FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2016

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

OTHER REQUIRED REPORTS

INTRODUCTORY SECTION

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2016

SCHOOL BOARD

NAME	TERM ON BOARD EXPIRATION	BOARD POSITION
Wendy Hines	June 30, 2017	Board Chair
Dorothy Richburg	June 30, 2017	Treasurer
Ananysia Joseph	June 30, 2017	Secretary
Steven Belton	June 30, 2017	Member
Brenda Hill	June 30, 2017	Member
Carr Kpanyor	June 30, 2017	Member
Denise Stellner	June 30, 2017	Member
Dr. Charvez Russell	-	Ex Officio

ADMINISTRATION

Dr. B. Charvez Russell	Executive Director

School Office:

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

FINANCIAL SECTION

CliftonLarsonAllen LLP
CLAconnect.com

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, 2016, and the related notes to the financial statements, which collectively comprise Friendship Academy of the Arts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Friendship Academy of the Arts as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the General Fund and Food Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended June 30, 2016, Friendship Academy of the Arts restated the beginning net position of governmental activities due to prior period misstatements to cash and deferred outflows of resources. See a detail of the prior period adjustment and restatement in Note 9. Our auditors' opinion was not modified with respect to the restatement.

Other Matters

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, PERA Schedule of the School's Proportionate Share of the Net Pension Liability, and PERA Schedule of School Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 as listed in the table of contents as supplementary information 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 relate 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 27, 2016, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Friendship Academy of the Arts' internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
December 27, 2016

REQUIRED SUPPLEMENTARY INFORMATION

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, 2016. Please read it in conjunction with the School's financial statements, which immediately follow this section. Certain comparative information between the current year (2015-2016) and the prior year (2014-2015) is required to be presented in the Management's Discussion and Analysis.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015-2016 fiscal years include the following:

- The fund balance of the General Fund increased $346,568 from the prior year for an ending fund balance of $608,704 at June 30, 2016.
- Total General Fund revenues and other financing sources were $2,229,928 as compared to $1,883,360 of expenditures and other financing uses.
- The fund balance of the Food Service Fund had a balance of $-0- at June 30, 2016.
- Total Food Service Fund revenues were $115,876 as compared to $127,443 of expenditures, and a fund balance transfer of $11,567 was made in fiscal year 2016 to cover the deficit fund balance of the Food Service Fund.

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.

School-Wide Statements (Continued)

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 non-financial 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 a deficit of $181,333 on June 30, 2016 (see Table A-1).

Table A-1
The School's Net Position

	Governmental Activities as of June 30, 2016	Governmental Activities as of June 30, 2015	Percentage Change
Current and Other Assets	$ 696,654	$ 460,893	51.15 %
Capital and Non-Current Assets	88,965	4,861	1730.18
Total Assets	785,619	465,754	68.68
Deferred Outflows	131,675	36,126	264.49
Current Liabilities	87,950	148,210	(40.66)
Long-Term Liabilities	692,475	812,039	(14.72)
Total Liabilities	780,425	960,249	(18.73)
Deferred Inflows	318,202	284,180	11.97
Net Position:			
Investment in Capital Assets	88,965	4,861	1730.18
Unrestricted	(270,298)	(747,410)	(63.84)
Total Net Position	$ (181,333)	$ (742,549)	(75.58)

The School's net position increased by $561,216. A total of $510,670 of the increase was due to revenues exceeding expenses. The remaining $50,546 was due to a prior period adjustment (see Note 9).

Changes in Net Position

The School's total entity-wide revenues were $2,353,809 for the year ended June 30, 2016 (see Table A-2). State formula aid accounted for 57% of total revenue for the year. The remaining 43% came from other general and program revenues.

Table A-2
Change in Net Position

	Governmental Activities for the Fiscal Year Ended June 30, 2016	2015	Total % Change
Revenues			
Program Revenues			
Charges for Services	$ 1,270	$ -	N/A
Operating Grants and Contributions	497,327	65,145	663.42
General Revenues			
Unrestricted State Aid	1,340,559	1,554,902	(13.78)
Investment Earnings	348	97	258.76
Other	514,305	118,361	334.52
Total Revenues	2,353,809	1,738,505	35.39
Expenses			
Administration	79,791	106,179	(24.85)
District Support Services	286,725	234,956	22.03
Regular Instruction	825,017	683,409	20.72
Special Education Instruction	237,291	216,132	9.79
Instructional Support Services	18,000	-	N/A
Pupil Support Services	125,787	78,168	60.92
Sites and Buildings	141,762	169,803	(16.51)
Fiscal and Other Fixed Cost Programs	7,002	18,751	(62.66)
Food Service	120,939	115,438	4.77
Interest and Fiscal Charges on Long-Term Liabilities	824	-	N/A
Total Expenses	1,843,139	1,622,836	13.58
Change in Net Position	510,670	115,669	
Beginning Net Position	(742,549)	(858,218)	
Prior Period Adjustment for Prior Period Misstatements	50,546	-	
Net Position - Beginning, as Restated	(692,003)	(858,218)	
Ending Net Position	$ (181,333)	$ (742,549)	

Total revenues exceeded expenditures increasing the net position by $510,670. The increase in revenue was largely driven by the increase in enrollment (an average of 12 students) and local grants. The total cost of all programs and services was $1,843,139.

The cost of all *governmental* activities this year was $1,843,139.

