

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

PERIOD FROM INCEPTION THROUGH JUNE 30, 2009

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
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INTRODUCTORY SECTION

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
SCHOOL BOARD
JUNE 30, 2009**

SCHOOL BOARD

| <u>NAME</u> | <u>TERM ON BOARD EXPIRES</u> | <u>BOARD POSITION</u> |
|--------------------|---|------------------------------|
| Erica Zweifel | January 2010 | Board Chair |
| Rob Hardy | January 2012 | Vice Chair |
| Gary Engstrom | January 2011 | Secretary |
| Penny Kelly | Stepped down July 2009 | Treasurer |
| Chris Broden | January 2012 | Director |
| Deb Scheil | January 2012 | Director |
| Katie Kleese | January 2012 | Sponsor Representative |

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
Charter School No. 4194
Cannon River STEM School
Faribault, Minnesota

We have audited the accompanying financial statements of the governmental activities and each major fund of Cannon River STEM School as of and for the period from inception through June 30, 2009, which collectively comprise the School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Cannon River STEM School as of June 30, 2009, and the respective changes in financial position thereof for the period then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2009, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the Board of Education
Charter School No. 4194
Cannon River STEM School

The management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards Compliance Table (Unaudited) is presented as supplemental information and is not a required part of the basic financial statements of the School. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Larson Allen LLP
LarsonAllen LLP

Minneapolis, Minnesota
September 7, 2009

REQUIRED SUPPLEMENTARY INFORMATION

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

This Cannon River STEM School's annual financial report presents our discussion and analysis of the School's financial performance during the period from inception through June 30, 2009. Please read it in conjunction with the School's financial statements, which immediately follow this section. The Management's Discussion and Analysis (MD&A) is a required element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2008-2009 fiscal period include the following:

- Total General Fund revenues were \$65,150 as compared to \$62,071 of expenditures.
- Total fund balance of the General Fund is \$3,079 at June 30, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

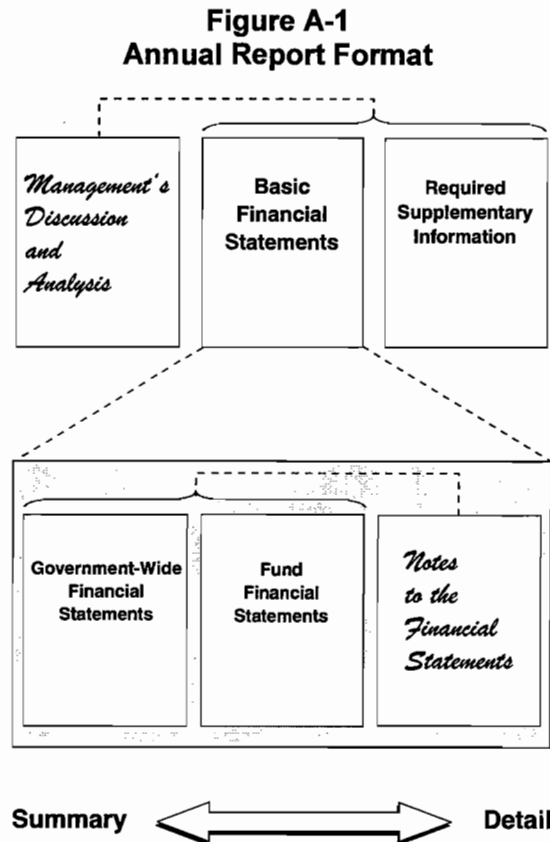
The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis, (this section), the basic financial statements, and supplemental information. The basic financial statements include 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.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

