

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2023



CPAs | CONSULTANTS | WEALTH ADVISORS

CLAcconnect.com

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2023**

INTRODUCTORY SECTION

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

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS	6
--------------------------------------	---

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET POSITION	17
---------------------------	----

STATEMENT OF ACTIVITIES	18
-------------------------	----

BALANCE SHEET – GOVERNMENTAL FUNDS	19
------------------------------------	----

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION	20
--	----

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS	21
---	----

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES	22
---	----

NOTES TO BASIC FINANCIAL STATEMENTS	23
-------------------------------------	----

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND	51
--	----

BUDGETARY COMPARISON SCHEDULE – FOOD SERVICE FUND	52
---	----

BUDGETARY COMPARISON SCHEDULE – COMMUNITY SERVICE FUND	53
--	----

TRA SCHEDULE OF SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	54
--	----

TRA SCHEDULE OF SCHOOL CONTRIBUTIONS	55
--------------------------------------	----

GERF SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	56
---	----

GERF SCHEDULE OF SCHOOL CONTRIBUTIONS	57
---------------------------------------	----

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	58
---	----

SUPPLEMENTARY INFORMATION

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	65
--	----

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
TABLE OF CONTENTS (CONTINUED)
YEAR ENDED JUNE 30, 2023**

OTHER REQUIRED REPORTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	66
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	68
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	71
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS	72
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	73

INTRODUCTORY SECTION

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2023**

SCHOOL BOARD

<u>NAME</u>	<u>TERM ON BOARD EXPIRATION</u>	<u>BOARD POSITION</u>
Ananyasia Joseph	June 30, 2024	Board Chair
Wendy Hines	June 30, 2023	Treasurer
Janice Phillips	June 30, 2024	Secretary
Brenda Hill	June 30, 2023	Member
Tiffini Forslund	June 30, 2023	Member
Portia Jackson	June 30, 2024	Member
Lorna Pettis	June 30, 2023	Member
Dr. B. Charvez Russell	-	Ex Officio

ADMINISTRATION

Carr S. Kpanyor, Jr.
Verlon Stevenson
Mary Riley

Interim Executive Director
Administrative Director
Business Manager

School Office:

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

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2023, and the related notes to the financial statements, which collectively comprise Friendship Academy of the Arts's basic financial statements as listed in the table of contents.

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, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Friendship Academy of the Arts and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Friendship Academy of the Arts's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Friendship Academy of the Arts's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Friendship Academy of the Arts's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require management's discussion and analysis, budgetary comparison schedules, TRA schedule of the school's proportionate share of the net pension liability, TRA schedule of school contributions, GERP schedule of the school's proportionate share of the net pension liability, and GERP schedule of school contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 the Friendship Academy of the Arts's basic financial statements. The Uniform Financial Accounting and Reporting Standards (UFARS) compliance table and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the UFARS compliance table and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information


Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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 **August 29, 2024** August 21, 2024, on our consideration of Friendship Academy of the Arts's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Friendship Academy of the Arts's 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's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 21, 2024

REQUIRED SUPPLEMENTARY INFORMATION

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023**

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, 2023. Please read it in conjunction with the School's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2022-2023 fiscal years include the following:

- The fund balance of the General Fund decreased \$299,556 from the prior year for an ending fund balance of \$261,677 at June 30, 2023.
- Total General Fund revenues were \$5,533,388 as compared to \$5,815,275 of expenditures.
- The fund balance of the Food Service Fund decreased \$58,389 from the prior year, ending at \$2,858 at June 30, 2023.
- Total Food Service Fund revenues were \$228,353 as compared to \$304,411 of expenditures.
- The Community Service Fund had an ending fund balance of \$9,217 at June 30, 2023.
- Total Community Service Fund revenues were \$128,155 as compared to \$129,749 of expenditures.
- The Building Company ended the year with fund balance of \$681,357.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *School-wide financial statements* that provide both *short-term* and *long-term* information about the School's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School, reporting the School's operations in *more detail* than the School-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023**

School-Wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the School's assets, deferred outflows of resources, deferred inflows of resources, and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The School may establish other funds to control and manage money for a specific purpose.

The School has the following fund type:

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's *combined* net position was (\$1,954,590) on June 30, 2023 (see Table A-1).

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

	Governmental Activities as of June 30,		Percentage Change
	2023	2022	
Current and Other Assets	\$ 1,801,900	\$ 804,993	123.84 %
Capital Assets	7,307,155	7,657,231	(4.57)
Total Assets	<u>9,109,055</u>	<u>8,462,224</u>	7.64
Deferred Outflows of Resources	1,804,269	1,854,375	(2.70)
Current Liabilities	881,127	478,500	84.14
Net Pension Liability	2,515,359	1,345,115	87.00
Long-Term Liabilities	8,926,404	9,206,380	(3.04)
Total Liabilities	<u>12,322,890</u>	<u>11,029,995</u>	11.72
Deferred Inflows of Resources	<u>545,024</u>	<u>1,983,804</u>	(72.53)
Net Position:			
Net Investment in Capital Assets	(473,014)	(525,430)	(9.98)
Restricted	12,075	117,114	(89.69)
Unrestricted	(1,493,651)	(1,369,643)	9.05
Total Net Position	<u><u>\$ (1,954,590)</u></u>	<u><u>\$ (1,777,959)</u></u>	9.93

The School's net position decreased by \$176,631 due to expenses exceeding revenues. The net position decrease is primarily related to operational expenses exceeding corresponding revenues, similar to that which occurred in the fund financial statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023**

Changes in Net Position

The School's total entity-wide revenues were \$6,456,235 for the year ended June 30, 2023 (see Table A-2). State formula aid accounted for 54% of total revenue for the year. The remaining 46% came from other general and program revenues.

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

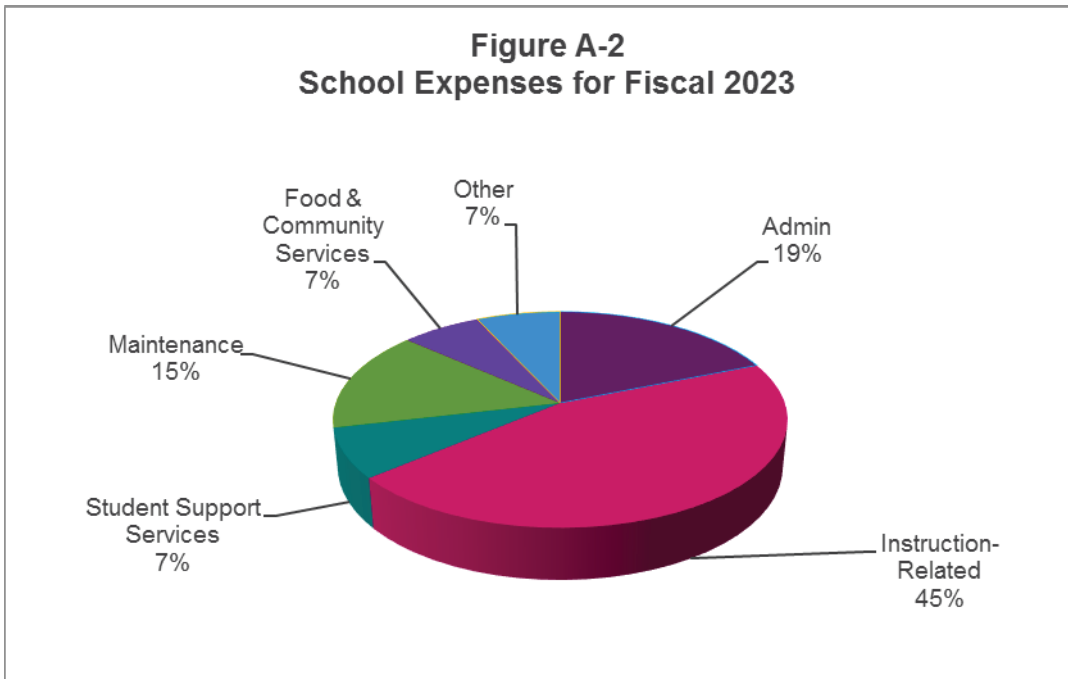
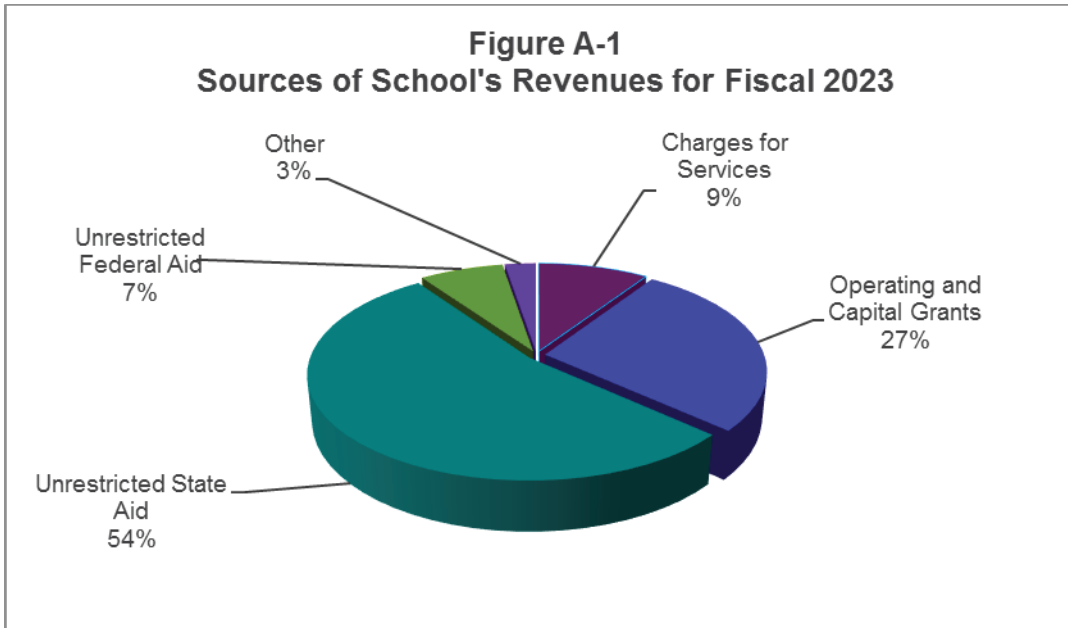
	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2023	2022	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 22,452	\$ 20,463	9.72 %
Operating Grants and Contributions	1,757,712	1,715,386	2.47
<u>General Revenues</u>			
Unrestricted State Aid	3,460,523	3,082,447	12.27
Unrestricted Federal Aid	461,717	388,272	18.92
Investment Earnings	28,183	206	13581.07
Other	142,275	262,931	(45.89)
Total Revenues	<u>5,872,862</u>	<u>5,469,705</u>	7.37
Expenses			
Administration	388,797	486,154	(20.03)
District Support Services	860,292	807,059	6.60
Regular Instruction	2,072,291	2,334,992	(11.25)
Special Education Instruction	917,015	955,883	(4.07)
Instructional Support Services	16,661	41,887	(60.22)
Pupil Support Services	479,156	523,347	(8.44)
Sites and Buildings	417,508	256,136	63.00
Fiscal and Other Fixed Cost Programs	21,493	28,008	(23.26)
Food Service	306,277	232,545	31.71
Community Service	130,766	121,408	7.71
Interest and Fiscal Charges on Long-Term Liabilities	439,237	450,140	(2.42)
Total Expenses	<u>6,049,493</u>	<u>6,237,559</u>	(3.02)
Change in Net Position	(176,631)	(767,854)	
Beginning Net Position	(1,777,959)	(1,010,105)	
Ending Net Position	<u>\$ (1,954,590)</u>	<u>\$ (1,777,959)</u>	

