

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2011

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CHARTER SCHOOL NO. 4194
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CHARTER SCHOOL NO. 4194
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INTRODUCTORY SECTION

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
SCHOOL BOARD
JUNE 30, 2011**

SCHOOL BOARD

NAME	TERM ON BOARD EXPIRES	BOARD POSITION
Rob Hardy	January 2012	Board Chair
Teri Menard	January 2013	Vice Chair
Caren Putrah	January 2013	Secretary
Julie Finnesgard	January 2013	Treasurer
Chris Broden	January 2012	Director
Deb Scheil	January 2012	Director
Cheryl Freund	January 2013	Director

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 year ended June 30, 2011, 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. The prior year partial comparative information has been derived from the School's 2010 financial statements and, in our report dated November 2, 2010, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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, 2011, and the respective changes in financial position and respective budgetary comparison for the General Fund and the Major Special Revenue Funds for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in the notes to the financial statements, the Cannon River STEM School adopted the provisions of Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of and for the year ended June 30, 2011. This statement may result in the Cannon River STEM School reporting nonspendable, restricted, committed, assigned, and unassigned fund balances in its governmental fund types.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2011, 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.

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 U.S. generally accepted accounting principles. 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 individual fund statements and the accompanying Uniform Financial Accounting and Reporting Standards Compliance Table as listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


LarsonAllen LLP

Minneapolis, Minnesota
November 11, 2011

REQUIRED SUPPLEMENTARY INFORMATION

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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, 2011. 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 2010-2011 fiscal period include the following:

- Total General Fund revenues were \$1,839,488 as compared to \$1,600,881 of expenditures for fiscal 2011.
- Total fund balance of the General Fund is \$444,774 at June 30, 2011.

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.

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

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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.

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
 YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Assets

The School's *combined* net assets were \$614,293 on June 30, 2011.

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

	Governmental Activities		Percentage Change
	2011	2010	
Current and Other Assets	\$ 598,043	\$ 367,891	62.56 %
Capital and Non-Current Assets	169,191	81,387	107.88
Total Assets	<u>767,234</u>	<u>449,278</u>	70.77
Current Liabilities	<u>152,941</u>	<u>158,350</u>	(3.42)
Net Assets:			
Invested in Capital Assets	169,191	81,387	107.88
Restricted	328	97	238.14
Unrestricted	444,774	209,444	112.36
Total Net Assets	<u><u>\$ 614,293</u></u>	<u><u>290,928</u></u>	111.15

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (CONTINUED)

Changes in Net Assets

The School's total revenues were \$1,906,737 for the period ended June 30, 2011. Most of the School's revenue was received from State aid and through federal grants.