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

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

Figure A-2 summarizes the major features of the School's financial statements, including the portion of the School's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the School's Government-wide and Fund Financial Statements

| <i>Type of Statements</i> | Fund Statements | | | |
|---|--|--|--|--|
| | Government-wide | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| <i>Scope</i> | Entire school (except fiduciary funds) and the school's component units | The activities of the school that are not proprietary or fiduciary | Activities the school operates similar to private businesses | Instances in which the school is the trustee or agent for someone else's resources |
| <i>Required financial statements</i> | * Statement of net assets * Statement of activities | * Balance sheet * Statement of revenues, expenditures and changes in fund balances | * Statement of net assets * Statement of revenues, expenses and changes in fund net assets * Statement of cash flows | * Statement of fiduciary net assets * Statement of changes in fiduciary net assets |
| <i>Accounting basis and measurement focus</i> | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| <i>Type of asset/liability information</i> | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can |
| <i>Type of inflow/outflow information</i> | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

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 assets includes *all* of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

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, transportation, administration, and food services. 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 debt covenants.
- The School may establish other funds to control and manage money for a specific purpose.

The School has one kind of fund:

- *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.

**CANNON RIVER STEM SCHOOL
 CHARTER SCHOOL NO. 4194
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Assets

The School's *combined* net assets were \$10,239 on June 30, 2009.

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

| | Governmental Activities | | Percentage Change |
|--------------------------------|-------------------------|------------|----------------------|
| | 2009 | 2008 | |
| Current and Other Assets | \$ 6,813 | (1) | (1) |
| Capital and Non-Current Assets | 7,160 | (1) | (1) |
| Total Assets | <u>13,973</u> | <u>(1)</u> | <u>(1)</u> |
| Current Liabilities | <u>3,734</u> | <u>(1)</u> | <u>(1)</u> |
| Net Assets: | | | |
| Invested in Capital Assets | | | |
| Net of Related Debt | 7,160 | (1) | (1) |
| Unrestricted | 3,079 | (1) | (1) |
| Total Net Assets | <u>\$ 10,239</u> | <u>(1)</u> | <u>(1)</u> |

(1) The School was in start-up during the period ended June 30, 2009. Comparative information will be provided in the future.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

Changes in Net Assets

The School's total revenues were \$65,150 for the period ended June 30, 2009. Almost all the revenues were from the federal CSP Start-up Grant the School was awarded.

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

| | Governmental Activities for the Fiscal Year Ended June 30, | | Total % Change |
|--------------------------------------|---|------------|-------------------|
| | 2009 | 2008 | |
| Revenues | | | |
| <u>Program Revenues</u> | | | |
| Operating Grants and Contributions | \$ 62,071 | (1) | (1) |
| <u>General Revenues</u> | | | |
| Other | 3,079 | (1) | (1) |
| Total Revenues | <u>65,150</u> | <u>(1)</u> | |
| Expenses | | | |
| Administration | 19,176 | (1) | (1) |
| District Support Services | 22,307 | (1) | (1) |
| Instructional Support Services | 8,656 | (1) | (1) |
| Sites and Buildings | 2,480 | (1) | (1) |
| Fiscal and Other Fixed Cost Programs | 2,292 | (1) | (1) |
| Total Expenses | <u>54,911</u> | <u>(1)</u> | |
| Increase in Net Assets | 10,239 | (1) | (1) |
| Beginning Net Assets | - | (1) | (1) |
| Ending Net Assets | <u>\$ 10,239</u> | <u>(1)</u> | (1) |

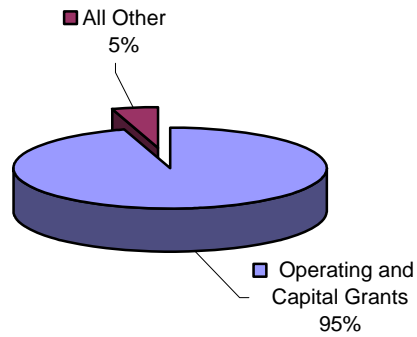
(1) The School was in start-up during the period ended June 30, 2009. Comparative information will be provided in the future.

The total cost of all programs and services was \$54,911. Total revenues exceeded expenses by \$10,239 resulting in ending Net Assets of \$10,239 at June 30, 2009.