- Some of the cost was paid by the users of the School's programs ($1,270).
- The federal government and private grant funds subsidized certain programs with grants and contributions ($497,327).
- Most of the School's costs were paid for by unrestricted state aid ($1,340,559).

Figure A-1
Sources of School's Revenues for Fiscal 2016

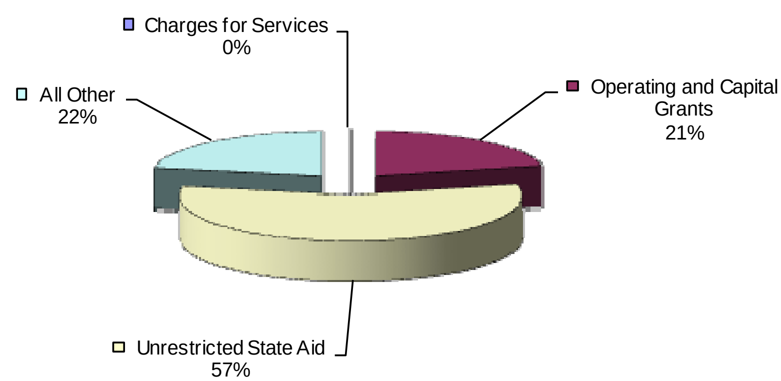
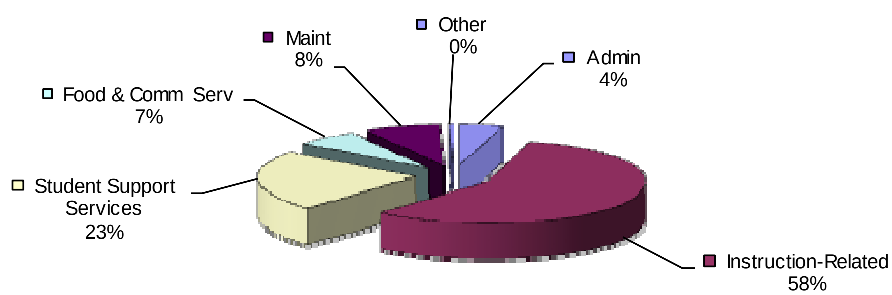


Figure A-2
School Expenses for Fiscal 2016



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
	2016	2015	Change	2016	2015	Change
Administration	$ 79,791	$ 106,179	(24.85)%	$ 79,791	$ 106,179	(24.85)%
District Support Services	286,725	234,956	22.03	286,725	234,956	22.03
Regular Instruction	825,017	683,409	20.72	771,552	683,409	12.90
Special Education Instruction	237,291	216,132	9.79	(7,610)	216,132	(103.52)
Instructional Support Services	18,000	-	N/A	18,000	-	N/A
Pupil Support Services	125,787	78,168	60.92	124,926	78,168	59.82
Sites and Buildings	141,762	169,803	(16.51)	58,268	169,803	(65.68)
Fiscal and Other Fixed Cost Programs	7,002	18,751	(62.66)	7,002	18,751	(62.66)
Food Service	120,939	115,438	4.77%	5,063	50,293	(89.93)
Interest and Fiscal Charges on Long-Term Liabilities	824	-	N/A	824	-	N/A
Total	$ 1,843,139	$ 1,622,836	13.58	$ 1,344,542	$ 1,557,691	(13.68)

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 $2,357,371 while total expenditures and other financing uses were $2,010,803. This contributed to a *combined* fund balance of $608,704 which is $346,568 higher than last year's ending fund balance of $262,136.

GENERAL FUND

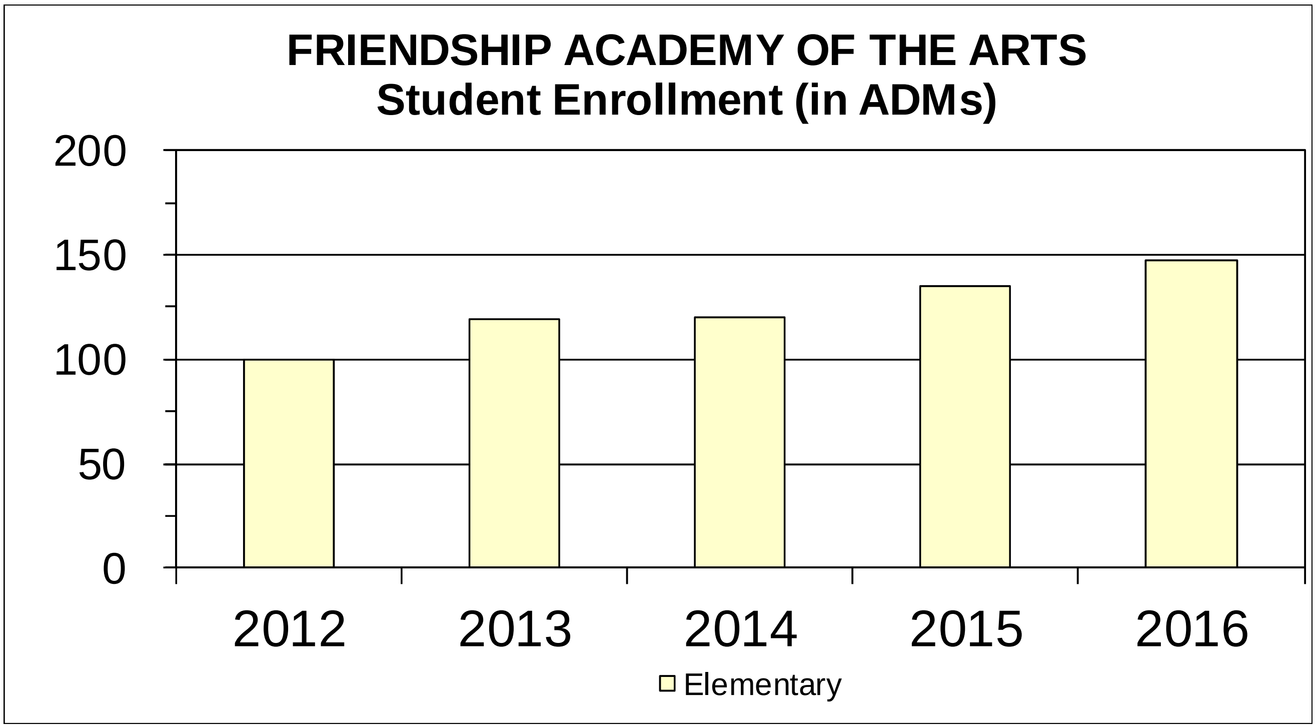
The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 6 including activities and capital outlay projects.