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

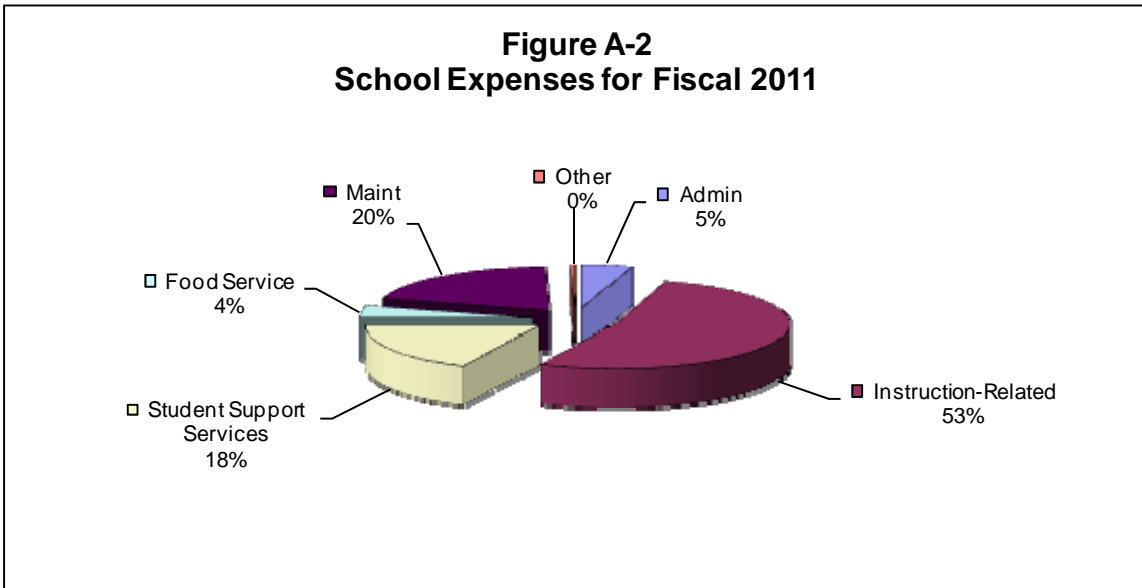
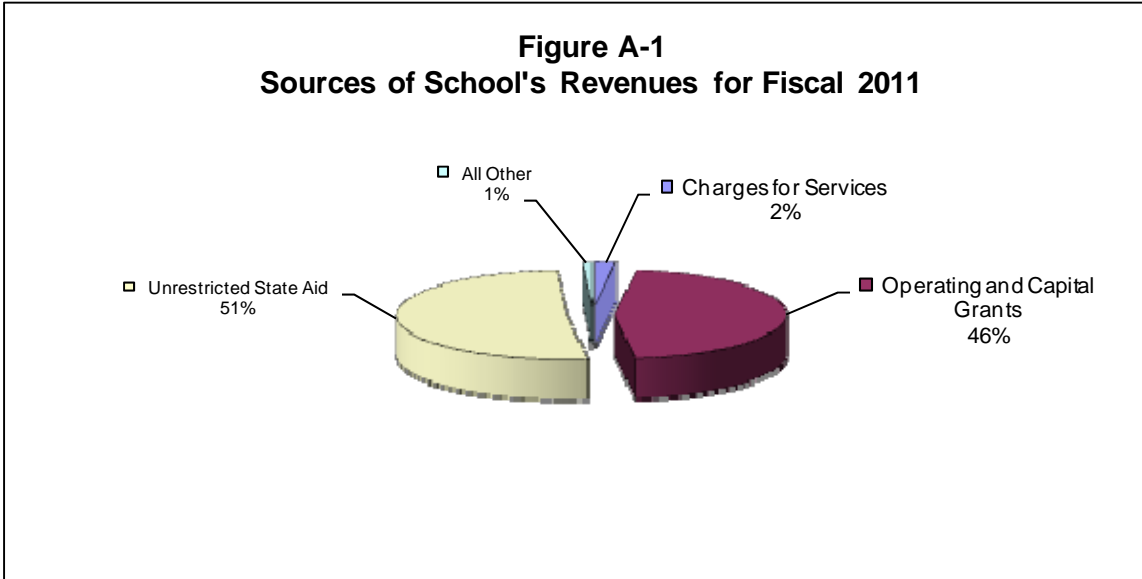
	Governmental Activities for the Fiscal Year Ended June 30,		Total % Change
	2011	2010	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 37,730	\$ 39,177	(3.69)%
Operating Grants and Contributions	880,176	709,408	24.07
<u>General Revenues</u>			
Unrestricted State Aid	970,919	739,580	31.28
Other	17,912	16,653	7.56
Total Revenues	<u>1,906,737</u>	<u>1,504,818</u>	26.71
Expenses			
Administration	74,040	74,376	(0.45)
District Support Services	184,986	125,379	47.54
Regular Instruction	651,215	473,020	37.67
Special Education Instruction	179,745	102,101	76.05
Instructional Support Services	80,357	108,267	(25.78)
Pupil Support Services	17,593	16,066	9.50
Sites and Buildings	318,682	258,904	23.09
Fiscal and Other Fixed Cost Programs	6,050	7,759	(22.03)
Food Service	69,476	55,525	25.13
Community Service	819	2,693	(69.59)
Interest and Fiscal Charges on Long-Term Liabilities	409	39	948.72
Total Expenses	<u>1,583,372</u>	<u>1,224,129</u>	29.35
Increase in Net Assets			
Beginning Net Assets	290,928	10,239	2741.37
Ending Net Assets	<u>\$ 614,293</u>	<u>\$ 290,928</u>	111.15

The total cost of all programs and services was \$1,583,372. Total revenues exceeded expenses by \$323,365 resulting in ending Net Assets of \$614,293 at June 30, 2011.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (CONTINUED)

The cost of all *governmental* activities this period was \$1,583,372.



**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (CONTINUED)

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2011	2010		2011	2010	
Administration	\$ 74,040	\$ 74,376	(45.18)%	\$ 74,040	\$ 74,376	(0.45)%
District Support Services	184,986	125,379	47.54	184,986	125,379	47.54
Regular Instruction	651,215	473,020	37.67	194,789	48,839	298.84
Special Education Instruction	179,745	102,101	76.05	3,111	-	N/A
Instructional Support Services	80,357	108,267	(25.78)	80,357	108,267	(25.78)
Pupil Support Services	17,593	16,066	9.50	17,593	16,066	9.50
Sites and Buildings	318,682	258,904	23.09	101,085	90,946	11.15
Fiscal and Other Fixed Cost Programs	6,050	7,759	(22.03)	6,050	7,759	(22.03)
Food Service	69,476	55,525	25.13	3,277	3,971	(17.48)
Community Service	819	2,693	(69.59)	(231)	(98)	135.71
Interest and Fiscal Charges on Long-Term Liabilities	409	39	948.72	409	39	948.72
Total	<u>\$ 1,583,372</u>	<u>\$ 1,224,129</u>	29.35	<u>\$ 665,466</u>	<u>\$ 475,544</u>	39.94

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 \$445,102. The combined fund balance percentage as of June 30, 2011 is 27% of expenditures.