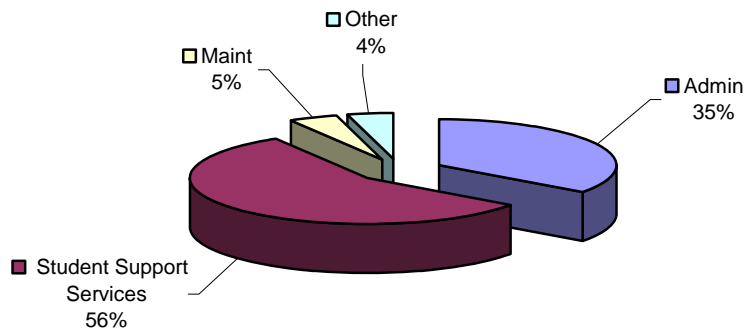
**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

The cost of all *governmental* activities this period was \$54,911.

**Figure A-3
Sources of School's Revenues for Fiscal 2009**



**Figure A-4
School Expenses for Fiscal 2009**



**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds as well. As the School completed the year, its governmental funds reported a fund balance of \$3,079.

Revenues and expenses for the School's governmental funds were \$65,150 and \$62,071, respectively.

GENERAL FUND

Once operational, the General Fund will eventually include the primary operations of the School which will provide educational services to students from kindergarten through 6th grade.

The Federal Start-up Grant has requirements and restrictions as to the purpose and timing of expenditures. Cannon River STEM School complied with its grant agreement.

ENROLLMENT

Enrollment is a critical factor in determining revenue with approximately 90% of General Fund revenue being determined by enrollment.

Cannon River STEM School plans for their first year of operation (Fall 2009) to open with 135 students in grades K-6.

The following schedule presents a summary of General Fund Revenues.

**Table A-3
General Fund Revenues**

| Fund | Year Ended | | Change | |
|----------------------------|------------------|------------------|------------------------|------------|
| | June 30, 2009 | June 30, 2008 | Increase (Decrease) | Percent |
| Local Sources: | | | | |
| Other | \$ 3,079 | (1) | (1) | (1) |
| Federal Sources | 62,071 | (1) | (1) | (1) |
| Total General Fund Revenue | <u>\$ 65,150</u> | <u>(1)</u> | <u>(1)</u> | <u>(1)</u> |

(1) The School was in start-up during fiscal year 2009. Comparative information will be provided in the future.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

The following schedule presents a summary of General Fund Expenditures.

**Table A-4
General Fund Expenditures**

| | Year Ended | | Amount of Increase (Decrease) | Percent Increase (Decrease) |
|------------------------|------------------|------------------|-------------------------------------|-----------------------------------|
| | June 30, 2009 | June 30, 2008 | | |
| Salaries | \$ 16,849 | (1) | (1) | (1) |
| Employee Benefits | 2,327 | (1) | (1) | (1) |
| Purchased Services | 29,400 | (1) | (1) | (1) |
| Supplies and Materials | 2,038 | (1) | (1) | (1) |
| Capital Expenditures | 9,788 | (1) | (1) | (1) |
| Other Expenditures | 1,669 | (1) | (1) | (1) |
| Total Expenditures | <u>\$ 62,071</u> | <u>(1)</u> | <u>(1)</u> | <u>(1)</u> |

(1) The School was in start-up during fiscal year 2009. Comparative information will be provided in the future.

Salaries (27.1%), employee benefits (3.8%) purchased services (47.4%), supplies (3.3%), and capital expenditures (15.8%) make up 97.4% of all the expenditures, which allowed the School the guidance it needed to make all the preparations to open for the 2009-10 school year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

By the end of 2009, the School had invested \$8,950 in computers which represented the only capital asset which the School had (see Table A-5). (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year totaled \$1,790. At June 30, 2009, the School had not incurred any long-term debt.

**Table A-5
The School's Capital Assets**

| | 2009 | 2008 | Percentage Change |
|--------------------------------|-----------------|------------|----------------------|
| Equipment | \$ 8,950 | (1) | (1) |
| Less: Accumulated Depreciation | <u>(1,790)</u> | <u>(1)</u> | (1) |
| Total | <u>\$ 7,160</u> | <u>(1)</u> | (1) |

(1) The School was in start-up during fiscal year 2009. Comparative information will be provided in the future.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

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.