Total revenues were less than expenses, decreasing the ending net position by \$176,631.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023**

The cost of all *governmental* activities this year was \$6,237,559.

- Some of the cost was paid by the users of the School's programs (\$605,825).
- The federal and state government and private grant funds subsidized certain programs with grants and contributions (\$1,757,712).
- Most of the School's costs were paid for by unrestricted state aid (\$3,460,523).



**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023**

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

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2023	2022		2023	2022	
Administration	\$ 388,797	\$ 486,154	(20.03)%	\$ 388,797	\$ 487,967	(20.32)%
District Support Services	860,292	807,059	6.60	815,734	763,624	6.82
Regular Instruction	2,072,291	2,334,992	(11.25)	1,949,608	2,222,571	(12.28)
Special Education Instruction	917,015	955,883	(4.07)	(11,185)	94,388	(111.85)
Instructional Support Services	16,661	41,887	(60.22)	16,661	41,887	(60.22)
Pupil Support Services	479,156	523,347	(8.44)	468,498	520,149	(9.93)
Sites and Buildings	417,508	256,136	63.00	(28,204)	(183,554)	(84.63)
Fiscal and Other Fixed Cost Programs	21,493	28,008	(23.26)	21,493	28,008	(23.26)
Food Service	306,277	232,545	31.71	77,924	(44,878)	(273.64)
Community Service	130,766	121,408	0.08	130,766	121,408	0.08
Interest and Fiscal Charges on Long-Term Liabilities	439,237	450,140	(2.42)	439,237	450,140	(2.42)
Total	<u>\$ 6,049,493</u>	<u>\$ 6,237,559</u>	(3.02)	<u>\$ 4,269,329</u>	<u>\$ 4,501,710</u>	(5.16)

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds. Revenues for the School's governmental funds were \$6,501,313 while total expenditures were \$6,826,663. This contributed to a *combined* fund balance of \$955,109, which is \$325,350 less than last year's ending fund balance of \$1,280,459.

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 8 including activities and capital outlay projects.

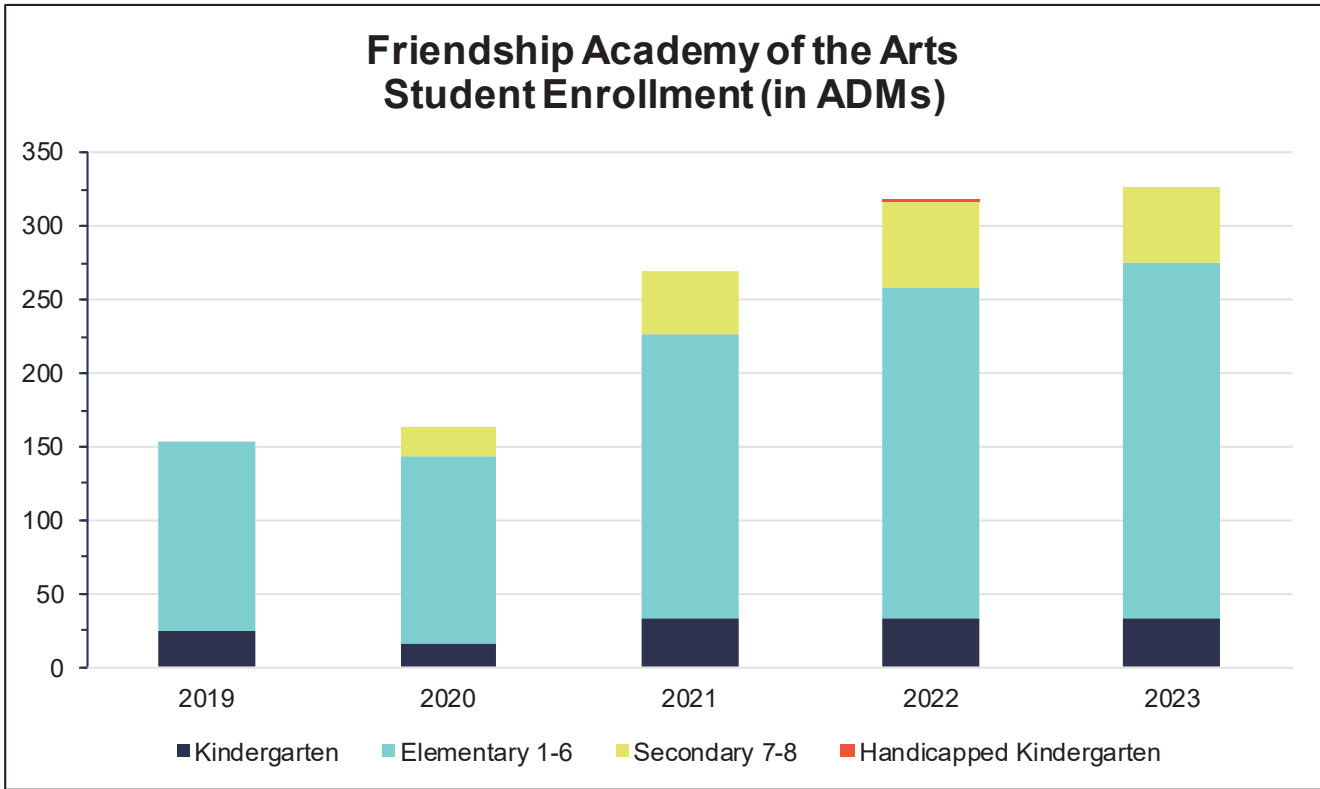
A large percentage of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023**

ENROLLMENT

Enrollment is a critical factor in determining revenue with a very high percentage of General Fund revenue being determined by enrollment. The following chart shows that the number of students served (ADMs) increased by approximately 11 from fiscal year 2022 to 2023.

**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 2022-2023 was 327 students.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023**

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

	Year Ended		Change	
	June 30, 2023	June 30, 2022	Increase (Decrease)	Percent Change
Local Sources:				
Earnings on Investments	\$ 139	\$ 8	\$ 131	1637.5 %
Other	37,230	142,182	(104,952)	(73.8)
State Sources	4,849,207	4,321,107	528,100	12.2
Federal Sources	646,812	601,484	45,328	7.5
Total General Fund Revenue	<u>\$ 5,533,388</u>	<u>\$ 5,064,781</u>	<u>\$ 468,607</u>	9.3

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 \$468,607 from the previous year. State revenue increased \$528,100 with most of the increase attributable to general education revenue for enrollment growth and the 2% formula improvement provided by the Legislature. Other revenue decreased \$104,952 due to larger grants and contributions received in the prior year.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Change	
	June 30, 2023	June 30, 2022	Increase (Decrease)	Percent Change
Salaries	\$ 2,639,007	\$ 2,655,957	\$ (16,950)	(0.6)%
Employee Benefits	540,331	524,461	15,870	3.0
Purchased Services	2,247,137	1,984,934	262,203	13.2
Supplies and Materials	124,640	244,772	(120,132)	(49.1)
Capital Expenditures	5,198	20,492	(15,294)	(74.6)
Other Expenditures	258,962	277,509	(18,547)	(6.7)
Total General Fund Expenditures	<u>\$ 5,815,275</u>	<u>\$ 5,708,125</u>	<u>\$ 107,150</u>	1.9

Total General Fund expenditures increased \$107,140 from the previous year. Purchased Services increased \$262,193 mostly due to spending of federal funding for grant related programs that was not performed during fiscal year 2022.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023**

Ending fund balance is the single best measure of overall financial health. General Fund ending fund balance was \$261,677 at June 30, 2023, which represents 4.4% 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 more than budgeted with a variance of \$37,374 or 0.68%.

Actual expenditures were more than budgeted with a variance of \$72,670 or 1.27%.

The differences between actual revenues and expenditures resulted in a decrease in fund balance for the year of \$299,556, which was \$30,770 more than the decrease which had been reflected in the final amended budget.

OTHER MAJOR FUNDS

Expenditures exceeded revenues in the Food Service Fund which resulted in ending the year with a fund balance of \$2,858.

For the Community Service Fund expenditures exceeded revenues which resulted in ending the year with a fund balance of \$9,217.

For the Building Company Fund revenues exceeded expenditures by \$34,189, which resulted in an ending fund balance of \$681,357.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the 2022-2023 fiscal year, the School had invested \$8,664,396 in a broad range of capital assets, including land, leasehold improvements, computers and other equipment, and right-to-use lease assets (see Table A-7). More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation and amortization expense for the year was \$355,174.