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 has increased continuously over the last five years.

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 2015-2016 was 147 students which was an increase of approximately 12 students over the prior year.

The following schedule presents a summary of General Fund Revenues.

Table A-5
General Fund Revenues

	Year Ended		Change	
Fund	June 30, 2016	June 30, 2015	Increase (Decrease)	Percent
Local Sources:				
Earnings on Investments	$ 348	$ 97	$ 251	258.8 %
Other	514,947	124,614	390,333	313.2
State Sources	1,629,512	1,472,449	157,063	10.7
Federal Sources	85,121	74,902	10,219	13.6
Total General Fund Revenue	$ 2,229,928	$ 1,672,062	$ 557,866	33.4

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 $557,866 from the previous year. State revenue increased approximately $157.1K with most of the increase attributable to the increase in enrollment, lease aid, and state special education revenue. Other local sources increased approximately $390.3K due to the School receiving several local grants in the current year.

The following schedule presents a summary of General Fund Expenditures.

Table A-6
General Fund Expenditures

	Year Ended			
	June 30, 2016	June 30, 2015	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 849,643	$ 720,410	$ 129,233	17.9 %
Employee Benefits	181,187	156,484	24,703	15.8
Purchased Services	617,729	534,271	83,458	15.6
Supplies and Materials	62,456	39,021	23,435	60.1
Capital Expenditures	153,544	10,530	143,014	1358.2
Other Expenditures	7,234	3,968	3,266	82.3
Total Expenditures	$ 1,871,793	$ 1,464,684	$ 407,109	

Total General Fund expenditures increased $407,109 from the previous year. As expected, there were increases across the board due to the increase in the number of students. Salaries and benefits increased a combined total of $153.9K. Purchased Services increased approximately $83.5K. Capital expenditures increased $143.0K due to the installation of new playground equipment and leasehold improvements as well as the purchase of several computers in fiscal year 2016.

Ending fund balance is the single best measure of overall financial health. General Fund ending fund balance was $608,704 at June 30, 2016, which represents 32.5% of annual expenditures.

General Fund Budgetary Highlights

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

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

Actual revenues were higher than budgeted with a variance of $205,141 or 10.1%.

Actual expenditures were lower than budgeted with a variance of $121,272 or 6.1%. The majority of the budget surplus is found in the areas of regular education purchased services and supplies and materials which were partially offset by the budget deficit in regular education capital expenditures.

The differences between actual revenues and expenditures resulted in a surplus for the year of $358,135, which was $326,413 higher than budgeted.

OTHER MAJOR FUNDS

Revenues and other financing sources were equal to expenditures and other financing uses in the Food Service Fund which ending the year with a fund balance of $-0-. Similar to the prior year Food Service Fund received a permanent fund balance transfer from the General Fund to cover its fund balance deficit.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2015-2016 fiscal year, the School had invested $459,370 in a broad range of capital assets, including 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 $28,215.

Table A-7
The School's Capital Assets

	2016	2015	Percentage Change
Friendship Academy			
Equipment	$ 225,488	$ 164,876	36.8 %
Leasehold Improvements	233,882	244,217	(4.2)
Less: Accumulated Depreciation	(370,405)	(404,232)	(8.4)
Total	$ 88,965	$ 4,861	1730.2

Long-Term Liabilities

At year-end, the School had a net amount of $692,475 in long-term liabilities, all of which related to the School's proportionate share of PERA's and TRA's net pension liabilities.

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

	2016	2015	Percentage Change
Net Pension Liability	$ 692,475	$ 812,039	(14.72)%
Long-Term Liabilities:			
Due in More than One Year	$ 692,475	$ 812,039	

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the State of Minnesota for its revenue authority. The 2015 Legislative session ended with schools receiving a 2% increase to the general education formula for both FY 2016 and FY 2017. The 2016 Legislative session did not further improve the general education formula. The holdback will continue at its current level of 10%.