Fortunately, because Cannon River STEM School is in its first year of operation, the School is the recipient of a Federal Start-up Grant Award. These funds are used to assist the charter school in their planning and implementation for a period of 36 months. The School will also receive a state start-up grant for the next two years. In addition, enrollment will increase for the next five years providing a yearly increase in revenue. It is expected that the grants and state and federal aids received will support the planned level of expenditures for fiscal 2009-10.

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

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our constituents, state oversight agencies, lenders, customers, legislative leaders and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cannon River STEM School, 1800 14th St. NE, Faribault, MN 55021.

BASIC FINANCIAL STATEMENTS

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
STATEMENT OF NET ASSETS
JUNE 30, 2009**

| | Governmental Activities |
|---|----------------------------|
| | 2009 |
| ASSETS | |
| Cash and Investments | \$ 238 |
| Receivables: | |
| Other Governments | 5,975 |
| Prepaid Items | 600 |
| Capital Assets, Net of Depreciation | 7,160 |
| Total Assets | 13,973 |
| LIABILITIES | |
| Accounts and Contracts Payable | 3,734 |
| NET ASSETS | |
| Invested in Capital Assets, Net of Related Debt | 7,160 |
| Unrestricted | 3,079 |
| Total Net Assets | \$ 10,239 |

See accompanying Notes to Basic Financial Statements.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
STATEMENT OF ACTIVITIES
PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

| Functions | 2009 | | Net (Expense) Revenue and Changes in Net Assets |
|--------------------------------------|------------------|--|--|
| | Expenses | Operating Grants and Contributions | Total Governmental Activities |
| Governmental Activities | | | |
| Administration | \$ 19,176 | \$ 19,176 | \$ - |
| District Support Services | 22,307 | 29,467 | 7,160 |
| Instructional Support Services | 8,656 | 8,656 | - |
| Sites and Buildings | 2,480 | 2,480 | - |
| Fiscal and Other Fixed Cost Programs | 2,292 | 2,292 | - |
| Total | <u>\$ 54,911</u> | <u>\$ 62,071</u> | 7,160 |
| General Revenues | | | |
| | | | <u>3,079</u> |
| | | | 10,239 |
| | | | - |
| | | | <u>\$ 10,239</u> |

See accompanying Notes to Basic Financial Statements.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
BALANCE SHEET
GENERAL FUND
JUNE 30, 2009**

ASSETS

| | |
|---|------------------------|
| Cash and Investments | \$ 238 |
| Due from Federal through Minnesota Department of Education | 5,975 |
| Prepaid Items | <u>600</u> |
| Total Assets | <u><u>\$ 6,813</u></u> |

LIABILITIES AND FUND BALANCE

| | |
|------------------------------------|------------------------|
| Liabilities: | |
| Accounts and Contracts Payable | \$ 3,734 |
| Fund Balance: | |
| Reserved for Prepaid Items | 600 |
| Unreserved, Undesignated | <u>2,479</u> |
| Total Fund Balance | <u><u>3,079</u></u> |
| Total Liabilities and Fund Balance | <u><u>\$ 6,813</u></u> |

See accompanying Notes to Basic Financial Statements.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2009**

| | <u>2009</u> |
|--|--------------------------------|
| Total Fund Balance for Governmental Funds | \$ 3,079 |
| <p>Total net assets reported for governmental activities in the statement of net assets is different because:</p> <p>Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:</p> | |
| Equipment, Net of Accumulated Depreciation | <u>7,160</u> |
| Total Net Assets of Governmental Activities | <u><u>\$ 10,239</u></u> |

See accompanying Notes to Basic Financial Statements.

