Liability	$ 718,032	$ 436,773	$ 204,539
TRA Discount Rate	6.50%	7.50%	8.50%
School's Proportionate Share of the TRA Net Pension Liability	$ 1,127,954	$ 707,516	$ 360,872

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.

NOTE 9 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. No payments were due in fiscal year 2020, as monthly installments start on July 20, 2020.

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 2020 was $-0-.

The total amount of lease payments paid and allowed under the terms of MDE-approved leases was $98,357 for fiscal 2020. For fiscal 2020, the School qualified for state charter school lease aid in the amount of $88,521 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.

NOTE 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

Year Ending June 30,	GFMBC Lease Payments
2021	$ 111,645

Year Ending June 30,	Building Company Lease Payments
2021	$ 446,658
2022	517,492
2023	583,354
2024	583,339
2025	583,254
2026-2030	2,925,569
2031-2035	2,925,203
2036-2040	2,922,613
2041-2045	2,910,875
2046-2050	2,905,677
2051-2053	1,413,181
Total	$ 18,717,215

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.

Total lease costs including the School's building leases and other operating leases for the fiscal year ended June 30, 2020 was $238,542.

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. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program. To the extent that all or part of the PPP Loan is not forgiven, Friendship Academy of the Arts will be required to pay interest on the PPP Loan at a rate of 1.0% per annum, and principal and interest payments will be required through the maturity date in October 1, 2022.

Friendship Academy of the Arts has not yet received forgiveness. Should payments be required over the next two years the monthly payment would be $12,399 resulting in the following annual results:

	PPP Loan		
Year Ending June 30,	Principal	Interest	Total
2021	$ 96,290	$ 2,903	$ 99,193
2022	147,494	1,295	148,789
2023	49,493	103	49,596
Total	$ 293,277	$ 4,301	$ 297,578

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 SIX MEASUREMENT PERIODS *

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

	Measurement Date June 30,					
	2019	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.0111%	0.0105%	0.0092%	0.0083%	0.0060%	0.0062%
School's Proportionate Share of the Net Pension Liability	$ 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	62,613	62,034	177,715	197,995	45,283	19,989
Total	$ 770,129	$ 720,296	$ 2,014,202	$ 2,177,743	$ 416,442	$ 305,681
School's Covered Payroll	$ 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	113.64%	115.29%	337.07%	440.45%	68.12%	101.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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 SIX MEASUREMENT PERIODS *

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

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.

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.

2018 (Continued)

Changes in Plan Provisions (Continued)

- 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 SIX 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 while 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 SIX 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 SEVEN FISCAL YEARS *

TRA Schedule of School Contributions
Last Seven Fiscal Years

	Fiscal Year Ended June 30, 2020	2019	2018	2017	2016	2015	2014
Statutorily Required Contribution	$ 57,702	$ 48,000	$ 42,824	$ 40,863	$ 33,711	$ 40,863	$ 19,742
Contributions in Relation to the Statutorily Required Contribution	(57,702)	(48,000)	(42,824)	(40,863)	(33,711)	(40,863)	(19,742)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School's Covered Payroll	$ 728,561	$ 622,568	$ 570,987	$ 544,840	$ 449,480	$ 544,840	$ 282,029
Contributions as a Percentage of Covered Payroll	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 SIX MEASUREMENT PERIODS *

Net Pension Liability	Measurement Date June 30,					
	2019	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.0079%	0.0075%	0.0071%	0.0064%	0.0062%	0.0112%
School's Proportionate Share of the Net Pension Liability	$ 436,773	$ 416,069	$ 453,259	$ 519,648	$ 321,316	$ 526,120
State's Proportionate Share of the Net Pension Liability Associated with School	13,666	13,567	5,701	6,804	-	-
Total	$ 450,439	$ 429,636	$ 458,960	$ 526,452	$ 321,316	$ 526,120
School's Covered Payroll	$ 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	77.76%	81.43%	113.68%	142.11%	87.61%	267.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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 SIX 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

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 SIX 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 SIX MEASUREMENT PERIODS *

2015

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 years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate changed from 7.90% to 7.50%.
- Other assumptions were changed pursuant to the experience study 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 Plan Provisions

- There have been no changes since the prior valuation.

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

GERF Schedule of School Contributions
Last Seven Fiscal Years

	Fiscal Year Ended June 30,						
	2020	2019	2018	2017	2016	2015	2014
Statutorily Required Contribution	$ 47,309	$ 42,126	$ 38,323	$ 29,903	$ 27,424	$ 27,047	$ 14,233
Contributions in Relation to the Statutorily Required Contribution	(47,309)	(42,126)	(38,323)	(29,903)	(27,424)	(27,047)	(14,233)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School's Covered Payroll	$ 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%	7.38%	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, 2020

	AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND			
Total Revenue	$ 2,697,850	$ 2,823,626 *	$ (125,776)
Total Expenditures	2,896,129	2,896,133	(4)
Nonspendable:			
460 Nonspendable Fund Balance	19,579	19,579	-
Restricted:			
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	-	-	-
Committed:			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	-	-	-
Assigned:			
462 Assigned Fund Balance	-	-	-
Unassigned:			
422 Unassigned Fund Balance	1,487,935	1,612,899 *	(124,964)
02 FOOD SERVICE			
Total Revenue	95,754	94,939 *	815
Total Expenditures	103,488	103,488	-
Nonspendable:			
460 Nonspendable Fund Balance	-	-	-
Restricted:			
452 OPEB Liability Not Held in Trust	-	-	-
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	113,446	113,446	-
Total Expenditures	113,446	113,446	-
Nonspendable:			
460 Nonspendable Fund Balance	-	-	-
Restricted:			
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	-	-	-
Unassigned:			
463 Unassigned Fund Balance	(4,339)	(4,340)	1

* 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, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated December 16, 2020.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations as item 2020-001 that we consider to be a material weakness.

Compliance and Other Matters

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

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 Recommendations. 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

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 16, 2020

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, 2020, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 16, 2020.

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 uniform financial accounting and reporting standards, and 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.

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
December 16, 2020

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2020

FINDING: 2020-001 MATERIAL AUDIT ADJUSTMENTS

Condition: The audit firm proposed journal entries to correct three material misstatements identified by the auditors. The first entry reduced the General Fund's receivable from MDE and lease aid revenue in the amount of $125,779. The second entry related to the cutoff of capital expenditures and payables of FAA Building Company's construction, which increased capital expenditures and accounts payable in the amount of $2,247,427 for two draws and retainage payable that had service dates prior to June 30, 2020. The last entry was then the capital asset effect of the second noted entry on governmental activities, which was to increase capital assets and reduce capital expenditures in the amount of $2,247,427.

Criteria: 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: For the reduction in state receivables and lease aid revenue, the approved lease aid costs were reduced after original calculations were completed due to issues with required inspections. For the Building Company capital expenditures, payables, and capital assets, this was the School's first year with an active building company with bonds and on-going projects, so they were not aware they needed to review subsequent draws for payables or to book the related retainage payable.

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).

FINDING: 2020-001 MATERIAL AUDIT ADJUSTMENTS (CONTINUED)

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:
There is no disagreement with the audit finding.

Actions Planned in Response to Finding:
The Business Manager and contracted accounting company will continue training staff and will implement additional procedures to review lease aid revenue calculations and capital expenditure and contracts payable cutoff for the fiscal year 2021 annual financial statements.

Official Responsible for Ensuring CAP:
Dr. B. Charvez Russell, Executive Director of the School, is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:
The planned completion date is June 30, 2021.

Plan to Monitor Completion of CAP:
The Board of Education will be monitoring this corrective action plan.