Revenues and expenses for the School's governmental funds were \$1,906,737 and \$1,671,176, respectively.

GENERAL FUND

The General Fund includes the primary operations of the School which provides educational services to students from kindergarten through 8th 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.

FOOD SERVICE FUND

The Food Service Fund accounts for the food service operations. During the 2010-2011 fiscal year, the program produced a deficit of \$3,277. This deficit was eliminated via a fund balance transfer from the General Fund.

COMMUNITY SERVICE FUND

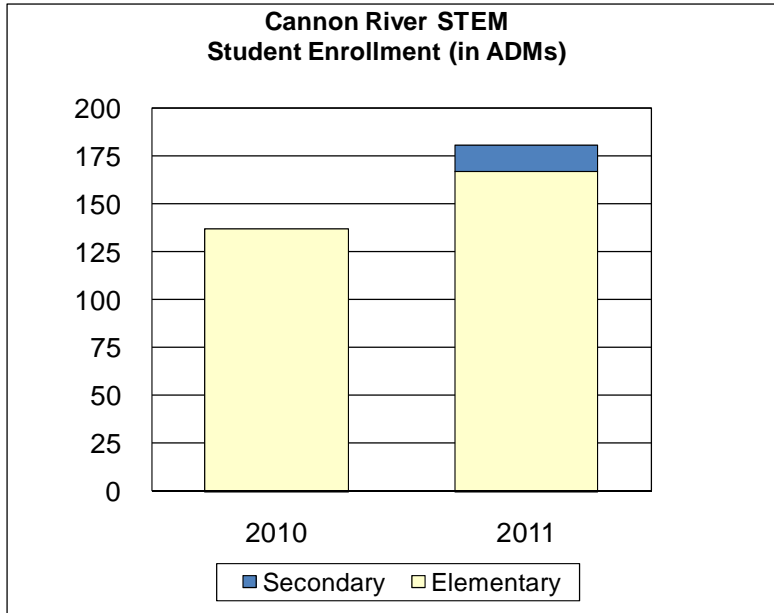
The Community Service Fund accounts for the before and after school programs offered to all students. During the 2010-2011 fiscal year, the program produced a surplus of \$231.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

ENROLLMENT

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

**Table A-4
Average Daily Membership (ADM)**



GENERAL FUND

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2011	June 30, 2010	Increase (Decrease)	Percent
Local Sources:				
Other	\$ 17,912	\$ 16,653	\$ 1,259	7.56 %
State Sources	1,425,574	1,047,306	378,268	N/A
Federal Sources	396,002	386,515	9,487	2.45
Total General Fund Revenue	<u>\$ 1,839,488</u>	<u>\$ 1,450,474</u>	<u>\$ 389,014</u>	26.82

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2011	June 30, 2010		
Salaries	\$ 696,180	\$ 501,973	\$ 194,207	38.69 %
Employee Benefits	155,115	107,786	47,329	43.91
Purchased Services	487,137	359,817	127,320	35.38
Supplies and Materials	75,662	144,764	(69,102)	(47.73)
Capital Expenditures	179,000	117,228	61,772	52.69
Other Expenditures	7,787	8,570	(783)	(9.14)
Total Expenditures	<u>\$ 1,600,881</u>	<u>\$ 1,240,138</u>	<u>\$ 360,743</u>	29.09

Salaries (43.5%), employee benefits (9.7%) purchased services (30.4%), supplies (4.7%), and capital expenditures (11.2%) made up 99.5% of all the expenditures incurred for the School's second operational year with students. For the prior year, the majority of costs incurred were proportionate to those of the current year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

By the end of 2011, the School had invested \$220,054 in capital assets (see Table A-7). (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year totaled \$33,938. At June 30, 2011, the School had not incurred any long-term debt.

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

	2011	2010	Percentage Change
Equipment	\$ 220,054	\$ 98,312	123.83 %
Less: Accumulated Depreciation	<u>(50,863)</u>	<u>(16,925)</u>	200.52
Total	<u>\$ 169,191</u>	<u>\$ 81,387</u>	107.88

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2011**

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 second 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 also received a state start-up grant during fiscal 2011. In addition, enrollment is expected to 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 2011-2012.

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 Street NE, Faribault, MN 55021.