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

	2023	2022	Percentage Change
FFA Building Company			
Land	\$ 867,500	\$ 867,500	-
Buildings and Improvements	6,626,707	6,626,707	-
Friendship Academy			
Leasehold Improvements	279,077	279,077	-
Furniture and Equipment	298,067	292,969	1.7
Right-to-Use Lease Assets	593,045	609,967	(2.8)
Less: Accumulated Depreciation/Amortization	(1,357,241)	(1,018,989)	33.2
Total Capital Assets	<u>\$ 7,307,155</u>	<u>\$ 7,657,231</u>	(4.6)

Long-Term Liabilities

At year-end, the School had a net amount of \$11,441,763 in long-term liabilities, some of which related to the School's proportionate share of PERA's and TRA's net pension liabilities. The School also had liabilities related to lease revenue bonds and the related premium for financing building additions, a loan financing operations, and leases liabilities related to long-term leases. Lastly, the School had compensated absences liabilities totaling \$33,736.

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

	2023	2022	Percentage Change
Lease Revenue Bonds	\$ 8,140,000	\$ 8,250,000	(1.3)%
Net Bond Premium (Discount)	282,034	296,254	(4.8)
Charter Fund Loan	150,000	150,000	-
Leases Payable	320,634	467,606	(31.4)
Compensated Absences Payable	33,736	42,520	(20.7)
Net Pension Liability	2,515,359	1,345,115	87.0
Total Long-Term Liabilities	<u>\$ 11,441,763</u>	<u>\$ 10,551,495</u>	8.4
Long-Term Liabilities:			
Due Within One Year	\$ 444,257	\$ 96,290	
Due in More Than One Year	10,997,506	10,455,205	
Total	<u>\$ 11,441,763</u>	<u>\$ 10,551,495</u>	

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2023**

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the state of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. In addition, enrollment levels have not reached expectations for the School making it difficult, but not impossible, to balance educational program needs against revenue resources.

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

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our constituents, state oversight agencies, lenders, customers, legislative leaders, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Carr S. Kpanyor, Jr., at Friendship Academy of the Arts No. 4079, 2600 East 38th Street Minneapolis, Minnesota 55406.

BASIC FINANCIAL STATEMENTS

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
STATEMENT OF NET POSITION
JUNE 30, 2023**

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 239,456
Cash and Investments Held by Trustee - Restricted	980,618
Receivables:	
Other Governments	546,233
Other	30,044
Prepaid Items	5,549
Capital Assets:	
Land and Construction in Progress	867,500
Other Capital Assets, Net of Depreciation	6,439,655
Total Assets	<u>9,109,055</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows - Pensions	1,804,269
 LIABILITIES	
Salaries Payable	622,609
Accounts and Contracts Payable	224,182
Accrued Interest Payable	34,336
Long-Term Liabilities:	
Net Pension Liability	2,515,359
Other Long-Term Liabilities Due Within One Year	444,257
Other Long-Term Liabilities Due in More Than One Year	8,482,147
Total Liabilities	<u>12,322,890</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows - Pensions	<u>545,024</u>
 NET POSITION	
Net Investment in Capital Assets	(473,014)
Restricted for:	
Food Service	2,858
Community Service	9,217
Unrestricted	(1,493,651)
Total Net Position	<u>\$ (1,954,590)</u>

See accompanying Notes to Basic Financial Statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

Functions	Governmental Activities			Net (Expense) Revenue and Change in Net Position Total Governmental Activities
	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Administration	\$ 388,797	\$ -	\$ -	\$ (388,797)
District Support Services	860,292	-	44,558	(815,734)
Regular Instruction	2,072,291	18,730	103,953	(1,949,608)
Special Education Instruction	917,015	-	928,200	11,185
Instructional Support Services	16,661	-	-	(16,661)
Pupil Support Services	479,156	-	10,658	(468,498)
Sites and Buildings	417,508	3,722	441,990	28,204
Fiscal and Other Fixed Cost Programs	21,493	-	-	(21,493)
Food Service	306,277	-	228,353	(77,924)
Community Service	130,766	-	-	(130,766)
Interest and Fiscal Charges on Long-Term Liabilities	439,237	-	-	(439,237)
Total School District	<u>\$ 6,049,493</u>	<u>\$ 22,452</u>	<u>\$ 1,757,712</u>	<u>(4,269,329)</u>
GENERAL REVENUES				
				3,460,523
				461,717
				28,183
				142,275
				<u>4,092,698</u>
CHANGE IN NET POSITION				(176,631)
Net Position - Beginning				<u>(1,777,959)</u>
NET POSITION - ENDING				<u>\$ (1,954,590)</u>

See accompanying Notes to Basic Financial Statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023**

	Major Funds				Total Governmental Funds
	General	Food Service	Community Service	Building Company	
ASSETS					
Cash and Investments	\$ 216,557	\$ 22,899	\$ -	\$ -	\$ 239,456
Cash with Fiscal Agent	-	-	-	980,618	980,618
Receivables:					
Due from Minnesota Department of Education	433,108	357	-	-	433,465
Due from Federal through Minnesota Department of Education	105,101	7,667	-	-	112,768
Other Receivables	140	-	29,904	-	30,044
Due from Other Funds	319,948	-	-	-	319,948
Prepays	5,549	-	-	-	5,549
Total Assets	<u>\$ 1,080,403</u>	<u>\$ 30,923</u>	<u>\$ 29,904</u>	<u>\$ 980,618</u>	<u>\$ 2,121,848</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Salaries Payable	\$ 185,210	\$ -	\$ -	\$ -	\$ 185,210
Payroll Deductions and Employer Contributions Payable	437,399	-	-	-	437,399
Accounts and Contracts Payable	196,117	28,065	-	-	224,182
Due to Other Funds	-	-	20,687	299,261	319,948
Total Liabilities	<u>818,726</u>	<u>28,065</u>	<u>20,687</u>	<u>299,261</u>	<u>1,166,739</u>
Fund Balance:					
Nonspendable:					
Prepays	5,549	-	-	-	5,549
Restricted for:					
Food Service	-	2,858	-	-	2,858
Community Service	-	-	9,217	-	9,217
Building Company	-	-	-	681,357	681,357
Unassigned	256,128	-	-	-	256,128
Total Fund Balance	<u>261,677</u>	<u>2,858</u>	<u>9,217</u>	<u>681,357</u>	<u>955,109</u>
Total Liabilities and Fund Balance	<u>\$ 1,080,403</u>	<u>\$ 30,923</u>	<u>\$ 29,904</u>	<u>\$ 980,618</u>	<u>\$ 2,121,848</u>

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, 2023**

Total Fund Balance for Governmental Funds \$ 955,109

Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	867,500
Buildings and Improvements, Net of Accumulated Depreciation	6,129,703
Equipment, Net of Accumulated Depreciation	11,701
Right-to-Use Lease Assets, Net of Accumulated Amortization	298,251

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (34,336)

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	(2,515,359)
Deferred Inflows of Resources - Pensions	(545,024)
Deferred Outflows of Resources - Pensions	1,804,269

Long-term liabilities that pertain to governmental funds, including leases payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are: (320,634)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Leases payable at year-end are:

Bonds Payable	(8,140,000)
Unamortized Premiums	(282,034)
Other Loans Payable	(150,000)
Compensated Absences Payable	(33,736)
	(8,605,770)

Total Net Position of Governmental Activities **\$ (1,954,590)**

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, 2023**

	Major Funds				Total Governmental Funds
	General	Food Service	Community Service	Building Company	
REVENUES					
Local Sources:					
Earnings and Investments	\$ 139	\$ -	\$ -	\$ 28,044	\$ 28,183
Other	37,230	-	128,155	583,373	748,758
State Sources	4,849,207	9,798	-	-	4,859,005
Federal Sources	646,812	218,555	-	-	865,367
Total Revenues	<u>5,533,388</u>	<u>228,353</u>	<u>128,155</u>	<u>611,417</u>	<u>6,501,313</u>
EXPENDITURES					
Current:					
Administration	466,441	-	-	-	466,441
District Support Services	778,249	-	-	52,865	831,114
Elementary and Secondary					
Regular Instruction	2,079,037	-	-	-	2,079,037
Special Education Instruction	913,015	-	-	-	913,015
Instructional Support Services	15,190	-	-	-	15,190
Pupil Support Services	475,965	-	-	-	475,965
Sites and Buildings	874,232	-	-	-	874,232
Fiscal and Other Fixed Cost Programs	21,493	-	-	-	21,493
Food Service	-	304,411	-	-	304,411
Community Service	-	-	129,749	-	129,749
Capital Outlay	5,198	-	-	-	5,198
Debt Service:					
Principal	146,972	-	-	110,000	256,972
Interest and Fiscal Charges	39,483	-	-	414,363	453,846
Total Expenditures	<u>5,815,275</u>	<u>304,411</u>	<u>129,749</u>	<u>577,228</u>	<u>6,826,663</u>
EXCESS (DEFICIENCY) OF REVENUE (OVER) UNDER EXPENDITURES	(281,887)	(76,058)	(1,594)	34,189	(325,350)
OTHER FINANCING SOURCES (USES)					
Transfers In	-	17,669	-	-	17,669
Transfers Out	(17,669)	-	-	-	(17,669)
Total Other Financing Sources (Uses)	<u>(17,669)</u>	<u>17,669</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(299,556)	(58,389)	(1,594)	34,189	(325,350)
FUND BALANCE					
Beginning of Year	561,233	61,247	10,811	647,168	1,280,459
END OF YEAR	<u>\$ 261,677</u>	<u>\$ 2,858</u>	<u>\$ 9,217</u>	<u>\$ 681,357</u>	<u>\$ 955,109</u>

See accompanying Notes to Basic Financial Statements.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE –
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023**

Net Change in Fund Balance - Total Governmental Funds \$ (325,350)

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 or amortization expense. The amount by which capital outlays exceeded depreciation/amortization in the current period is:

Capital Outlays	5,098
Depreciation Expense	(60,380)
Amortization on Leased Assets	(294,794)

Some capital asset additions are financed through long-term leases. In governmental funds, a long-term lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.