The School will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

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, MN 55406

BASIC FINANCIAL STATEMENTS

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities 2016
ASSETS	
Cash and Investments	$ 351,730
Receivables:	
Other Governments	299,531
Other	45,393
Capital Assets:	
Other Capital Assets, Net of Depreciation	88,965
Total Assets	785,619
DEFERRED OUTFLOWS OF RESOURCES	
Pension Deferred Outflows - See Note 7	131,675
LIABILITIES	
Salaries Payable	72,524
Accounts and Contracts Payable	15,426
Long-Term Liabilities:	
Portion Due in More Than One Year	692,475
Total Liabilities	780,425
DEFERRED INFLOWS OF RESOURCES	
Pension Deferred Inflows - See Note 7	318,202
NET POSITION	
Investment in Capital Assets	88,965
Restricted for:	
Unrestricted	(270,298)
Total Net Position	$ (181,333)

See accompanying Notes to Basic Financial Statements.

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Functions	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Total Governmental Activities
Governmental Activities				
Administration	$ 79,791	$ -	$ -	$ (79,791)
District Support Services	286,725	-	-	(286,725)
Regular Instruction	825,017	642	52,823	(771,552)
Special Education Instruction	237,291	-	244,901	7,610
Instructional Support Services	18,000	-	-	(18,000)
Pupil Support Services	125,787	-	861	(124,926)
Sites and Buildings	141,762	-	83,494	(58,268)
Fiscal and Other Fixed Cost Programs	7,002	-	-	(7,002)
Food Service	120,939	628	115,248	(5,063)
Interest and Fiscal Charges on Long-Term Liabilities	824	-	-	(824)
Total School District	$ 1,843,139	$ 1,270	$ 497,327	(1,344,542)
General Revenues				
State Aid Not Restricted to Specific Purposes				1,340,559
Earnings on Investments				348
Miscellaneous				514,305
Total General Revenues				1,855,212
Change in Net Position				510,670
Net Position - Beginning				(742,549)
Prior Period Adjustment - for Prior Period Misstatements				50,546
Net Position - Beginning, as Restated				(692,003)
Net Position - Ending				$ (181,333)

See accompanying Notes to Basic Financial Statements.

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	Major Funds		Total Governmental Funds
	General	Food Service	2016
ASSETS			
Cash and Investments	$ 351,730	$ -	$ 351,730
Receivables:			
Due from Minnesota Department of Education	216,077	56	216,133
Due from Federal through Minnesota Department of Education	80,733	2,665	83,398
Other Receivables	40,000	5,393	45,393
Due from Other Fund	4,999	-	4,999
Total Assets	$ 693,539	$ 8,114	$ 701,653
LIABILITIES AND FUND BALANCE			
Liabilities:			
Salaries Payable	$ 58,035	$ -	$ 58,035
Payroll Deductions and Employer Contributions Payable	14,022	467	14,489
Accounts and Contracts Payable	12,778	2,648	15,426
Due to Other Fund	-	4,999	4,999
Total Liabilities	84,835	8,114	92,949
Fund Balance:			
Unassigned	608,704	-	608,704
Total Liabilities and Fund Balance	$ 693,539	$ 8,114	$ 701,653

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, 2016

		2016
Total Fund Balance for Governmental Funds	$	608,704
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:		
Equipment, Net of Accumulated Depreciation		88,965
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		(692,475)
Deferred Inflows of Resources - Pensions		(318,202)
Deferred Outflows of Resources - Pensions		131,675
Total Net Position of Governmental Activities	$	(181,333)

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, 2016

	Major Funds		Total Governmental Funds
	General	Food Service	2016
REVENUES			
Local Sources:			
Earnings on Investments	$ 348	$ -	$ 348
Other	514,947	628	515,575
State Sources	1,629,512	5,654	1,635,166
Federal Sources	85,121	109,594	194,715
Total Revenues	2,229,928	115,876	2,345,804
EXPENDITURES			
Current:			
Administration	85,846	-	85,846
District Support Services	290,734	-	290,734
Regular Instruction	776,219	-	776,219
Special Education Instruction	249,302	-	249,302
Instructional Support Services	18,000	-	18,000
Pupil Support Services	125,787	-	125,787
Sites and Buildings	164,535	-	164,535
Fiscal and Other Fixed Cost Programs	7,002	-	7,002
Food Service	-	127,443	127,443
Capital Outlay	153,544	-	153,544
Debt Service:			
Interest and Fiscal Charges	824	-	824
Total Expenditures	1,871,793	127,443	1,999,236
Excess (Deficiency) of Revenues Over Expenditures	358,135	(11,567)	346,568
OTHER FINANCING SOURCES (USES)			
Transfers In	-	11,567	11,567
Transfers Out	(11,567)	-	(11,567)
Total Other Financing Sources (Uses)	(11,567)	11,567	-
Net Change in Fund Balances	346,568	-	346,568
Fund Balances - Beginning	262,136	-	262,136
Fund Balances - Ending	$ 608,704	$ -	$ 608,704

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, 2016

	2016
Net Change in Fund Balance-Total Governmental Funds	$ 346,568
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. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital Outlays	112,319
Depreciation Expense	(28,215)
Pension expenses on the governmental funds are measured by current year employee contributions. Pension expenditures on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.	79,998
Change in Net Position of Governmental Activities	$ 510,670