BASIC FINANCIAL STATEMENTS

**CANNON RIVER STEM SCHOOL
 CHARTER SCHOOL NO. 4194
 STATEMENT OF NET ASSETS
 JUNE 30, 2011
 (WITH COMPARATIVE DATA AS OF JUNE 30, 2010)**

	Governmental Activities	
	2011	2010
ASSETS		
Cash and Investments	\$ 109,631	\$ 18,398
Receivables:		
Other Governments	475,715	341,366
Other	1,651	1,005
Prepaid Items	11,046	7,122
Capital Assets, Net of Depreciation	169,191	81,387
Total Assets	767,234	449,278
LIABILITIES		
Salaries Payable	115,700	78,614
Accounts and Contracts Payable	37,241	79,736
Total Liabilities	152,941	158,350
NET ASSETS		
Invested in Capital Assets	169,191	81,387
Community Service	328	97
Unrestricted	444,774	209,444
Total Net Assets	\$ 614,293	\$ 290,928

See accompanying Notes to Basic Financial Statements.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE DATA FOR YEAR ENDED JUNE 30, 2010)**

Functions	2011			2010	
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Total Governmental Activities	Net (Expense) Revenue and Changes in Net Assets Total Governmental Activities
Governmental Activities					
Administration	\$ 74,040	\$ -	\$ -	\$ (74,040)	\$ (74,376)
District Support Services	184,986	-	-	(184,986)	(125,379)
Regular Instruction	651,215	-	456,426	(194,789)	(48,839)
Special Education Instruction	179,745	-	176,634	(3,111)	-
Instructional Support Services	80,357	-	-	(80,357)	(108,267)
Pupil Support Services	17,593	-	-	(17,593)	(16,066)
Sites and Buildings	318,682	-	217,597	(101,085)	(90,946)
Fiscal and Other Fixed Cost Programs	6,050	-	-	(6,050)	(7,759)
Food Service	69,476	36,680	29,519	(3,277)	(3,971)
Community Service	819	1,050	-	231	98
Interest and Fiscal Charges on Long-Term Liabilities	409	-	-	(409)	(39)
Total	<u>\$ 1,583,372</u>	<u>\$ 37,730</u>	<u>\$ 880,176</u>	(665,466)	(475,544)
General Revenues					
State Aid Not Restricted to Specific Purposes				970,919	739,580
Miscellaneous				17,912	16,653
Total General Revenues				<u>988,831</u>	<u>756,233</u>
Change in Net Assets				323,365	280,689
Net Assets - Beginning				290,928	10,239
Net Assets - Ending				<u>\$ 614,293</u>	<u>\$ 290,928</u>

See accompanying Notes to Basic Financial Statements.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011
(WITH COMPARATIVE DATA AS OF JUNE 30, 2010)**

	Major Funds			Total Governmental Funds	
	General	Food Service	Community Service	2011	2010
ASSETS					
Cash and Investments	\$ 99,666	\$ 9,475	\$ 490	\$ 109,631	\$ 18,398
Receivables:					
Due from Minnesota Department of Education	437,799	-	-	437,799	297,059
Due from Federal through Minnesota Department of Education	37,916	-	-	37,916	44,307
Other Receivables	1,620	31	-	1,651	1,005
Prepaid Items	11,046	-	-	11,046	7,122
Total Assets	<u>\$ 588,047</u>	<u>\$ 9,506</u>	<u>\$ 490</u>	<u>\$ 598,043</u>	<u>\$ 367,891</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Salaries and Compensated Absences Payable	\$ 93,622	\$ -	\$ 112	\$ 93,734	\$ 65,255
Payroll Deductions and Employer Contributions Payable	21,916	-	50	21,966	13,359
Accounts and Contracts Payable	27,735	9,506	-	37,241	79,736
Total Liabilities	143,273	9,506	162	152,941	158,350
Fund Balance:					
Nonspendable:					
Prepaid Items	11,046	-	-	11,046	-
Restricted:					
Community Service	-	-	328	328	97
Unassigned	433,728	-	-	433,728	209,444
Total Fund Balance	<u>444,774</u>	<u>-</u>	<u>328</u>	<u>445,102</u>	<u>209,541</u>
Total Liabilities and Fund Balance	<u>\$ 588,047</u>	<u>\$ 9,506</u>	<u>\$ 490</u>	<u>\$ 598,043</u>	<u>\$ 367,891</u>

See accompanying Notes to Basic Financial Statements.

**CANNON RIVER STEM SCHOOL
 CHARTER SCHOOL NO. 4194
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2011
 (WITH COMPARATIVE DATA AS OF JUNE 30, 2010)**

	2011	2010
Total Fund Balance for Governmental Funds	\$ 445,102	\$ 209,541
<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	169,191	81,387
Total Net Assets of Governmental Activities	\$ 614,293	\$ 290,928

See accompanying Notes to Basic Financial Statements.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE DATA FOR YEAR ENDED JUNE 30, 2010)**