**CANNON RIVER STEM SCHOOL
 CHARTER SCHOOL NO. 4194
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL
 GENERAL FUND
 PERIOD FROM INCEPTION THROUGH JUNE 30, 2009**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Over (Under) Final Budget</u> |
|---|-------------------------|---------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Other | \$ 3,000 | \$ 3,000 | \$ 3,079 | \$ 79 |
| Federal Sources | <u>56,119</u> | <u>56,119</u> | <u>62,071</u> | <u>5,952</u> |
| Total Revenues | 59,119 | 59,119 | 65,150 | 6,031 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administration | 19,208 | 19,208 | 19,176 | (32) |
| District Support Services | 19,287 | 19,287 | 19,679 | 392 |
| Instructional Support Services | 7,024 | 7,024 | 8,656 | 1,632 |
| Sites and Buildings | 1,600 | 1,600 | 2,480 | 880 |
| Fiscal and Other Fixed Cost Programs | 2,000 | 2,000 | 2,292 | 292 |
| Capital Outlay | <u>10,000</u> | <u>10,000</u> | <u>9,788</u> | <u>(212)</u> |
| Total Expenditures | <u>59,119</u> | <u>59,119</u> | <u>62,071</u> | <u>2,952</u> |
| Excess of Revenues Over Expenditures | <u>\$ -</u> | <u>\$ -</u> | 3,079 | <u>\$ 3,079</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>-</u> | |
| End of Year | | | <u>\$ 3,079</u> | |

See accompanying Notes to Basic Financial Statements.

**CANNON RIVER STEM SCHOOL
 CHARTER SCHOOL NO. 4194
 RECONCILIATION OF THE STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2009**

| | 2009 |
|---|-------------------------|
| Net Change in Fund Balance-Total Governmental Funds | \$ 3,079 |
| 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 with an initial, individual cost of more than \$500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | |
| Capital Outlays | 8,950 |
| Depreciation Expense | (1,790) |
| Change in Net Assets of Governmental Activities | <u>\$ 10,239</u> |

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Charter School No. 4194 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. The GASB has issued a codification of governmental accounting and financial reporting standards. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments that have implemented GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, issued in June 1999.

This financial report has been prepared in conformity with GASB Statement No. 34.

B. Financial Reporting Entity

Charter School No. 4194, also known as Cannon River STEM School (the School), is a nonprofit corporation that was formed and began operating in August 2008, in accordance with Minnesota statutes. The School is sponsored by Audubon Center of the North Woods under the terms of an agreement that covers three academic fiscal years ending June 30, 2012.

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

Component units are legally separate entities for which the School is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the School.

Aside from its sponsorship, Audubon Center of the North Woods has no authority, control, power, or administrative responsibilities over Cannon River STEM School. Therefore, the School is not considered a component unit of Audubon Center of the North Woods.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

The School-wide financial statements (i.e. the Statement of Net Assets 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 is 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 purpose for which both restricted and unrestricted net assets are 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.

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.

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 U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue and private grant funding is recorded in the year in which the related expenditure is made. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

The School reports deferred revenue on its statement of net assets and balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the School has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and balance sheet and revenue is recognized.

Description of Funds

As required by state statute, Cannon River STEM 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 equity, revenues, and expenditures. A description of the fund included in this report is as follows:

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources since none are required to be accounted for in another fund.

E. Income Taxes

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

F. Budgeting

The operating budget approved by the Board of Directors during the initial start-up period ending June 30, 2009 was for a full year of the federal start-up grant funding. Actual expenditures were for a partial year and were limited to specific federal resources made available to start-up charter schools.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Cash and Temporary Investments

Cash can be invested to the extent available in various securities as authorized by Minnesota Statutes.

H. Accounts Receivable

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

I. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The School maintains a threshold level of \$500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the School-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Useful life is 5 years for equipment.

J. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

K. 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; and natural disasters. The School purchases commercial insurance coverage for such risks.

L. Net Assets

Net assets represent the difference between assets and liabilities in the School-wide financial statements. Net assets are reported as restricted in the School-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts at June 30, 2009 as follows:

| | <u>Budget</u> | <u>Expenditures</u> | <u>Excess</u> |
|--------------|---------------|---------------------|---------------|
| General Fund | \$ 59,119 | \$ 62,071 | \$ 2,952 |

The overages were considered by School management to be the result of necessary expenditures critical to operations and were approved by the Board.