Principal Payments - Leases	146,972
-----------------------------	---------

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

218,430

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

8,784

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

Payments on Bonds Payable	110,000
Change in Accrued Interest - Lease Revenue Bonds	389
Amortization of Bond Premium	14,220
Total	\$ (176,631)

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

B. Financial Reporting Entity

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

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

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

Based on these criteria, there is one organization that is considered to be a blended component unit of the School. FFA Building Company ((the Building Company) is a Minnesota nonprofit corporation holding IRS classification as a 501(c)(3) tax-exempt organization which will own the real estate and buildings and leases the educational site to the School for its operations. The Building Company is governed by a separate board appointed by the Board of the School.

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

The School-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the School.

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

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

Adoption of New Accounting Standards

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This standard defines a subscription-based information technology arrangement (SBITA); establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability; provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and requires notes disclosures regarding a SBITA.

The School adopted the requirements of the guidance effective July 1, 2022, and has applied the provisions of this standard to the beginning of the period of the adoption. Management did not identify any items that qualified to be recorded as a SBITA under GASB 96 and therefore did not have a significant impact on the School's 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.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and GAAP. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other miscellaneous revenue (except investment earnings) is recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

2. Recording of Expenditures

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

Description of Funds

As required by state statute, the School operates as a nonprofit corporation under Minnesota Statutes §317A. However, state law also requires that the School comply with Uniform Financial Accounting and Reporting Standards for Minnesota School Districts (UFARS) which mandates the use of a governmental fund accounting structure. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures (Continued)

Food Service Special Revenue Fund

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

Community Service Special Revenue Fund

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

Building Company Special Revenue Fund

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

E. Income Taxes

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

F. Use of Estimates

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

G. Budgeting

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

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

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgeting (Continued)

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

	Original Budget	Amendments	Amended Budget
Revenues			
General Fund	\$ 5,561,651	\$ (65,637)	\$ 5,496,014
Special Revenue Funds:			
Food Service Fund	255,116	130	255,246
Community Service Fund	121,187	5,200	126,387
Expenditures			
General Fund	\$ 5,942,231	\$ (199,626)	\$ 5,742,605
Special Revenue Funds:			
Food Service Fund	268,727	8,715	277,442
Community Service Fund	121,187	17,289	138,476

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

H. Cash and Investments

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

I. Accounts Receivable

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

J. Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. These expenses are allocated over the periods benefitted using the consumption method.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of 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 assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

L. Capital Assets

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The School maintains a threshold level of \$1,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the School-wide financial statement but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 5 years for equipment. The useful lives of leasehold improvements are the shorter of the remaining period of the related lease or the useful life of the asset.

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

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

Right-to-use lease assets are initially measured at the present value of payments expected to be made during the lease term, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. Useful lives vary depending upon the underlying leased assets and follow the School's policies of related depreciable assets.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. 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. Premiums and discounts are capitalized and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize premiums and discounts, as well as 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.

N. 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 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 in 2015.

PERA has a special funding situation created by direct aid contributions made by the state of Minnesota for the merger of the Minnesota Employees Retirement Fund into GERF in fiscal year 2015.

O. Accrued Employee Benefits

Unpaid Sick and Personal Leave

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

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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.

Q. Net Position

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

NOTE 2 DEPOSITS AND INVESTMENTS

A. Deposits

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

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

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

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, 2023 were \$239,456 and \$301,219, respectively. The School's deposits in banks at June 30, 2023 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

B. Investments

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

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

At June 30, 2023, the Building Company's investment balances were as follows:

Cash and Investments Held by Trustee

	Percentage of Total Investments	Maturity Date	Cost
MSILF Treasury #8354	100%	N/A	<u>\$ 980,618</u>

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

Interest Rate Risk

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2023, the Building Company had an investment in the MSILF Treasury #8354, which is rated Aaa-mf by Moody's Investor Service.

Concentration of Credit Risk

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

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

Cash and Investments - Statement of Net Position	\$ 239,456
Cash and Investments Held by Trustee - Statement of Net Position	980,618
Total Cash and Investments	<u>\$ 1,220,074</u>

C. Fair Value Measurements

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Fair Value Measurements (Continued)

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

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

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

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

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

The School did not hold any investments measured at fair value as of June 30, 2023. The money market fund investments held by the Building Company’s escrow agent are valued at amortized cost.

NOTE 3 INTERFUND BALANCES

At June 30, 2023, the following were the interfund balances:

	Due from Other Fund	Due to Other Fund
General Fund	\$ 319,948	\$ -
Building Company	-	299,261
Special Revenue Funds:		
Community Service Fund	-	20,687
Total	\$ 319,948	\$ 319,948

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 3 INTERFUND BALANCES (CONTINUED)

The school had the following transfers at June 30, 2023:

	Transfers In	Transfers Out
General Fund	\$ -	\$ 17,669
Special Revenue Fund:		
Food Service Fund	17,669	-
Total	\$ 17,669	\$ 17,669

The Transfers between the General Fund and the Food Services fund are to fund future school nutrition services and ensure they meet food service fund balance requirements.

NOTE 4 STEWARDSHIP AND ACCOUNTABILITY

Expenditures exceeded budgeted amounts in the following funds:

	Budget	Expenditures	Excess
General Fund	\$ 5,742,605	\$ 5,815,275	\$ 72,670
Special Revenue Fund:			
Food Service Fund	277,442	304,411	26,969

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 5 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
FFA Building Company				
Land	\$ 867,500	\$ -	\$ -	\$ 867,500
Capital Assets, Being Depreciated:				
FFA Building Company				
Buildings and Improvements	6,626,707	-	-	6,626,707
Friendship Academy				
Leasehold Improvements	279,077	-	-	279,077
Equipment	292,969	5,098	-	298,067
Right-to-Use Lease Assets, Being Amortized:				
Friendship Academy				
Buildings and Improvements	506,594	-	-	506,594
Equipment	103,373	-	(16,922)	86,451
Total Capital Assets, Being Depreciated/Amortized	7,808,720	5,098	(16,922)	7,796,896
Accumulated Depreciation for:				
FFA Building Company				
Buildings and Improvements	(331,336)	(165,668)	-	(497,004)
Friendship Academy				
Leasehold Improvements	(279,077)	-	-	(279,077)
Equipment	(249,898)	(36,468)	-	(286,366)
Accumulated Amortization for:				
Friendship Academy				
Buildings and Improvements	(126,649)	(126,649)	-	(253,298)
Equipment	(32,029)	(26,389)	16,922	(41,496)
Total Accumulated Depreciation/Amortization	(1,018,989)	(355,174)	16,922	(1,357,241)
Total Capital Assets, Being Depreciated/Amortized, Net	6,789,731	(350,076)	-	6,439,655
Governmental Activities Capital Assets, Net	<u>\$ 7,657,231</u>	<u>\$ (350,076)</u>	<u>\$ -</u>	<u>\$ 7,307,155</u>

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 5 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities	
District Support Services	\$ 26,389
Regular Instruction	176,421
Special Education Instruction	24,244
Instructional Support Services	1,471
Sites and Buildings	126,649
Total Depreciation/Amortization Expense, Governmental Activities	<u>\$ 355,174</u>

NOTE 6 DEBT

In May of 2020, the School received a loan from Charter School Growth Fund in the amount of \$150,000. The promissory note requires the total amount with interest from the date of funding and was originally due in November of 2021. This loan was then amended on April 16, 2022 to have an amended due date of November of 2023. The note requires interest of 0% per annum.

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

As additional security for the Series 2019 Bonds, the School has pledged certain amounts of its revenues to the Trustee for payments on the Series 2019 Bonds as necessary, pursuant to a Pledge and Covenant Agreement, dated as of December 1, 2019, from the School to the Trustee. The Pledge Agreement provides that building lease aid, general education funding from the State, and other special State and federal pass-through education funding sources shall be applied to the payments due under the Lease. The total pledged revenue reported by the School for the year ended June 30, 2023 amounted to \$5,724,372, of which \$583,354 (or 13.3%) was remitted during the current year as lease payments to the Building Company, or was due to the Building Company at the end of the current year and reported as accounts payable.

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 6 DEBT (CONTINUED)

The agreement also includes default provisions, which notes that if the School does not meet one of the loan covenants it would not constitute an event of default until actual notice is given by the trustee, at which time the School will have 30 days to correct the default. In an event of default, the trustee and registered owners may then declare the remaining outstanding principal on the bonds immediately due and payable. During fiscal year 2023 there were several covenants which were not met by the School, however as of August 21, 2024 no notices of default have been received by the School.