	Major			Total Governmental	
	General	Food Service	Community Service	Funds 2011	2010
REVENUES					
Local Sources:					
Other	\$ 17,912	\$ 36,680	\$ 1,050	\$ 55,642	\$ 55,829
State Sources	1,425,574	3,329	-	1,428,903	1,049,515
Federal Sources	396,002	26,190	-	422,192	399,474
Total Revenues	<u>1,839,488</u>	<u>66,199</u>	<u>1,050</u>	<u>1,906,737</u>	<u>1,504,818</u>
EXPENDITURES					
Current:					
Administration	74,040	-	-	74,040	74,376
District Support Services	171,988	-	-	171,988	123,239
Regular Instruction	590,433	-	-	590,433	473,641
Special Education Instruction	179,451	-	-	179,451	102,101
Instructional Support Services	80,357	-	-	80,357	105,746
Pupil Support Services	17,593	-	-	17,593	16,066
Sites and Buildings	301,560	-	-	301,560	219,943
Fiscal and Other Fixed Cost Programs	6,050	-	-	6,050	7,759
Food Service	-	69,476	-	69,476	55,525
Community Service	-	-	819	819	2,693
Capital Outlay	179,000	-	-	179,000	117,228
Debt Service:					
Interest and Fiscal Charges	409	-	-	409	39
Total Expenditures	<u>1,600,881</u>	<u>69,476</u>	<u>819</u>	<u>1,671,176</u>	<u>1,298,356</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	238,607	(3,277)	231	235,561	206,462
OTHER FINANCING SOURCES (USES)					
Transfers In	-	3,277	-	3,277	3,971
Transfers Out	(3,277)	-	-	(3,277)	(3,971)
Total Other Financing Sources (Uses)	<u>(3,277)</u>	<u>3,277</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	235,330	-	231	235,561	206,462
Fund Balance - Beginning	<u>209,444</u>	<u>-</u>	<u>97</u>	<u>209,541</u>	<u>3,079</u>
Fund Balance - Ending	<u>\$ 444,774</u>	<u>\$ -</u>	<u>\$ 328</u>	<u>\$ 445,102</u>	<u>\$ 209,541</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, 2011
 (WITH COMPARATIVE DATA FOR YEAR ENDED JUNE 30, 2010)**

	2011	2010
Net Change in Fund Balance - Total Governmental Funds	\$ 235,561	\$ 206,462
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital Outlays	121,742	89,362
Depreciation Expense	(33,938)	(15,135)
Change in Net Assets of Governmental Activities	\$ 323,365	\$ 280,689

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
YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Other	\$ 15,000	\$ 16,699	\$ 17,912	\$ 1,213
State Sources	1,394,257	1,394,257	1,425,574	31,317
Federal Sources	193,190	400,485	396,002	(4,483)
Total Revenues	<u>1,602,447</u>	<u>1,811,441</u>	<u>1,839,488</u>	<u>28,047</u>
EXPENDITURES				
Current:				
Administration	69,750	69,023	74,040	5,017
District Support Services	172,409	185,792	171,988	(13,804)
Elementary and Secondary Regular Instruction	618,066	709,531	590,433	(119,098)
Special Education Instruction	143,640	159,167	179,451	20,284
Instructional Support Services	73,544	76,324	80,357	4,033
Pupil Support Services	21,700	21,025	17,593	(3,432)
Sites and Buildings	361,324	326,300	301,560	(24,740)
Fiscal and Other Fixed Cost Programs	15,220	12,500	6,050	(6,450)
Capital Outlay	67,867	146,001	179,000	32,999
Debt Service:				
Interest and Fiscal Charges	5,768	5,768	409	(5,359)
Total Expenditures	<u>1,549,288</u>	<u>1,711,431</u>	<u>1,600,881</u>	<u>(110,550)</u>
Excess of Revenues Over Expenditures	53,159	100,010	238,607	138,597
OTHER FINANCING USES				
Transfers Out	-	-	(3,277)	(3,277)
Net Change in Fund Balance	<u>\$ 53,159</u>	<u>\$ 100,010</u>	<u>235,330</u>	<u>\$ 135,320</u>
FUND BALANCE				
Beginning of Year			<u>209,444</u>	
End of Year			<u>\$ 444,774</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
 MAJOR FOOD SERVICE FUND
 YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final	Amounts	
REVENUES				
Local Sources:				
Other - Primarily Meal Sales	\$ 34,124	\$ 36,000	\$ 36,680	\$ 680
State Sources	2,500	2,500	3,329	829
Federal Sources	15,000	19,000	26,190	7,190
Total Revenues	51,624	57,500	66,199	8,699
EXPENDITURES				
Current:				
Food Service	51,624	57,500	69,476	11,976
Deficiency of Revenues				
Under Expenditures	-	-	(3,277)	(3,277)
OTHER FINANCING SOURCES				
Transfer In	-	-	3,277	3,277
Net Change in Fund Balance	\$ -	\$ -	-	\$ -
FUND BALANCE				
Beginning of Year			-	
End of Year			\$ -	

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
 MAJOR COMMUNITY SERVICE FUND
 YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Amounts	Over Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Other - Primarily Tuition and Fees	\$ -	\$ 903	\$ 1,050	\$ 147
EXPENDITURES				
Current:				
Community Service	-	660	819	159
Excess of Revenues Over Expenditures	\$ -	\$ 243	231	\$ (12)
FUND BALANCE				
Beginning of Year			97	
End of Year			\$ 328	

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, 2011**

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. 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 authorized 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 authorizer role, 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.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, school boards can elect to either control or not control extracurricular activities. The School Board has elected to control extracurricular activities; therefore, the extracurricular student activity accounts are included in the School's basic financial statements as part of the General Fund.