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, 2016

	Budgeted Amounts		Actual	Over (Under) Final
	Original	Final	Amounts	Budget
REVENUES				
Local Sources:				
Earnings on Investments	$ -	$ -	$ 348	$ 348
Other	131,000	396,000	514,947	118,947
State Sources	1,473,781	1,528,151	1,629,512	101,361
Federal Sources	76,483	100,636	85,121	(15,515)
Total Revenues	1,681,264	2,024,787	2,229,928	205,141
EXPENDITURES				
Current:				
Administration	79,500	89,300	85,846	(3,454)
District Support Services	339,767	350,970	290,734	(60,236)
Elementary and Secondary Regular Instruction	707,905	958,275	776,219	(182,056)
Special Education Instruction	296,867	322,767	249,302	(73,465)
Instructional Support Services	-	-	18,000	18,000
Pupil Support Services	107,565	125,268	125,787	519
Sites and Buildings	106,947	143,985	164,535	20,550
Fiscal and Other Fixed Cost Programs	-	-	7,002	7,002
Capital Outlay	-	-	153,544	153,544
Debt Service:				
Interest and Fiscal Charges	4,000	2,500	824	(1,676)
Total Expenditures	1,642,551	1,993,065	1,871,793	(121,272)
Excess of Revenues Over Expenditures	38,713	31,722	358,135	326,413
OTHER FINANCING USES				
Transfers Out	-	-	(11,567)	(11,567)
Net Change in Fund Balance	$ 38,713	$ 31,722	346,568	$ 314,846
FUND BALANCE				
Beginning of Year			262,136	
End of Year			$ 608,704	

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
MAJOR SPECIAL REVENUE FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			
	Original	Final	Actual Amounts	Over (Under) Final Budget
REVENUES				
Local Sources				
Other - Primarily Meal Sales	$ -	$ -	$ 628	$ 628
State Sources	-	-	5,654	5,654
Federal Sources	70,628	95,426	109,594	14,168
Total Revenues	70,628	95,426	115,876	20,450
EXPENDITURES				
Current				
Food Service	83,968	124,699	127,443	2,744
Deficiency of Revenues Under Expenditures	(13,340)	(29,273)	(11,567)	17,706
OTHER FINANCING SOURCES				
Transfer in	-	-	11,567	11,567
Net Change in Fund Balance	$ (13,340)	$ (29,273)	-	$ 29,273
FUND BALANCE				
Beginning of Year			-	
End of Year			$ -	

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 Minneapolis Public Schools and was operating under a contract extending through June 30, 2016. Effective July 1, 2017 the School's is 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 are no organizations that are considered to be a component unit 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, school boards can elect to either control or not control extracurricular activities. The School Board has elected to control extracurricular activities; therefore, the extracurricular 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) are 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 are 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.

Income Taxes

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

E. Use of Estimates

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

F. 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 and Food Service Special Revenue 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 Administrative 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)

F. Budgeting (Continued)

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

Revenues	Original Budget	Amendments	Amended Budget
General Fund	$ 1,681,264	$ 343,523	$ 2,024,787
Special Revenue Funds:			
Food Service Fund	70,628	24,798	95,426
Expenditures			
General Fund	$ 1,642,551	$ 350,514	$ 1,993,065
Special Revenue Funds:			
Food Service Fund	83,968	40,731	124,699

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.

G. 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.

H. 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)

I. 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. The School has one item that qualifies for reporting in this category related to pensions.

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. The School has one item that qualifies for reporting in this category related to pensions.

J. 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 estimated fair market value at the date of donation. The School maintains a threshold level of $500 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 land and construction in process.

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)

K. Long-Term Obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities.

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

The School did not have any long-term obligations as of June 30, 2016.

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.

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

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the School Board. Assigned funds are funds that are neither restricted nor committed. Unassigned fund balances are considered the remaining amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the School's practice to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the School's practice to use committed first, then assigned, and finally unassigned amounts.

O. Risk Management

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

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

P. Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows 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 their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

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.

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

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, 2016 were $351,730 and $353,297, respectively. Deposits were all held at one financial institution as of June 30, 2016 and $20,286 of deposits were not covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

NOTE 3 INTERFUND BALANCES

At June 30, 2016, the following were the interfund balances:

	Due from Other Fund	Due to Other Fund
General Fund	$ 4,999	$ -
Food Service Fund	-	4,999
Total	$ 4,999	$ 4,999

During the year, the General Fund made expenditures on the Food Service Fund's behalf. The interfund balances are the result of the Food Service Fund not having cash available for expenditures in the amount noted above.

NOTE 4 STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceeded budgeted amounts in the following fund:

	Budget	Expenditures	Excess
Food Service Special Revenue Fund	$ 124,699	$ 127,443	$ 2,744

NOTE 5 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Being Depreciated:				
Leasehold Improvements	$ 244,217	$ -	$ (10,335)	$ 233,882
Equipment	164,876	112,319	(51,707)	225,488
Total Capital Assets, Being Depreciated	409,093	112,319	(62,042)	459,370
Accumulated Depreciation for:				
Land Improvements	(244,217)	-	10,335	(233,882)
Equipment	(160,015)	(28,215)	51,707	(136,523)
Total Accumulated Depreciation	(404,232)	(28,215)	62,042	(370,405)
Governmental Activities Capital Assets, Net	$ 4,861	$ 84,104	$ -	$ 88,965

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

Governmental Activities	
District Support Services	$ 43
Regular Instruction	18,064
Sites and Buildings	9,517
Food Service	591
Total Depreciation Expense, Governmental Activities	$ 28,215

NOTE 6 SHORT-TERM BORROWING

The School amended an existing financing agreement on May 15, 2016. 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 4.5%. The School paid off the outstanding balances related to this agreement during fiscal 2016. No borrowing took place under the terms of this line of credit during fiscal 2016.