Changes in long-term debt are as follows:

	June 30, 2022	Additions	Retirements	June 30, 2023	Principal Due Within One Year
Series 2019 A&B Bonds	\$ 8,250,000	\$ -	\$ 110,000	\$ 8,140,000	\$ 115,000
2019 Bond Premium	296,254	-	14,220	282,034	14,058
Charter School Fund Loan	150,000	-	-	150,000	150,000
Building Leases Payable	393,329	-	121,755	271,574	130,882
Equipment Leases Payable	74,277	-	25,217	49,060	20,823
Compensated Absences	42,520	92,684	101,468	33,736	13,494
Total	<u>\$ 9,206,380</u>	<u>\$ 92,684</u>	<u>\$ 372,660</u>	<u>\$ 8,926,404</u>	<u>\$ 444,257</u>

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

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

Year Ending June 30,	Building Revenue Bonds Payable - Direct Borrowing		Leases Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2024	\$ 115,000	\$ 412,025	\$ 151,705	\$ 17,250	\$ 266,705	\$ 429,275
2025	120,000	407,250	163,076	5,878	283,076	413,128
2026	125,000	402,450	5,853	35	130,853	402,485
2027	130,000	397,450	-	-	130,000	397,450
2028	140,000	392,250	-	-	140,000	392,250
2029-2033	780,000	1,873,250	-	-	780,000	1,873,250
2034-2038	1,000,000	1,666,875	-	-	1,000,000	1,666,875
2039-2043	1,300,000	1,374,450	-	-	1,300,000	1,374,450
2044-2048	1,685,000	995,663	-	-	1,685,000	995,663
2049-2053	2,745,000	502,425	-	-	2,745,000	502,425
Total	<u>\$ 8,140,000</u>	<u>\$ 8,424,088</u>	<u>\$ 320,634</u>	<u>\$ 23,163</u>	<u>\$ 8,460,634</u>	<u>\$ 8,447,251</u>

Charter School Fund Loan - Direct Borrowing		
Year Ending June 30,	Principal	Interest
2024	<u>\$ 150,000</u>	<u>\$ -</u>

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan

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

2. Teachers Retirement Fund (TRA)

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

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

B. Benefits Provided

PERA and TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits, but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Benefits Provided (Continued)

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

2. TRA Benefits

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

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier 1 Benefits

Step Rate Formula	Percentage
First Ten Years of Service	2.2% per Year
All Years After	2.7% per Year
First Ten Years if Service Years Are Up to July 1, 2006	1.2% per Year
First Ten Years if Service Years Are July 1, 2006 or After	1.4% per Year
All Other Years of Service if Service Years Are Up to July 1, 2006	1.7% per Year
All Other Years of Service if Service Years Are July 1, 2006 or After	1.9% per Year

With these provisions:

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

Or

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.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier II Benefits (Continued)

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

B. Contributions

1. General Employees Fund Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2023 and the School was required to contribute 7.50% for Coordinated Plan members. The School's contributions to the General Employees Fund for the year ended June 30, 2023 were \$88,812. The School's contributions were equal to the required contributions as set by state statute.

2. TRA Contributions

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2021, June 30, 2022, and June 30, 2023 were:

	2023		2022		2021	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	12.55%	11.00%	12.34%	11.00%	12.13%
Coordinate	7.50%	8.55%	7.50%	8.34%	7.50%	8.13%

The School's contributions to TRA for the plan's fiscal year ended June 30, 2023 were \$129,753. The School's contributions were equal to the required contributions for each year as set by state statute.

C. Pension Costs

1. General Employees Fund Pension Costs

At June 30, 2023, the School reported a liability of \$633,603 for its proportionate share of the General Employees Fund's net pension liability. The School's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the School totaled \$18,723.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Pension Costs

1. General Employees Fund Pension Costs

The net pension liability was measured as of June 30, 2022, 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, 2021 through June 30, 2022, relative to the total employer contributions received from all of PERA's participating employers. The School's proportionate share was 0.0080% at the end of the measurement period and 0.0109% for the beginning of the period.

For the year ended June 30, 2023, the School recognized pension expense of \$95,676 for its proportionate share of General Employees Fund's pension expense. In addition, the School recognized an additional \$2,798 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2023, the School reported its proportionate share of the General Employees Plan'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	\$ 5,292	\$ 6,768
Changes in Actuarial Assumptions	143,396	2,577
Net Difference Between Projected and Actual Earnings on Plan Investments	10,990	-
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	76,748	120,937
District Contributions Subsequent to the Measurement Date	88,812	-
Total	<u>\$ 325,238</u>	<u>\$ 130,282</u>

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

A total of \$88,812 reported as deferred outflows of resources related to pensions resulting from School contributions to the General Employees Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Year Ending June 30.</u>	<u>Pension Expense Amount</u>
2024	\$ 61,403
2025	47,946
2026	(60,504)
2027	57,299

2. TRA Pension Costs

At June 30, 2023, the School reported a liability of \$1,881,756 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2022, 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 .0235% at the end of the measurement period and .0201% for the beginning of the period.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

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

Description	Amount
School's Proportionate Share of the TRA Net Pension Liability	\$ 1,881,756
State's Proportionate Share of the Net Pension Liability Associated with the School	139,549
Total	<u>\$ 2,021,305</u>

For the year ended June 30, 2023, the School recognized a decrease to pension expense of \$137,469. It also recognized (\$39,568) as a reduction to pension expense and revenue for the support provided by direct aid.

At June 30, 2023, 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	\$ 27,523	\$ 16,539
Changes in Actuarial Assumptions	301,454	398,203
Net Difference Between Projected and Actual Earnings on Plan Investments	52,546	-
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	967,755	-
District Contributions Subsequent to the Measurement Date	129,753	-
Total	<u>\$ 1,479,031</u>	<u>\$ 414,742</u>

A total of \$129,753 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, 2024.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

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

Year Ending June 30,	Pension Expense Amount
2024	\$ (91,693)
2025	278,399
2026	237,111
2027	450,487
2028	60,232
Thereafter	-

3. Total Pension Expense

The School's total decrease to pension expense, including direct aid from special funding, for all plans for the year ended June 30, 2023 was \$78,563. The Schools's total net pension liability for all plans for the year ended June 30, 2023 was \$2,515,359.

E. Long-Term Expected Return on Investment

The State Board of Investment, which manages the investment of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50 %	5.10 %
International Equity	16.50	5.30
Private Markets	25.00	5.90
Fixed Income	25.00	0.75
Totals	100.00 %	

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Long-Term Expected Return on Investment (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.50 %	5.10 %
International Equity	16.50	5.30
Fixed Income	25.00	0.75
Private Markets	25.00	5.90
Totals	100.00 %	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2023 is six years. The *Difference between Expected and Actual Experience, Changes of Assumptions* and *Changes in Proportion* use the amortization period of six years in the schedule presented. The amortization period for *Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments* is five years as required by GASB 68.

F. Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using an individual entry-age normal actuarial cost method. The long-term rate of return on pension plan investments used in the determination of the total liability is 6.5% for PERA and 7.0% for TRA. This assumption is based on a review of inflation and investments return assumptions from a number of national investment consulting firms. The review provided a range of return investment return rates deemed to be reasonable by the actuary. An investment return of 6.5% for PERA and 7% for TRA was deemed to be within that range of reasonableness for financial reporting purposes.

Inflation is assumed to be 2.25% for the General Employees Plan. Benefit increases after retirement are assumed to be 1.25% for the General Employees Plan.

Salary growth assumptions in the General Employees Plan range in annual increments from 10.25% after one year of service to 3.0% after 29 years of service and 6.0% per year thereafter.

Mortality rates for the General Employees Plan are based on the Pub-2010 General Employee Mortality Table. The tables are adjusted slightly to fit PERA's experience.

Actuarial assumptions for the General Employees Plan are reviewed every four years. The most recent four-year experience study for the General Employees Plan was completed in 2020. The assumption changes were adopted by the Board and became effective with the July 1, 2021 actuarial valuation.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

TRA pre-retirement mortality rates were based on the RP-2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale. Post-retirement mortality rates were based on the RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale. Post-disability mortality rates were based on the RP-2014 disabled retiree mortality table, without adjustment.

Inflation is assumed to be 2.50% for TRA. Benefit increases after retirement are assumed to be 1.0% for January 2020 through January 2023 then increasing by 0.10% each year up to 1.5% annually.

Salary growth assumptions range from 2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% after June 30, 2028.

The following changes for PERA occurred in 2022:

Changes in Actuarial Assumptions:

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

G. Discount Rate

The discount rate used to measure the total General Employees Plan pension liability in 2022 was 6.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate used to measure the TRA pension liability was 7.00%. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contribution will be made at the fiscal year 2022 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

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
<u>GERF Discount Rate</u>	5.50%	6.50%	7.50%
School's Proportionate Share of the GERF Net Pension Liability	\$ 1,000,809	\$ 633,603	\$ 332,437
<u>TRA Discount Rate</u>	6.00%	7.00%	8.00%
School's Proportionate Share of the TRA Net Pension Liability	\$ 2,966,485	\$ 1,881,756	\$ 992,616

I. Pension Plan Fiduciary Net Position

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

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

NOTE 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.

B. Lease Commitments and Terms – School Sites

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 8 COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

The net annual base rent for the term of the lease agreement is tied closely to the debt service requirements of FFA Building, including amounts held in escrow as part of the respective loan agreements. In addition, the School is responsible for all interior and exterior repair and maintenance costs as well as all utility costs. The total amount of rent paid by the School to FFA Building Company under the terms of the lease agreement for fiscal 2023 was \$583,354.

The total amount of lease payments paid and allowed under the terms of MDE-approved leases was \$736,478 for fiscal 2023. For fiscal 2023, the School qualified for state charter school lease aid in the amount of \$443,580 based on a statutory cap of 90% of the MDE-approved amount paid. This entitlement is subject to proration by the Minnesota Department of Education to the extent the overall funding that has been provided is insufficient to meet all amounts owed to Minnesota charter schools. This entitlement is subject to proration by the Minnesota Department of Education to the extent the overall funding that has been provided is insufficient to meet all amounts owed to Minnesota charter schools.

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

<u>Year Ending June 30,</u>	<u>Building Company Lease Payments</u>
2024	\$ 583,339
2025	583,254
2026	583,030
2027	585,510
2028	586,821
2029-2033	2,923,215
2034-2038	2,926,250
2039-2043	2,916,108
2044-2048	2,909,431
2049-2053	2,572,752
Total	<u>\$ 17,169,710</u>

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 9 LEASES

The School leases equipment as well as the building in which the School operates in for various terms under long-term, non-cancelable lease agreements. The leases expire at various dates through 2026.

Total future minimum lease payments under lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 151,705	\$ 17,250	\$ 168,955
2025	163,076	5,878	168,954
2026	5,853	35	5,888
Total	<u>\$ 320,634</u>	<u>\$ 23,163</u>	<u>\$ 343,797</u>

Right-to-use assets acquired through outstanding leases are shown below, by underlying asset class.