C. Basic Financial Statement Presentation

The School-wide financial statements (i.e. the statement of net 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.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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 is recorded in the year in which the related expenditure is made. Other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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 may report 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.

Food Service Fund

The Food Service Fund is used to account for food service revenue and expenditures.

Community Service Special Revenue Fund

The Community Service Fund is used to account for the School's extended day childcare program.

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.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with GAAP. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund and the Special Revenue Funds. 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 Director submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

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

At the end of each fiscal year, if the General Fund has a net unreserved deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota schools which excludes certain reserves 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.

Budgeted amounts include mid-year budget amendments that increased revenue and expenditure budgets as follows:

<u>Revenues</u>	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
General Fund	\$ 1,602,447	\$ 208,994	\$ 1,811,441
Special Revenue Funds:			
Food Service Fund	51,624	5,876	57,500
Community Service Fund	-	903	903
 <u>Expenditures</u>			
General Fund	\$ 1,549,288	\$ 162,143	\$ 1,711,431
Special Revenue Funds:			
Food Service Fund	51,624	5,876	57,500
Community Service Fund	-	660	660

G. Cash and Temporary Investments

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

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 five years for equipment.

J. Fund Balance

At June 30, 2011, the School adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. Unassigned fund balances are considered the remaining amounts in the General Fund.

Although the School has not adopted a spending prioritization policy for restricted fund balance, the School applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted fund balance is available. The default spending priority per GASB Statement No. 54 for unrestricted fund balance is when an expenditure is incurred for purposes for which committed, assigned and unassigned amounts are available, committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

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.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Risk Management (Continued)

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.

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.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts at June 30, 2011 as follows:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds:			
Food Service Fund	\$ 57,500	\$ 69,476	\$ 11,976
Community Service Fund	660	819	159

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.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 DEPOSITS (CONTINUED)

The School's deposits in banks at June 30, 2011, in the amount of \$121,759 were entirely covered by federal depository insurance in accordance with Minnesota Statutes.

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Being Depreciated:				
Equipment	\$ 98,312	\$ 121,742	\$ -	\$ 220,054
Accumulated Depreciation for:				
Equipment	(16,925)	(33,938)	-	(50,863)
Governmental Activities Capital Assets, Net	<u>\$ 81,387</u>	<u>\$ 87,804</u>	<u>\$ -</u>	<u>\$ 169,191</u>

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

Governmental Activities	
District Support Services	\$ 2,195
Elementary and Secondary Regular Instruction	26,666
Sites and Buildings	5,077
Total Depreciation Expense, Governmental Activities	<u>\$ 33,938</u>

NOTE 5 SHORT-TERM BORROWING

The School had a line of credit with The State Bank of Faribault with a limit of \$125,000. The line of credit expires on October 31, 2011 and has an interest rate of 7%. The agreement is secured by all business assets of the School. The outstanding balance on the line of credit agreement at June 30, 2011 was \$-0-.

Changes in short-term borrowing were as follows:

	<u>2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>2011</u>
Line of Credit	\$ -	\$ 134,200	\$ 134,200	\$ -

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 RETIREMENT PLANS

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

A. Teacher's Retirement Association (TRA)

1. Plan Description

All teachers employed by the School are covered by a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All Basic members were first hired prior to July 1, 1989. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356.

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. 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.

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA website at www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing TRA at Teachers Retirement Association, 60 Empire Drive Suite 400, St. Paul, MN 55103-1855 or by calling (651) 296-6449 or 1-800-657-3853.

2. Funding Policy

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature. Coordinated and Basic Plan members are required to contribute 5.5% and 9.0%, respectively, of their annual covered salary while the School is required to contribute at an actuarially determined rate.

The School is required to contribute the following percentages of annual covered payroll; 5.5% for Coordinated Plan members and 9.5% for Basic plan members. The contribution requirements of plan members and the School are established and may be amended by state statute. The School contributions for the years ended June 30, 2011 and 2010 were \$28,201 and \$20,606, respectively, equal to the required contributions for each year as set by state statute.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 RETIREMENT PLANS (CONTINUED)

A. Teacher's Retirement Association (TRA) (Continued)

2. Funding Policy (Continued)

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5% each year of the four-year period. Beginning July 1, 2014, TRA Coordinated employee and employer contribution rates will each be 7.5%.

B. Public Employees' Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the School (other than teachers) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the web at www.mnpera.org. Alternatively, a copy of the report may be obtained by writing or calling PERA:

Public Employees' Retirement Association
60 Empire Drive Suite 200
St Paul MN 55103-2088
651-296-7460
800-652-9026.

2. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for the employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. GERF Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.00%, respectively, of their annual covered salary in 2010. Member contribution rates for the Coordinated Plan increased to 6.25% effective January 1, 2011.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 RETIREMENT PLANS (CONTINUED)

B. Public Employees' Retirement Association (PERA) (Continued)

2. Funding Policy (Continued)

The School was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.00% for Coordinated Plan members. Employer contribution rates for the Coordinated Plan increased to 7.25% effective January 1, 2011. The School's contributions for the fiscal years ended June 30, 2011 and 2010 were \$13,535 and \$8,740, respectively, equal to the contractually required contributions for each year as set by state statute.

NOTE 7 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, \$19,102, and \$18,800 for years ended June 30, 2010, 2011, and 2012, respectively. The School is also responsible for its pro rata share of operating costs based on the total rentable square footage within the building.

For fiscal 2011 the School incurred total MDE-approved lease costs of \$251,937 and qualified for state charter school lease aid based on a statutory cap of \$1,200 per pupil unit served or \$217,596. This aid entitlement may be prorated should the statewide appropriation be insufficient to fully pay the entitlements owed.

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
 GENERAL FUND
 BALANCE SHEET
 JUNE 30, 2011
 (WITH COMPARATIVE DATA AS OF JUNE 30, 2010)**

	2011	2010
ASSETS		
Cash and Investments	\$ 99,666	\$ 17,444
Receivables:		
Other Accounts Receivable	1,620	913
Due from Minnesota Department of Education	437,799	297,004
Due from Federal through the Minnesota Department of Education	37,916	43,938
Prepaid Items	11,046	7,122
Total Assets	\$ 588,047	\$ 366,421
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Salaries and Compensated Absences Payable	\$ 93,622	\$ 65,255
Employer Withholdings Payable	21,916	13,359
Accounts and Contracts Payable	27,735	78,363
Total Liabilities	143,273	156,977
Fund Balance:		
Nonspendable:		
Prepaid Items	11,046	7,122
Unassigned	433,728	202,322
Total Fund Balance	444,774	209,444
Total Liabilities and Fund Balance	\$ 588,047	\$ 366,421

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE DATA FOR YEAR ENDED JUNE 30, 2010)**

	2011		Over (Under) Final Budget	2010
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Other	\$ 16,699	\$ 17,912	\$ 1,213	\$ 16,653
State Sources	1,394,257	1,425,574	31,317	1,047,306
Federal Sources	400,485	396,002	(4,483)	386,515
Total Revenues	1,811,441	1,839,488	28,047	1,450,474
EXPENDITURES				
Current:				
Administration:				
Salaries	61,500	61,883	383	62,483
Employee Benefits	7,498	12,132	4,634	11,470
Purchased Services	25	25	-	165
Supplies and Materials	-	-	-	258
Total Administration	69,023	74,040	5,017	74,376
District Support Services:				
Salaries	58,249	58,249	-	35,264
Employee Benefits	18,073	18,071	(2)	12,869
Purchased Services	91,609	81,142	(10,467)	57,673
Supplies and Materials	10,000	8,744	(1,256)	9,070
Capital Expenditures	13,139	12,830	(309)	350
Other Expenditures	7,861	5,782	(2,079)	8,363
Total District Support Services	198,931	184,818	(14,113)	123,589
Elementary and Secondary				
Regular Instruction:				
Salaries	445,830	417,402	(28,428)	281,162
Employee Benefits	102,118	95,394	(6,724)	62,160
Purchased Services	15,028	19,983	4,955	12,578
Supplies and Materials	142,880	56,058	(86,822)	117,573
Capital Expenditures	122,723	153,831	31,108	53,888
Other Expenditures	3,675	1,596	(2,079)	168
Total Elementary and Secondary Regular Instruction	832,254	744,264	(87,990)	527,529

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE DATA FOR YEAR ENDED JUNE 30, 2010)**

	2011		Over (Under) Final Budget	2010
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES (Continued)				
Current (Continued):				
Special Education Instruction:				
Salaries	\$ 114,051	\$ 111,671	\$ (2,380)	\$ 65,224
Employee Benefits	23,106	23,106	-	13,487
Purchased Services	22,010	43,404	21,394	21,666
Supplies and Materials	-	1,270	1,270	1,724
Capital Expenditures	294	294	-	-
Total Special Education Instruction	159,461	179,745	20,284	102,101
Instructional Support Services:				
Salaries	46,949	46,975	26	57,840
Employee Benefits	6,412	6,412	-	7,800
Purchased Services	17,963	25,586	7,623	28,137
Supplies and Materials	5,000	1,384	(3,616)	11,969
Capital Expenditures	-	-	-	2,521
Total Instructional Support Services	76,324	80,357	4,033	108,267
Pupil Support Services:				
Purchased Services	20,525	16,845	(3,680)	15,897
Supplies and Materials	500	748	248	169
Total Pupil Support Services	21,025	17,593	(3,432)	16,066
Sites and Buildings:				
Purchased Services	307,403	294,102	(13,301)	215,942
Supplies and Materials	18,897	7,458	(11,439)	4,001
Capital Expenditures	9,845	12,045	2,200	60,469
Total Sites and Buildings	336,145	313,605	(22,540)	280,412
Fiscal and Other Fixed Cost Programs:				
Purchased Services	12,500	6,050	(6,450)	7,759