NOTE 7 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 follows:

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. PERA's and TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan (GERF)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the School other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Teachers Retirement Fund (TRA)

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.

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

2. Teachers Retirement Fund (TRA) (Continued)

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

B. Benefits Provided

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.

PERA: Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

TRA: Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

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

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERF Benefits (Continued)

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

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

Tier 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years of Service 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 Services 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 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier II Benefits

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

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

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

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

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in fiscal year 2016. In fiscal year 2016, the School was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The School's contributions to the GERF for the plan's fiscal year ended June 30, 2016 were $27,424. The School's contributions were equal to the required contributions for each year as set by state statute.

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions (Continued)

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

	Ended June 30, 2015		Ended June 30, 2016	
	Employee	Employer	Employee	Employer
Basic	11.0 %	11.5 %	11.0 %	11.5 %
Coordinated	7.5	7.5	7.5	7.5

The School's contributions to TRA for the plan's fiscal year ended June 30, 2016 were $33,711. The School's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At June 30, 2016, the School reported a liability of $321,316 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the School's proportion was .0062%, which was an increase of .0050% from its proportion measured as of June 30, 2015.

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

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

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

For the year ended June 30, 2016, the School recognized negative pension expense of $32,980 for its proportionate share of GERF's pension expense.

At June 30, 2016, 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	$ 2,980	$ 16,200
Changes in Actuarial Assumptions	20,010	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	28,603
Changes in Proportion and Differences Between School Contributions and Proportionate Share of Contributions	-	202,895
School Contributions Subsequent to the Measurement Date	27,424	-
Total	$ 50,414	$ 247,698

A total of $27,424 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, 2017. 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 Expenses Amount
2017	$ (73,606)
2018	(73,606)
2019	(85,101)
2020	7,605
2021	-
Thereafter	-

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs

At June 30, 2016, the School reported a liability of $371,159 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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 .0060% at the end of the measurement period and .0062% for the beginning of the period.

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	$ 371,159
State's Proportionate Share of TRA's Net Pension Liability Associated with the School	45,283

For the year ended June 30, 2016, the School recognized pension expense of $13,683. It also recognized $8,005 as pension expense for the support provided by direct aid.

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

At June 30, 2016, 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	$ 19,018	$ -
Changes in Actuarial Assumptions	28,532	-
Net Difference Between Projected and Actual Investment Earnings	-	28,387
Changes in Proportion and Differences Between School Contributions and Proportionate Share of Contributions	-	42,117
School Contributions Subsequent to the Measurement Date	33,711	-
Total	$ 81,261	$ 70,504

A total of $33,711 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, 2017. 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 Expenses Amount
2017	$ (12,599)
2018	(12,599)
2019	(12,599)
2020	10,386
2021	4,457
Thereafter	-

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Merger of Duluth Teacher's Retirement Fund Association (DTRFA)

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

	6/30/14 CAFR	Restated
Total Pension Liability (A)	$ 24,901,612,000	$ 25,299,564,000
Plan Fiduciary Net Position (B)	20,293,684,000	20,519,756,000
Net Pension Liability (A-B)	$ 4,607,928,000	$ 4,779,808,000

F. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.75% per Year	3.00%
Active Member Payroll Growth	3.50% per Year	3.5 - 12%, Based on Years of Service
Investment Rate of Return	7.90%	8.00%

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

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The actuarial experience study in the GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually. The actuarial experience study for TRA was for the period July 1, 2004 through June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

The following changes in actuarial assumptions for GERF occurred in 2015: the discount rate was changed from 8.0% through June 30, 2017 and 8.5% thereafter to 8.0% for all years, the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by .25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

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

The long-term expected rate of return on pension plan investments is 7.9% for GERF and 8.0% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45 %	5.50%
International Equity	15	6.00%
Bonds	18	1.45%
Alternative Assets	20	6.40%
Cash	2	0.50%
Totals	100 %	

G. Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF and 8.0% for TRA. For TRA, this was a decrease from the discount rate at the prior measurement date of 8.25%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. 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	6.90%	7.90%	8.90%
School's Proportionate Share of the GERF Net Pension Liability	$ 505,223	$ 321,316	$ 169,437
TRA Discount Rate	7.00%	8.00%	9.00%
School's Proportionate Share of the TRA Net Pension Liability	$ 564,953	$ 371,159	$ 209,433

I. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

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, 55103-2088; or by calling (651) 296-2409 or 1-800-657-3669.

NOTE 8 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 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)

B. Lease Commitments and Terms – School Site

The School leases its main educational site at 2600 East 38th Street, Minneapolis, Minnesota from Greater Friendship Missionary Baptist Church. Under the terms of the revised lease agreement, the lease term is for the period beginning July 1, 2012 and ending June 30, 2017. The School pays a fixed rent of $8,005.56 per month.

The total amount of rent incurred by the School to Greater Friendship Missionary Baptist Church under the terms of the lease agreement was $93,536 for fiscal 2016. The total cost of all educational-related space for fiscal 2015-2016 which qualified for state lease aid was $93,536. The School qualified for state charter school lease aid based on a statutory cap of 90% of the School's approved net lease amount of $92,772, or $83,494. 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. Future amounts to be requested for state lease aid from the Minnesota Department of Education may vary due to financing arrangements, which are subject to change.

A schedule of lease commitments is as follows:

Year Ending June 30,	Scheduled Lease Payments 2600 East 38th Street
2017	$ 96,067

The School's ability to make payments under its 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.