NOTE 3 DEPOSITS

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

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

Authorized collateral includes: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The School's deposits in banks at June 30, 2009, in the amount of \$3,459 were entirely covered by federal depository insurance in accordance with Minnesota statutes.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2009 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-----------------|-------------|-------------------|
| Governmental Activities | | | | |
| Capital Assets, Being Depreciated: | | | | |
| Equipment | \$ - | \$ 8,950 | \$ - | \$ 8,950 |
| Accumulated Depreciation for: | | | | |
| Equipment | - | (1,790) | - | (1,790) |
| Governmental Activities Capital Assets, Net | <u>\$ -</u> | <u>\$ 7,160</u> | <u>\$ -</u> | <u>\$ 7,160</u> |

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

| | |
|--------------------------------|-----------------|
| Governmental Activities | |
| District Support Services | <u>\$ 1,790</u> |

NOTE 5 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. Operating Lease Commitments and Terms

Effective July 1, 2009, the School entered into an operating lease for approximately 13,671 square feet of school space located at 1800 14 Street NE in Faribault, Minnesota. The term of the lease is three years commencing on July 1, 2009 and ending June 30, 2012 with lease payments totaling \$1,200 per pupil unit with a maximum monthly rate of \$14,400, \$16,600, and \$18,800 for years ending June 30, 2010, 2011, and 2012, respectively. The School is also responsible for its pro rata share of operating costs based on the total leaseable square footage within the building.

The School's ability to make payments under this Lease agreement 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.

SUPPLEMENTAL INFORMATION

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2009**

01 GENERAL FUND

| | |
|------------------------------------|-----------|
| Total Revenue | \$ 65,150 |
| Total Expenditures | \$ 62,071 |
| <i>Reserved:</i> | |
| 403 Staff Development | \$ - |
| 405 Deferred Maintenance | \$ - |
| 406 Health & Safety | \$ - |
| 407 Capital Project Levy | \$ - |
| 408 Cooperative Programs | \$ - |
| 411 Severance Pay | \$ - |
| 414 Operating Debt | \$ - |
| 416 Levy Reduction | \$ - |
| 417 Taconite Building Maint | \$ - |
| 419 Encumbrances | \$ - |
| 423 Certain Teacher Programs | \$ - |
| 424 Operating Capital | \$ - |
| 426 \$25 Taconite | \$ - |
| 427 Disabled Accessibility | \$ - |
| 428 Learning & Development | \$ - |
| 434 Area Learning Center | \$ - |
| 435 Contracted Alt. Programs | \$ - |
| 436 State Approved Alt. Program | \$ - |
| 438 Gifted & Talented | \$ - |
| 441 Basic Skills Programs | \$ - |
| 445 Career and Technical Programs | \$ - |
| 446 First Grade Preparedness | \$ - |
| 449 Safe Schools Crime | \$ - |
| 450 Prekindergarten | \$ - |
| 451 QZAB Payments | \$ - |
| 452 OPEB Liab Not In Trust | \$ - |
| 453 Unfunded Sev & Retirement Levy | \$ - |
| <i>Unreserved:</i> | |
| 418 Severance - Ins. Premium | \$ - |
| 422 Unreserved/Undesignated | \$ 3,079 |

02 FOOD SERVICE

| | |
|------------------------------|------|
| Total Revenue | \$ - |
| Total Expenditures | \$ - |
| <i>Reserved:</i> | |
| 411 Severance Pay | \$ - |
| 419 Encumbrances | \$ - |
| 452 OPEB Liab Not In Trust | \$ - |
| <i>Unreserved:</i> | |
| 418 Severance - Ins. Premium | \$ - |
| 422 Unreserved/Undesignated | \$ - |

04 COMMUNITY SERVICE

| | |
|-----------------------------|------|
| Total Revenue | \$ - |
| Total Expenditures | \$ - |
| <i>Reserved:</i> | |
| 411 Severance Pay | \$ - |
| 419 Encumbrances | \$ - |
| 426 \$25 Taconite | \$ - |
| 431 Community Education | \$ - |
| 432 E.C.F.E. | \$ - |
| 444 School Readiness | \$ - |
| 447 Adult Basic Education | \$ - |
| 452 OPEB Liab Not In Trust | \$ - |
| <i>Unreserved:</i> | |
| 418 Severance Premium | \$ - |
| 422 Unreserved/Undesignated | \$ - |

Note: The School may report certain additional reserved fund balances for financial reporting purposes that are reported to the Minnesota Department of Education as unreserved for purposes of this table.