**CANNON RIVER STEM SCHOOL
 CHARTER SCHOOL NO. 4194
 GENERAL FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL (CONTINUED)
 YEAR ENDED JUNE 30, 2011
 (WITH COMPARATIVE DATA FOR YEAR ENDED JUNE 30, 2010)**

	2011		Over (Under) Final Budget	2010
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES (Continued)				
Debt Service:				
Interest and Fiscal Charges	\$ 5,768	\$ 409	\$ (5,359)	\$ 39
Total Expenditures	<u>1,711,431</u>	<u>1,600,881</u>	<u>(110,550)</u>	<u>1,240,138</u>
Excess of Revenue Over Expenditures	100,010	238,607	138,597	210,336
OTHER FINANCING USES				
Transfers Out	<u>-</u>	<u>(3,277)</u>	<u>(3,277)</u>	<u>(3,971)</u>
Net Change in Fund Balance	<u><u>\$ 100,010</u></u>	235,330	<u><u>\$ 135,320</u></u>	206,365
FUND BALANCE				
Beginning of Year		<u>209,444</u>		<u>3,079</u>
End of Year		<u><u>\$ 444,774</u></u>		<u><u>\$ 209,444</u></u>

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2011**

	AUDIT	UFARS	Difference
01 GENERAL FUND			
Total Revenue	\$ 1,839,488	\$ 1,839,487	\$ 1
Total Expenditures	\$ 1,600,881	\$ 1,600,873	\$ 8
<i>Non Spendable:</i>			
460 Non Spendable Fund Balance	\$ 11,046	\$ 11,046	\$ -
<i>Restricted/Reserved:</i>			
403 Staff Development	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ -	\$ -	\$ -
406 Health & Safety	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -
408 Cooperative Programs	\$ -	\$ -	\$ -
411 Severance Pay	\$ -	\$ -	\$ -
413 Project Funded by COP	\$ -	\$ -	\$ -
414 Operating Debt	\$ -	\$ -	\$ -
416 Levy Reduction	\$ -	\$ -	\$ -
417 Taconite Building Maint	\$ -	\$ -	\$ -
423 Certain Teacher Programs	\$ -	\$ -	\$ -
424 Operating Capital	\$ -	\$ -	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -
428 Learning & Development	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -
436 State Approved Alt. Program	\$ -	\$ -	\$ -
438 Gifted & Talented	\$ -	\$ -	\$ -
441 Basic Skills Programs	\$ -	\$ -	\$ -
445 Career and Technical Programs	\$ -	\$ -	\$ -
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>Restricted:</i>			
464 Restricted Fund Balance	\$ -	\$ -	\$ -
<i>Committed:</i>			
418 Committed for Separation	\$ -	\$ -	\$ -
461 Committed Fund Balance	\$ -	\$ -	\$ -
<i>Assigned:</i>			
462 Restricted Fund Balance	\$ -	\$ -	\$ -
<i>Unassigned:</i>			
422 Unassigned Fund Balance	\$ 433,728	\$ 433,728	\$ -
02 FOOD SERVICE			
Total Revenue	\$ 66,199	\$ 66,200	\$ (1)
Total Expenditures	\$ 69,476	\$ 69,477	\$ (1)
<i>Non Spendable:</i>			
460 Non Spendable Fund Balance	\$ -	\$ -	\$ -
<i>Restricted:</i>			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -
464 Restricted Fund Balance	\$ -	\$ -	\$ -
<i>Unassigned:</i>			
463 Unassigned Fund Balance	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE			
Total Revenue	\$ 1,050	\$ 1,050	\$ -
Total Expenditures	\$ 819	\$ 819	\$ -
<i>Restricted/Reserved:</i>			
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>Restricted:</i>			
464 Restricted Fund Balance	\$ 328	\$ 328	\$ -
<i>Unreserved:</i>			
463 Unassigned Fund Balance	\$ -	\$ -	\$ -

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 each major fund of Cannon River STEM School as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements and have issued our report thereon dated November 11, 2011. 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 of the financial statements of Cannon River STEM School as of and for the year ended June 30, 2011, in accordance with U.S. generally accepted auditing standards, we considered Cannon River STEM School's internal control over financial reporting (internal control) 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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
November 11, 2011

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 each major fund of Cannon River STEM School as of and for the year ended June 30, 2011, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 11, 2011.

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 Political Subdivisions*, 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 Political Subdivisions* 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, in all material respects, with the provisions referred to in the preceding paragraph.

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
November 11, 2011