	<u>Governmental Activities</u>
Equipment	\$ 86,451
Buildings	506,594
Less: Accumulated Amortization	(294,794)
Total	<u>\$ 298,251</u>

REQUIRED SUPPLEMENTARY INFORMATION

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2023**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings and Investments	\$ 500	\$ 250	\$ 139	\$ (111)
Other	406,510	64,800	37,230	(27,570)
State Sources	4,987,841	4,707,615	4,849,207	141,592
Federal Sources	166,800	723,349	646,812	(76,537)
Total Revenues	<u>5,561,651</u>	<u>5,496,014</u>	<u>5,533,388</u>	<u>37,374</u>
EXPENDITURES				
Current:				
Administration	464,192	446,858	466,441	19,583
District Support Services	799,491	628,381	778,249	149,868
Elementary and Secondary Regular Instruction	2,392,880	2,251,909	2,079,037	(172,872)
Special Education Instruction	924,650	743,250	913,015	169,765
Instructional Support Services	25,000	19,500	15,190	(4,310)
Pupil Support Services	333,143	560,041	475,965	(84,076)
Sites and Buildings	963,875	422,912	874,232	451,320
Fiscal and Other Fixed Cost Programs	29,000	29,000	21,493	(7,507)
Capital Outlay	10,000	10,000	5,198	(4,802)
Debt Service:				
Principal	-	630,754	146,972	(483,782)
Interest and Fiscal Charges	-	-	39,483	39,483
Total Expenditures	<u>5,942,231</u>	<u>5,742,605</u>	<u>5,815,275</u>	<u>72,670</u>
EXCESS (DEFICIENCY) OF REVENUE (OVER) UNDER EXPENDITURES	(380,580)	(246,591)	(281,887)	(35,296)
OTHER FINANCING USES				
Transfers Out	<u>(13,612)</u>	<u>(22,195)</u>	<u>(17,669)</u>	<u>4,526</u>
NET CHANGE IN FUND BALANCE	<u>\$ (394,192)</u>	<u>\$ (268,786)</u>	<u>(299,556)</u>	<u>\$ (30,770)</u>
FUND BALANCE				
Beginning of Year			561,233	
End of Year			<u>\$ 261,677</u>	

See accompanying *Notes to Requirement Supplementary Information*

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
BUDGETARY COMPARISON SCHEDULE
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2023**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Other - Primarily Meal Sales	\$ -	\$ 130	\$ -	\$ (130)
State Sources	26,116	26,116	9,798	(16,318)
Federal Sources	229,000	229,000	218,555	(10,445)
Total Revenues	<u>255,116</u>	<u>255,246</u>	<u>228,353</u>	<u>(26,893)</u>
EXPENDITURES				
Current:				
Food Service	<u>268,727</u>	<u>277,442</u>	<u>304,411</u>	<u>26,969</u>
DEFICIENCY (DEFICIENCY) OF REVENUE OVER (UNDER) EXPENDITURES	(13,611)	(22,196)	(76,058)	(53,862)
OTHER FINANCING SOURCES				
Transfers In	<u>13,612</u>	<u>22,195</u>	<u>17,669</u>	<u>(4,526)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 1</u>	<u>\$ (1)</u>	(58,389)	<u>\$ (58,388)</u>
FUND BALANCE				
Beginning of Year			<u>61,247</u>	
End of Year			<u>\$ 2,858</u>	

See accompanying *Notes to Requirement Supplementary Information*

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
BUDGETARY COMPARISON SCHEDULE
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2023**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Other - Primarily Tuition and Fees	\$ 121,187	\$ 126,387	\$ 128,155	\$ 1,768
EXPENDITURES				
Current:				
Community Service	121,187	138,476	129,749	(8,727)
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (12,089)</u>	(1,594)	<u>\$ 10,495</u>
FUND BALANCE				
Beginning of Year			10,811	
End of Year			<u>\$ 9,217</u>	

See accompanying *Notes to Requirement 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 NINE MEASUREMENT PERIODS ***

	Measurement Date June 30,								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.0235%	0.0201%	0.0120%	0.0111%	0.0105%	0.0092%	0.0083%	0.0060%	0.0062%
School's Proportionate Share of the Net Pension Liability	\$ 1,881,756	\$ 879,636	\$ 886,576	\$ 707,516	\$ 658,262	\$ 1,836,487	\$ 1,979,748	\$ 371,159	\$ 285,692
State's Proportionate Share of the Net Pension Liability Associated with School	139,549	74,204	74,265	62,613	62,034	177,715	197,995	45,283	19,989
Total	<u>\$ 2,021,305</u>	<u>\$ 953,840</u>	<u>\$ 960,841</u>	<u>\$ 770,129</u>	<u>\$ 720,296</u>	<u>\$ 2,014,202</u>	<u>\$ 2,177,743</u>	<u>\$ 416,442</u>	<u>\$ 305,681</u>
School's Covered Payroll	\$ 1,540,168	\$ 1,255,240	\$ 728,561	\$ 622,568	\$ 570,987	\$ 544,840	\$ 449,480	\$ 544,840	\$ 282,029
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	122.18%	70.08%	121.69%	113.64%	115.29%	337.07%	440.45%	68.12%	101.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.17%	86.63%	79.10%	78.21%	78.07%	51.57%	44.88%	76.80%	81.50%

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

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

	Fiscal Year Ended June 30,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statorily Required Contribution	\$ 129,753	\$ 128,450	\$ 102,051	\$ 57,702	\$ 48,000	\$ 42,824	\$ 40,863	\$ 33,711	\$ 40,863	\$ 19,742
Contributions in Relation to the Statorily Required Contribution	(129,753)	(128,450)	(102,051)	(57,702)	(48,000)	(42,824)	(40,863)	(33,711)	(40,863)	(19,742)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School's Covered Payroll	\$ 1,517,579	\$ 1,540,168	\$ 1,255,240	\$ 728,561	\$ 622,568	\$ 570,987	\$ 544,840	\$ 449,480	\$ 544,840	\$ 282,029
Contributions as a Percentage of Covered Payroll	8.55%	8.34%	8.13%	7.92%	7.71%	7.50%	7.50%	7.50%	7.50%	7.00%

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

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

	Measurement Date June 30,								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.0080%	0.0109%	0.0089%	0.0079%	0.0075%	0.0071%	0.0064%	0.0062%	0.0112%
School's Proportionate Share of the Net Pension Liability	\$ 633,603	\$ 465,479	\$ 533,596	\$ 436,773	\$ 416,069	\$ 453,259	\$ 519,648	\$ 321,316	\$ 526,120
State's Proportionate Share of the Net Pension Liability Associated with School	18,723	14,173	16,500	13,666	13,567	5,701	6,804	-	-
Total	<u>\$ 1,070,027</u>	<u>\$ 782,347</u>	<u>\$ 630,787</u>	<u>\$ 450,439</u>	<u>\$ 429,636</u>	<u>\$ 458,960</u>	<u>\$ 526,452</u>	<u>\$ 321,316</u>	<u>\$ 526,120</u>
School's Covered Payroll	\$ 1,070,027	\$ 782,347	\$ 630,787	\$ 561,680	\$ 510,973	\$ 398,707	\$ 365,653	\$ 366,739	\$ 196,317
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	59.21%	59.50%	84.59%	77.76%	81.43%	113.68%	142.11%	87.61%	267.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.67%	87.00%	79.10%	80.23%	79.53%	75.90%	68.90%	78.20%	78.70%

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

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

	Fiscal Year Ended June 30,									
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Statorily Required Contribution	\$ 88,812	\$ 80,252	\$ 58,676	\$ 47,309	\$ 42,126	\$ 38,323	\$ 29,903	\$ 27,424	\$ 27,047	\$ 14,233
Contributions in Relation to the Statorily Required Contribution	(88,812)	(80,252)	(58,676)	(47,309)	(42,126)	(38,323)	(29,903)	(27,424)	(27,047)	(14,233)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School's Covered Payroll	\$ 1,184,160	\$ 1,070,027	\$ 782,347	\$ 630,787	\$ 561,680	\$ 510,973	\$ 398,707	\$ 365,653	\$ 366,739	\$ 196,317
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.38%	7.25%

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2023**

NOTE 1 COMPLIANCE – BUDGETS

The budget and actual amounts are both prepared on the modified accrual basis of accounting in accordance with GAAP.

In the following fund, expenditures exceeded the appropriations during the year ended June 30, 2023:

	Budget	Expenditures	Excess
General Fund	\$ 5,742,605	\$ 5,815,275	\$ 72,670
Special Revenue Fund:			
Food Service Fund	277,442	304,411	26,969

School management considers the overages to be the result of necessary expenditures critical to operations and such overages were approved by the board.

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

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

2022

Changes in Actuarial Assumptions

- The mortality improvement scale was changed from Scale MP-2020 to Scale MP-2021.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2021

Changes in Actuarial Assumptions

- The investment return and single discount rates were changed from 7.5% to 6.5%, for financial reporting purposes.
- The mortality improvement scale was changed from Scale MP-2019 to Scale MP-2020.

Changes in Plan Provisions

- There were no changes in plan provisions since the previous valuation.

2020

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2023**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS,
AND ASSUMPTIONS**

2020 (Continued)

Changes in Actuarial Assumptions (Continued)

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

Changes in Plan Provisions

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

2019

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2023**

NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

2018

Changes in Actuarial Assumption

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

Changes in Plan Provisions

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

2017

Changes in Actuarial Assumption

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

Changes in Plan Provisions

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

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2023**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

2016

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00% per year through 2035 and 2.50% per year thereafter to 1.00% per year for all future years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate was changed from 7.90% to 7.50%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

Changes in Actuarial Plan Provisions

- There have been no changes since the prior valuation.