06 BUILDING CONSTRUCTION

| | |
|----------------------------------|------|
| Total Revenue | \$ - |
| Total Expenditures | \$ - |
| <i>Reserved:</i> | |
| 407 Capital Projects Levy | \$ - |
| 409 Alternative Facility Program | \$ - |
| 413 Project Funded by COP | \$ - |
| 419 Encumbrances | \$ - |
| <i>Unreserved:</i> | |
| 422 Unreserved/Undesignated | \$ - |

07 DEBT SERVICE

| | |
|-----------------------------|------|
| Total Revenue | \$ - |
| Total Expenditures | \$ - |
| <i>Reserved:</i> | |
| 425 Bond Refundings | \$ - |
| 451 QZAB Payments | \$ - |
| <i>Unreserved:</i> | |
| 422 Unreserved/Undesignated | \$ - |

08 TRUST

| | |
|-----------------------------|------|
| Total Revenue | \$ - |
| Total Expenditures | \$ - |
| <i>Reserved:</i> | |
| 419 Encumbrances | \$ - |
| <i>Unreserved:</i> | |
| 422 Unreserved/Undesignated | \$ - |

09 AGENCY

| | |
|---|------|
| <i>Unreserved: Should Always Be -0-</i> | |
| 422 Unreserved/Undesignated | \$ - |

20 INTERNAL SERVICE

| | |
|-----------------------------|------|
| Total Revenue | \$ - |
| Total Expenditures | \$ - |
| <i>Reserved:</i> | |
| 419 Encumbrances | \$ - |
| <i>Unreserved:</i> | |
| 422 Unreserved/Undesignated | \$ - |

25 OPEB REVOCABLE TRUST

| | |
|-----------------------------|------|
| Total Revenue | \$ - |
| Total Expenditures | \$ - |
| <i>Unreserved:</i> | |
| 422 Unreserved/Undesignated | \$ - |

45 OPEB IRREVOCABLE TRUST

| | |
|-----------------------------|------|
| Total Revenue | \$ - |
| Total Expenditures | \$ - |
| <i>Unreserved:</i> | |
| 422 Unreserved/Undesignated | \$ - |

47 OPEB DEBT SERVICE

| | |
|-----------------------------|------|
| Total Revenue | \$ - |
| Total Expenditures | \$ - |
| <i>Reserved:</i> | |
| 425 Bond Refundings | \$ - |
| <i>Unreserved:</i> | |
| 422 Unreserved/Undesignated | \$ - |

FY09 SAFE SCHOOL MAINTENANCE OF EFFORT

| | |
|--------------------|------|
| Total Expenditures | \$ - |
| FTE | \$ - |

FY09 OPERATING CAPITAL TRANSFER

| | |
|------------------|------|
| Per Pupil Amount | \$ - |
| AMCPU | \$ - |
| Total Transfer | \$ - |

OTHER REQUIRED REPORTS

**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**

Board of Education
Charter School No. 4194
Cannon River STEM School
Faribault, Minnesota

We have audited the financial statements of the governmental activities and the General Fund of Cannon River STEM School as of and for the period from inception through June 30, 2009, which collectively comprise the School's basic financial statements and have issued our report thereon dated September 7, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency in the accompanying Schedule of Findings listed as item 2009-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the School's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies, and accordingly, would not necessarily identify all significant deficiencies that are also considered material weaknesses. However, we believe that the significant deficiencies described in the Schedule of Findings are considered to be a material weakness.