NOTE 9 PRIOR PERIOD RESTATEMENT OF BEGINNING NET POSITION

As of June 30, 2015, the School had misstated balances on the statement of net position related to cash as well as deferred outflows of resources for contributions made subsequent the measurement date of PERA's and TRA's actuarial reports. As these adjustments had a material impact on the School's governmental activities, the beginning balances of these accounts were restated and had the following net effect on net position:

Net Position, as Previously Reported at June 30, 2015	$	(742,549)
Prior Year Misstatement of Deferred Outflows of Resources for Contributions Subsequent to the Measurement Date		101,093
Prior Year Misstatement of Cash on the Statement of Net Position		(50,547)
Net Position, June 30, 2015, as Restated	$	(692,003)

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 TEN FISCAL YEARS *

	Measurement Date June 30, 2015	Measurement Date June 30, 2014
School's Proportion of the Net Pension Liability	0.0060%	0.0062%
School's Proportionate Share of the Net Pension Liability	$ 371,159	$ 285,692
State's Proportionate Share of the Net Pension Liability Associated with School	45,283	19,989
Total	$ 416,442	$ 305,681
School's Covered-Employee Payroll	$ 313,333	$ 282,029
School's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll	118.46%	101.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.80%	81.50%

*This schedule presents information for the years available, and will eventually include ten years of information.

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
Statutorily Required Contribution	$ 33,711	$ 23,500	$ 19,742
Contributions in Relation to the Statutorily Required Contribution	(33,711)	(23,500)	(19,742)
Contribution Deficiency (Excess)	$ -	$ -	$ -
School's Covered-Employee Payroll	$ 449,480	$ 313,333	$ 282,029
Contributions as a Percentage of Covered Employee Payroll	7.5%	7.5%	7.0%

*This schedule presents information for the years available, and will eventually include ten years of information.

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
PERA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
LAST TEN FISCAL YEARS *

	Measurement Date June 30, 2015	2014
School's Proportion of the Net Pension Liability	0.0062%	0.0112%
School's Proportionate Share of the Net Pension Liability	$ 321,316	$ 526,120
School's Covered-Employee Payroll	366,739	199,761
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	87.61%	263.37%
Plan Fiduciary Net Position as a Percentage of the total Pension Liability	78.20%	78.70%

*This schedule presents information for the years available, and will eventually include ten years of information.

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

	Fiscal Year Ended June 30,		
	2016	2015	2014
Statutorily Required Contribution	$ 27,424	$ 27,047	$ 14,233
Contributions in Relation to the Statutorily Required Contribution	(27,424)	(27,047)	(14,233)
Contribution Deficiency (Excess)	$ -	$ -	$ -
School's Covered-Employee Payroll	$ 365,653	$ 366,739	$ 199,761
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.38%	7.13%

*This schedule presents information for the years available, and will eventually include ten years of information.

SUPPLEMENTARY INFORMATION

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2016

	AUDIT	UFARS	Difference
01 GENERAL FUND			
Total Revenue	$ 2,229,928	$ 2,229,928	$ -
Total Expenditures	1,871,793	1,871,793	-
Nonspendable:			
460 Nonspendable Fund Balance	-	-	-
Restricted/Reserved:			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health & Safety	-	-	-
407 Capital Project Levy	-	-	-
408 Cooperative Programs	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maint	-	-	-
423 Certain Teacher Programs	-	-	-
424 Operating Capital	-	-	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning & Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alt. Programs	-	-	-
436 State Approved Alt. Program	-	-	-
438 Gifted & Talented	-	-	-
441 Basic Skills Programs	-	-	-
445 Career and Technical Programs	-	-	-
449 Safe Schools Crime	-	-	-
450 Prekindergarten	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liab Not In Trust	-	-	-
453 Unfunded Sev & Retirement Levy	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Committed:			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	-	-	-
Assigned:			
462 Assigned Fund Balance	-	-	-
Unassigned:			
422 Unassigned Fund Balance	608,704	608,704	-
02 FOOD SERVICE			
Total Revenue	115,876	115,876	-
Total Expenditures	127,443	127,443	-
Nonspendable:			
460 Nonspendable Fund Balance	-	-	-
Restricted:			
452 OPEB Liab Not In Trust	-	-	-
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	-	-	-
Total Expenditures	-	-	-
Restricted/Reserved:			
426 $25 Taconite	-	-	-
431 Community Education	-	-	-
432 E.C.F.E.	-	-	-
444 School Readiness	-	-	-
447 Adult Basic Education	-	-	-
452 OPEB Liab Not In Trust	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Unreserved:			
463 Unassigned Fund Balance	-	-	-

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, 2016, 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 27, 2016.

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.

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

A *deficiency in internal* control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as findings 2016-001 and 2016-004 to be material weaknesses.

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

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 2016-002 and 2016-003 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Friendship Academy of the Arts' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

Friendship Academy of the Arts' Response to Findings

Friendship Academy of the Arts' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Friendship Academy of the Arts' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of 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 27, 2016

CliftonLarsonAllen

CliftonLarsonAllen LLP
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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, 2016, 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 27, 2016.

The *Minnesota Legal Compliance Audit Guide for Charter Schools* promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, identifies two main categories of compliance to be tested in audits of charter schools: uniform financial accounting and reporting standards and charter schools. Our study included the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the School failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools,* except as described in the Schedule of Findings and Responses as item 2016-005. 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 School's noncompliance with the above-referenced provisions.