2015

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

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

2022

Changes in Actuarial Assumptions

- None

Changes in Plan Provisions

- None

2021

Changes in Actuarial Assumptions

- The investment return assumption was changed from 7.5% to 7.0%.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2023**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

2020

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2019

Changes in Actuarial Assumptions

- There have been no changes since the prior valuation.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2018

Changes in Actuarial Assumptions

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

Changes in Plan Provisions:

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio were at least 90% for two consecutive years, was eliminated.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2023**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

2018 (Continued)

Changes in Plan Provisions: (Continued)

- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 5 years, (7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017

Changes in Actuarial Assumptions

- The cost-of-living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- Adjustment was made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the nonvested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The COLA was not assumed to increase to 2.5%, but remain at 2.0% for all future years.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for 10 years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2016

Changes in Actuarial Assumptions

- The cost-of-living adjustment was not assumed to increase (it remained at 2.0% for all future years).
- The price inflation assumption was lowered from 3.0% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes at some durations for the merit scale of the salary increase assumption.
-
-

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2023**

**NOTE 2 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

2016 (Continued)

Changes in Actuarial Assumptions (Continued)

- The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back six years, and female rates set back five years. Generational projection uses the MP-2015 scale.
- The postretirement mortality assumption was changed to the RP-2014 while collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
- The post-disability mortality assumption was changed to the RP-2014 disabled retiree mortality table, without adjustments.
- Separate retirement assumptions for members hired before or after July 1, 1989 were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional forms of payment at retirement were made.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2014

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

SUPPLEMENTARY INFORMATION

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2023**

	AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND			
Total Revenue	\$ 5,533,388	\$ 5,390,877	\$ 142,511
Total Expenditures	5,815,275	5,800,988	14,287
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	5,549	5,549	-
<i>Restricted:</i>			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health and Safety	-	-	-
407 Capital Project Levy	-	-	-
408 Cooperative Programs	-	-	-
413 Projects Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	-	-	-
426 \$25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State-Approved Alternative Programs	-	-	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluations	-	-	-
441 Basic Skills Programs	-	-	-
445 Career and Technical Programs	-	-	-
448 Achievement and Integration	-	-	-
449 Sage Schools Crime Levy	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-
453 Unfunded Severance & Retirement Levy	-	-	-
464 Restricted Fund Balance	-	9,145	(9,145)
<i>Committed:</i>			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	-	-	-
<i>Assigned:</i>			
462 Assigned Fund Balance	-	-	-
<i>Unassigned:</i>			
422 Unassigned Fund Balance	256,128	118,759	137,369
02 FOOD SERVICE			
Total Revenue	228,353	228,352	1
Total Expenditures	304,411	304,409	2
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>			
452 OPEB Liability Not Held in Trust	-	-	-
464 Restricted Fund Balance	2,858	2,858	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	128,155	128,155	-
Total Expenditures	129,749	129,749	-
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>			
426 \$25 Taconite	-	-	-
431 Community Education	-	-	-
432 E.C.F.E.	-	-	-
440 Teacher Development and Evaluations	-	-	-
444 School Readiness	-	-	-
447 Adult Basic Education	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-
464 Restricted Fund Balance	9,217	9,217	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-

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

OTHER REQUIRED REPORTS



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2023, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 21, 2024.

Report on Internal Control Over Financial Reporting

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

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

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 questioned costs as items 2023-001 through 2023-005 to be material weaknesses.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2023-006 to be a significant deficiency.

Report on Compliance and Other Matters

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

The School's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the School's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 21, 2024



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Friendship Academy of the Arts's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Friendship Academy of the Arts's major federal programs for the year ended June 30, 2023. Friendship Academy of the Arts's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Friendship Academy of the Arts complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Friendship Academy of the Arts and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Friendship Academy of the Arts's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Friendship Academy of the Arts's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Friendship Academy of the Arts' compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Friendship Academy of the Arts' compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Friendship Academy of the Arts' compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Friendship Academy of the Arts' internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Friendship Academy of the Arts' internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2023-007. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on Friendship Academy of the Arts's response to the noncompliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Friendship Academy of the Arts's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-007 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Friendship Academy of the Arts' response to the internal control over compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. Friendship Academy of the Arts' response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 21, 2024



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, 2023, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 21, 2024.

In connection with our audit, we noted that Friendship Academy of the Arts failed to comply with provisions of the Uniform Financial Accounting and Reporting Standards and Charter School sections of *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters, as described in the schedule of findings and questions costs as items 2023-008 through 2023-010. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the charter school's noncompliance with the above-referenced provisions, as far as they relate to accounting matters.

Government Auditing Standards requires the auditor to perform limited procedures on Friendship Academy of the Arts' written response to the legal compliance findings identified in our audit and described in the schedule of findings and questioned costs. Friendship Academy of the Arts' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 21, 2024

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
YEAR ENDED JUNE 30, 2023**

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Agriculture				
Pass-Through Minnesota Department of Education:				
Cash Assistance:				
School Breakfast Program	10.553	202121N109942	\$ 76,970	\$ -
National School Lunch Program	* 10.555	202121N109942	116,830	-
COVID-19 Emergency Operational Costs	* 10.555	202121N109942	10,856	-
Noncash Assistance:				
Commodity Rebate	* 10.555	202121N109942	13,899	-
Total Child Nutrition Cluster			<u>218,555</u>	<u>-</u>
Pandemic EBT Administrative Costs	10.649	Unknown	628	-
Total U.S. Department of Agriculture			<u>219,183</u>	<u>-</u>
U.S. Department of the Treasury				
Passed-Through Minnesota Department Education:				
COVID-19 State and Local Fiscal Recovery Funds:				
Summer Academic Enrichment and Mental Health	21.027	Unknown	13,831	-
Total U.S. Department of the Treasury			<u>13,831</u>	<u>-</u>
U.S. Department of Education				
Pass-Through Minnesota Department of Education:				
IDEA, Part B - Special Education Grants to States	84.027	H027A200087	52,332	-
Total IDEA Cluster			<u>52,332</u>	<u>-</u>
Title I, Part A - Grants to Local Education Agencies	84.010	S010A200023A	132,484	-
Title II, Part A - Teacher and Principal Training	84.367	S367A200022	22,960	-
Title IV, Part A - Student Support and Academic Enrichment	84.424	S424A220024	10,000	-
COVID-19 Education Stabilization Fund				
Governor's Emergency Education Relief	84.425C	S425D200045	34,108	-
Elementary and Secondary School Emergency Relief (ESSER II)	84.425D	S425D200045	50,416	-
Elementary and Secondary School Emergency Relief (ESSER III)	84.425U	S425D200045	360,610	-
Total Education Stabilization Fund			<u>445,134</u>	<u>-</u>
Total U.S. Department of Education			<u>662,910</u>	<u>-</u>
U.S. Department of Health and Human Services				
Pass-Through Minnesota Department of Education:				
COVID-19 Epidemiology and Laboratory Capacity for Prevention and Control of Emerging Infectious Diseases	93.323	NU50CK000508	5,300	-
TOTAL FEDERAL FINANCIAL AWARDS EXPENDED			<u><u>\$ 901,224</u></u>	<u><u>\$ -</u></u>
* ALN 10.555 Total = \$141,585				

Notes to Schedule of Expenditures of Federal Awards:

Note 1:

The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Friendship Academy of the Arts Charter School No. 4079.

Note 2:

The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 1 to the financial statements of the School. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2023**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? x yes no
- Significant deficiency(ies) identified? x yes none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? x yes no
- Significant deficiency(ies) identified? yes x none reported

Type of auditors’ report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? x yes no

Identification of Major Federal Programs

Assistance Listing Number(s)	Name of Federal Program or Cluster
84.425C, 84.425D, & 84.425U	COVID-19 Education Stabilization Fund

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes x no

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023**

Section II – Financial Statement Findings

2023-001

Journal Entry Review:

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: It was noted during the audit that journal entries are not being reviewed and approved by someone who has access to and is reviewing all of the underlying information to determine if the journal entry is accurate and reasonable. Support for journal entries was also unable to be provided for the entries we were testing.

Criteria or specific requirement: Key controls should be clearly documented as they occur throughout the year. The School should have key controls in place requiring that all journal entries be reviewed and approved throughout the year. Entries should be reviewed by someone with the proper skills, knowledge, and experience to know if the journal entries are correct.

Effect: The School could have erroneous or fraudulent journal entries posted to the accounting records that would go undetected.

Cause: The School was having a listing of journal entries approved by the board at each board meeting, but this review should occur prior to journal entries being posted by someone with detailed knowledge of the School's financial activity.

Repeat Finding: Yes, this is a repeated finding. This finding was number 2022-001 in the fiscal year 2022 audit.

Recommendation: We recommend that the School implement internal controls sufficient to identify any errors in journal entries as they are posted. This control should be able to identify if journal entries are posted to the incorrect accounts or for incorrect amounts. The reviewer of the journal entry should be someone other than the person posting the entry, and the review should be documented so it is clear who posted the journal entry, who reviewed it, and when it was reviewed. The reviewer should be reviewing the underlying documentation and support for the journal entry when approving it.

Views of responsible officials and planned corrective actions: The School is in agreement with the recommendation. The School intends to work with Creative Planning, their accounting service provider, to ensure a reasonable control is put in place during fiscal year 2024.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023**

Section II – Financial Statement Findings (Continued)

2023-002

Debt Covenants

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: It was noted during the audit that four debt covenants were either wholly or partially unmet during fiscal year 2023.

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

- Audited financial statements were not furnished to the Trustee and EMMA by no later than 150 days after the close of the fiscal year.
- The School is to maintain unrestricted cash on hand in the general fund on June 30 of each year equal to or greater than 45 days cash on hand. It was noted that at June 30, 2023, the School had \$218,778 in the general fund with \$5,800,978 in expenditures which would not meet this requirement.
- The School is required to provide notice to the Trustee, EMMA, the Majority Bondholder, and any Significant Bondholder if the School's annual audit shows the cash on hand to be below the amounts required. We were unable to locate this required notice on EMMA.
- The School is required to prepare and submit to the Trustee and EMMA as they become available, copies of all test results of the School, with a comparison to Special School District no. 1 (Minneapolis), Minnesota. CLA did not note any such comparison was posted to EMMA.

Effect: The School was not in compliance with the above debt covenants, and it would be possible for the debt to default as a result of these debt covenants not being met.

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

Repeat Finding: Yes, this is a repeated finding. This finding was number 2022-002 in the fiscal year 2022 audit.