Compliance and Other Matters

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

Cannon River STEM School's written response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not subject the School's responses to the audit procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management of the School, the Minnesota Department of Education, and state and federal awarding entities and is not intended to be and should not be used by anyone other than these specified parties.


LarsonAllen LLP

Minneapolis, Minnesota
September 7, 2009

LarsonAllen^{LLP}

CPAs, Consultants & Advisors
www.larsonallen.com

REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Charter School No. 4194
Cannon River STEM School
Faribault, Minnesota

We have audited the financial statements of the governmental activities and the General Fund of Cannon River STEM School as of and for the period from inception through June 30, 2009, which collectively comprise the School's basic financial statements, and have issued our report thereon dated September 7, 2009.

We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States, and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. Section 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* covers two main categories of compliance to be tested: uniform financial accounting and reporting standards, and charter schools. Our study included both of the listed categories.

The results of our tests indicate that, with respect to the items tested, the School complied with the material terms and conditions of applicable legal provisions, except as disclosed on the Schedule of Findings.

This report is intended solely for the information and use of the Board of Education, management of the School, the Minnesota Department of Education, and the office of the Minnesota State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Larson Allen LLP
LarsonAllen LLP

Minneapolis, Minnesota
September 7, 2009

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
SCHEDULE OF FINDINGS
PERIOD SINCE INCEPTION ENDED JUNE 30, 2009**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

FINDING: 2009-1 LIMITED SEGREGATION OF DUTIES

Condition: Due to the limited size of the School's business office staff during an initial start-up period, a limited number of people had the primary responsibility for most of the accounting and financial duties. A lack of segregation occurs when there is any combination of incompatible functions assigned to a single person between: custody, recording, and approval. At times out of necessity, certain responsibilities of a transaction cycle at the School could be performed by a single individual. Examples of this included during the disbursements process, where one person had custody of blank checks, could approve invoices, and could sign and mail checks.

Criteria: Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Questioned Costs: None

Context: The School has informed us that the small size of its business office precluded proper segregation of duties during a portion of the start-up period in fiscal 2008-09.

Effect: The School was unable to maintain segregation of incompatible duties.

Cause: Limited number of staff in the business office.

Recommendation: We recommend that the School continue to segregate duties as best it can within the limits of what the School considers to be cost beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The School has contracted with a service provider to provide ongoing audit and accounting support which will allow for segregation of incompatible job functions. As staff are added to the financial processes it will enable the School to adequately segregate duties.

Official Responsible for Ensuring CAP:

The School's director will be responsible for working with the contracted service provider to properly segregate all incompatible functions.

Planned Completion Date for CAP:

The School has implemented the recommended changes for fiscal 2009-010.

Plan to Monitor Completion of CAP:

The Board of Education will be monitoring this corrective action plan.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
SCHEDULE OF FINDINGS (CONTINUED)
PERIOD SINCE INCEPTION ENDED JUNE 30, 2009**

FINDINGS – MINNESOTA LEGAL COMPLIANCE

Legal Compliance Declaration- Section 471.38

Finding: Minnesota statute requires a declaration relating to each payment the governmental unit prepares. The declaration provided for in section 471.38 is sufficient if in the following form: "I declare under the penalties of laws that this account, claim or demand is just and correct and that no part of it has been paid". The check or order-check by which the claim is paid may have printed on its reverse side, above the space for endorsement thereof by the payee, this statement. When endorsed by the payee named in the check or order-check, such statement shall operate and shall be deemed sufficient as the required declaration of the claim. The manual checks used by Cannon River STEM School during fiscal year 2009 did not contain the appropriate disclosure.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

Upon notification the School implemented procedures to comply with the requirement to include the necessary payment declaration on all of the School's checks.

Official Responsible for Ensuring CAP:

The School Director is responsible for ensuring that the corrective action plan is implemented.

Planned Completion Date for CAP:

The School implemented the necessary changes to comply with the declaration requirements during fiscal year 2009.

Plan to Monitor Completion of CAP:

The Board of Education will be monitoring this corrective action plan.