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

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 27, 2016

A member of Nexia International

A. FINDINGS – FINANCIAL STATEMENT AUDIT

CURRENT YEAR

FINDING: 2016-001 Material Weakness – Material Audit Adjustments

Condition: During our testing of expenditures and revenues, we noted $5,393 in unrecorded revenues and receivables related to the Food Service Fund for Federal commodities that are still due from the School's old food service provider.

Criteria: The School should have controls in place to ensure proper recording of the School's financial transactions.

Effect: The design of the internal controls over recording transactions may limit the School's ability to detect or prevent a misstatement of the financial statements, misappropriation of assets, or fraudulent activity.

Cause: Due to the School not being aware that these assets were still available or not due to switching food service providers.

Recommendation: We recommend School management be constantly aware of all procedures and processes involved in recording these transactions and develop internal control policies to ensure proper recording of these items.

CORRECTIVE ACTION PLAN (CAP):

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

Actions Planned in Response to Finding:
The School will work to ensure that all transactions within the School are properly reported for financial statement purposes.

Official Responsible for Ensuring CAP:
The Board of Directors are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:
The planned completion date is June 30, 2017.

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

A. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

CURRENT YEAR

FINDING: 2016-002 Significant Deficiency – Lack of Support for Expenditures

Condition: Noted during our general disbursement testing that the supporting invoices and documentation of review and approval could not be located for 3 of 25 invoices tested totaling $2,155.

Criteria: All disbursements of the School's funds should be supported by detailed invoices or receipts and documentation of review and approval.

Effect: Lack of controls and procedures related to general disbursements could result in errors or fraudulent activity going undetected or not being detected and corrected timely.

Cause: Per the staff of the School, this was due to having new staff help file the invoices and other support, and the invoices and documentation of review and approval were most likely misfiled.

Recommendation: The School should implement a system where supporting invoices and receipts are properly reviewed and approved and then properly retained along with documentation of approval.

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 School will implement the recommendation.

Official Responsible for Ensuring CAP:
The Board of Directors are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:
The planned completion date is June 30, 2017.

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

A. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

CURRENT YEAR

FINDING: 2016-003 Significant Deficiency – Lack of Review of Journal Entries

Condition: We noted during our audit procedures over journal entries that there is no formal process for the review and documentation of review of adjusting journal entries. We did note that as a compensating control, the Business Manager had access to the School's software to review entries made by the contract accountant and monthly financial statements are reviewed and approved by the board.

Criteria: All adjusting journal entries should be reviewed and approved by someone other than the individual making the entries.

Effect: Lack of a formal process to review and approve all adjusting journal entries made in the School's finance software could result in errors or fraudulent activity going undetected or not being detected and corrected timely.

Cause: The School was not aware of the control issue, and it had not been brought to the School's attention.

Recommendation: We recommend that the School put in place a system where one person enters a Journal Entry and someone in a superior position then reviews, signs off on, and dates the journal entry to show their approval.

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 School will implement the recommendation.

Official Responsible for Ensuring CAP:
The Board of Directors are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:
The planned completion date is June 30, 2017.

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

A. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

CURRENT YEAR (Continued)

FINDING: 2016-004 Material Weakness – Prior Period Adjustments

Condition: During our testing of we noted that Governmental Activities cash was overstated $50,547, deferred outflows of resources for contributions made subsequent to measurement date of PERA's and TRA's actuarial reports were understated $101,094, and net position was understated $50,547 on the Statement of Net Position.

Criteria: The School should have controls in place to ensure proper recording of the School's financial transactions.

Effect: The design of the internal controls over recording transactions and the review of the annual financial statements resulted in the Statement of Net Position of the fiscal year ended June 30, 2016 being materially misstated.

Cause: Due to the School not having appropriate controls and procedures over the review of the annual financial statements and being unable to detect errors in the government-wide financial statements.

Recommendation: We recommend School management be constantly aware of all procedures and processes involved in recording these transactions and develop internal control policies to ensure proper recording of these items.

CORRECTIVE ACTION PLAN (CAP):

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

Actions Planned in Response to Finding:
The School will work to ensure that all transactions within the School are properly reported for financial statement purposes.

Official Responsible for Ensuring CAP:
The Board of Directors are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:
The planned completion date is June 30, 2017.

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

B. FINDINGS – MINNESOTA LEGAL COMPLIANCE

CURRENT YEAR

FINDING: 2016-005 Insuring or Securing Deposits - Section 118A. 03

Minnesota Statutes §118A subdivision 3 requires that public deposits in excess of deposit insurance be protected by a bond or collateral which, when computed at its market value, shall be at least ten percent more than the amount of the excess deposits. In addition, the School must perfect its security interest in the pledged collateral by obtaining documentation that the financial institution's board of directors or loan committee approved the collateral. This approval must be reflected in the financial institution's board of director's minutes. At times throughout the year, the School held funds in excess of deposit insurance which were not covered by a bond or collateral.

CORRECTIVE ACTION PLAN (CAP):

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

Actions Planned in Response to Finding:
The School resolved the issue on July 1, 2016 when it transferred excess fund to a second financial institution. Going forward the School will monitor deposit levels throughout the year to ensure compliance with collateral requirements.

Official Responsible for Ensuring CAP:
The Board of Directors are the officials responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:
The School will implement the recommended changes by the end of fiscal year 2017.

Plan to Monitor Completion of CAP:
The corrective action plan will be monitored by the School Board.