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

Views of responsible officials and planned corrective actions: The School is in agreement with the finding. The management at the School will work to create the proper internal control framework to meet all debt covenants moving forward.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023**

Section II – Financial Statement Findings (Continued)

2023-003

Payroll Controls

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: It was noted during the audit that the Freedom School pay is being approved from a spreadsheet calculating the additional pay for individuals at that school and the person approving these amounts is inputting the additional pay into the payroll system. This is inadequate segregation of duties. Note the approval of this spreadsheet is not documented so there is no way to verify it was reviewed and approved.

Criteria or specific requirement: No individual should have the ability to have authorization authority as well as the ability to input the information into the system, as this creates a situation in which data is unreviewed. This could result in errors or fraudulent manipulation that goes undetected.

Effect: The School could have erroneous or fraudulent payment amounts for payroll due to this process.

Cause: The school is not properly segregating the duties of recordkeeping and authorization and documenting the authorization process.

Repeat Finding: Yes, this is a repeated finding. This finding was number 2022-003 in the fiscal year 2022 audit.

Recommendation: We recommend that all payroll amounts be reviewed and approved after being entered into the system, If the review and approval takes place prior to entry in the accounting system, there should be a subsequent review to ensure accuracy of the data entry. The individual approving the payroll amounts should not be the individual entering the payroll information into the system. Approval of all payroll amounts should be reviewed and approved each pay period by a knowledgeable supervisor and that process should be documented so it is clear who is reviewing and approving the payroll and when that is occurring.

Views of responsible officials and planned corrective actions: The School is in agreement with the recommendation. The School will work to properly segregate these duties in the future.

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023

Section II – Financial Statement Findings (Continued)

2023-004

Reconciliation of Building Company Trial Balance

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: It was noted during the audit that the Building Company trial balance was not reconciled to the prior year ending fund balance and did not net to zero. Fund balance needed to be adjusted by \$7,788,372 to properly reconcile to the prior year audited financial statements and balance.

Criteria or specific requirement: The trial balance should be reconciled to the prior year ending fund balance and net to zero.

Effect: It would be possible for the School to have erroneous amounts in the Building Company trial balance.

Cause: The School did not reconcile the Building Company trial balance.

Repeat Finding: No

Recommendation: We recommend that the School ensure the Building Company trial balance is reconciled and reviewed prior to the audit each year.

Views of responsible officials and planned corrective actions: The School is in agreement with the recommendation. The School will work to ensure that the Building Company trial balance is reconciled.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023**

Section II – Financial Statement Findings (Continued)

2023-005

Insufficient Contributions remitted to PERA and TRA

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Condition: It was noted during the audit that the PERA and TRA contributions were not being remitted timely to the PERA and TRA pension plans for the wages withheld from employees' wages or for the employer portion of the contributions required to be sent on behalf of employees. The number of unremitted contributions as of June 30, 2023 for PERA is \$267,514 and the amount of unremitted contributions for TRA is \$168,087. These amounts must have interest paid on them of 7.5% as a penalty for non-payment as well so this is something to consider from a fiscal management perspective as well.

Criteria or specific requirement: The Minnesota PERA Manual Chapter 7 notes that Minnesota law requires "employers to remit full payment of all employees' PERA deductions and the total employer contributions due at the end of each payroll cycle" it also notes that payment "must be received by PERA within 14 calendar days of the date the employees were paid."

Effect: The School is not in compliance with Minnesota statutes for the pension plan, and the School incurred fees for the late remittance as well.

Cause: The School experienced cash flow issues during fiscal year 2023.

Repeat Finding: Yes, this is a repeated finding. This finding was documented in the Management Letter for fiscal year 2022.

Recommendation: We recommend that the School implement internal controls sufficient to ensure that PERA and TRA contributions payments can be made timely within 14 days of paying employees the related wages.

Views of responsible officials and planned corrective actions: The School is in agreement with the recommendation. The School will work to ensure contributions are paid in a timely manner moving forward.

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023

Section II – Financial Statement Findings (Continued)

2023-006

Controls over approval of Payroll

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Condition: It was noted during the audit that the School was unable to provide proper gross pay approval for 19 of 22 employees.

Criteria or specific requirement: All gross wage amounts should be formally approved.

Effect: Insufficient payroll controls could result in employees being paid incorrect amounts, which may not always be caught by the employee or school.

Cause: The School experienced staff turnover during fiscal year 2023 and were not able to locate the signed contracts.

Repeat Finding: No

Recommendation: We recommend that the School implement internal controls sufficient to ensure that documentation of approval of gross wages is retained.

Views of responsible officials and planned corrective actions: The School is in agreement with the recommendation. The School will work to ensure controls over payroll are implemented moving forward.

**FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023**

Section III – Findings and Questioned Costs – Major Federal Programs

2023-007

Federal Agency: Department of Education

Federal Program Name: COVID-19 Education Stabilization Fund

Assistance Listing Number: 84.425C, 84.425D, & 84.425U

Federal Award Identification Number and Year: S425V210045 Awarded fiscal year 2023

Pass-Through Agency: Minnesota Department of Education

Pass-Through Number(s): S425D210045

Award Period: 7/1/2022 – 6/30/2023

Type of Finding: Material Weakness in Internal Control over Compliance and Other Matters

Criteria or specific requirement: The School should have an internal control over each major compliance area, including allowability, to ensure all payments are allowable for the grant to which they are coded.

Condition: It was noted that manual checks, wire transactions, and debit card purchases did not have documentation of the transactions being reviewed and approved. It was noted during payroll testing that none of the disbursements tested had documentation of reviewing the payment for allowability or amount. There was also no documentation of review for time and effort documentation. There were also payments to individuals for incorrect amounts that were charged to the grant.

Questioned costs: \$1,254.44

Context: Of the eight cash disbursements tested two of them did not have documentation of review and approval. Of the eight payroll items tested, none of them had documentation of review and approval. Of the eight payroll items tested five of them had discrepancies between the amount paid to the individual and their approved contract. In some instances, there was an overpayment and in others an under-payment which caused some additional costs to be coded to the federal expenditures for this program.

Cause: These types of payments were not reviewed and approved at a detailed level during the year, or if they were, that review was not formally documented.

Effect: The School does not have any documentation of someone reviewing and approving the expenditures charged to the federal program, and in some situations paid out incorrect amounts to individuals coded to the program.

Repeat Finding: No

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

2023-007 (Continued)

Recommendation: We recommend that all purchases and payroll are reviewed and approved, with part of that procedure being to review that the expenditures are allowable for the grant to which they are being recorded, and that time and effort are properly documented and reviewed. This review and approval should be documented so it is clear who reviewed it and when.

Views of responsible officials: There is no disagreement with the audit finding.

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023

Section IV – Findings and Questioned Costs – Legal Compliance

2023-008

Uniform Financial Accounting and Reporting Standards (UFARS) Error

Type of Finding: Legal Compliance Exceptions

Condition: During the audit, CLA noted two instances of incorrect coding per the UFARS guidelines. It was noted that there was an accounts payable recorded in the building company that should have been recorded as a due to another fund which was reclassified during the audit. It was also noted that the intra-entity lease payment was still recorded in object code 570 and had to be reclassified to object code 335.

Criteria or specific requirement: UFARS is to be used by schools for automated state reporting purposes as described in the UFARS Manual and in School Business Bulletins issued by the Minnesota Department of Education.

Effect: The School was not in compliance with the UFARS coding requirements for these transactions tested.

Cause: The School coded the transactions to incorrect codes.

Repeat Finding: Yes, this is a repeated finding. This finding was number 2022-007 in the fiscal year 2022 audit.

Recommendation: We recommend that as the School ensure all UFARS coding requirements are met.

Views of responsible officials and planned corrective actions: The School is in agreement with the recommendation. The School will work to ensure that as transactions are reviewed they are also reviewed for proper UFARS coding.

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023

Section IV – Findings and Questioned Costs – Legal Compliance (Continued)

2023-009

UFARS Turnaround Edit Report Errors

Type of Finding: Legal Compliance Exceptions

Condition: During the audit, CLA noted two errors on the UFARS Turnaround Edit Report. One error noted that Fund 1 fund balance current beginning balance does not equal prior year end balance. The second error noted was a warning to use object code 899 when no other object code is available.

Criteria or specific requirement: UFARS is to be used by schools for automated state reporting purposes as described in the UFARS Manual and in School Business Bulletins issued by the Minnesota Department of Education.

Effect: The School was not in compliance with the UFARS coding requirements.

Cause: The School had entries that occurred after the UFARS closing period and did not resolve all errors on the UFARS Turnaround Edit Report prior to the closing period.

Repeat Finding: No

Recommendation: We recommend that as the School ensure all UFARS coding requirements are met.

Views of responsible officials and planned corrective actions: The School is in agreement with the recommendation. The School will work to ensure that UFARS coding requirements are met.

FRIENDSHIP ACADEMY OF THE ARTS
CHARTER SCHOOL NO. 4079
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2023

Section IV – Findings and Questioned Costs – Legal Compliance (Continued)

2023-010

Prompt Payment of Bills

Type of Finding: Legal Compliance Exceptions

Condition: During the audit it was noted that 4 of the 22 invoices tested were paid after the 35-day payment period for the invoices reviewed.

Criteria or specific requirement: Minnesota statute 471.425 subd. 2 and 4 note that each invoice should be paid either within the agreed-upon contract terms or within 35 days of receiving the invoice for an entity that has monthly governance meetings.

Effect: The School was not in compliance with this statute.

Cause: The School had a variety of instances that caused delays in timely payment.

Repeat Finding: Yes, this is a repeated finding. This finding was number 2022-009 in the fiscal year 2022 audit.

Recommendation: We recommend that the School implement internal controls sufficient to ensure that payments are all made within the agreed upon payment terms or within 35 days of receiving each invoice. If the School receives an invoice on a date later than the date on the invoice, it should ensure that is noted on the invoice, so it is clearly documented if they paid within 35 days or not. If an invoice is ever being contested, this should also be documented as the law would not apply to such transactions.

Views of responsible officials and planned corrective actions: The School is in agreement with the recommendation. The School will work to promptly pay their outstanding claims going forward.



CLA (CliftonLarsonAllen LLP) is a network member of CLA Global. See CLAGlobal.com/disclaimer. Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.