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October 27, 2014

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

This Executive Audit Summary and Management Report presents information which we believe is important to you as members of the school board. We encourage you to review the sections of this report, the audited financial statements and the auditors' reports.

We would be pleased to furnish additional information with respect to these suggestions and discuss this memorandum with you at your convenience. We wish to express our appreciation to the School for the courtesies, cooperation and assistance extended to us during the course of our work.

**CliftonLarsonAllen LLP**

Dennis Hoogeveen, CPA  
Principal

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

**EXECUTIVE AUDIT SUMMARY (EAS)**

**JUNE 30, 2014**

**CANNON RIVER STEM SCHOOL  
CHARTER SCHOOL NO. 4194  
EXECUTIVE AUDIT SUMMARY (EAS)  
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JUNE 30, 2014**

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**EXECUTIVE AUDIT SUMMARY (EAS)  
FOR  
CANNON RIVER STEM SCHOOL  
YEAR ENDED JUNE 30, 2014**

**AUDIT FINDINGS AND RESULTS**

**Audit Opinion** – The financial statements are fairly stated. We issued what is known as a “clean” audit report.

**Yellow Book Opinion** – No compliance issues were noted in our review of laws, regulations, contracts, grant agreements or other matters that could have significant financial implications to the School.

**Internal Controls** – No “material weaknesses” in internal control were noted.

**Legal Compliance** – One compliance issue was reported with respect to Minnesota Statutes related to charter schools and UFARS accounting. Minnesota State Statute Chapter 118A, Section 03, requires charter schools desiring to deposit an amount in excess of deposit insurance to obtain a bond or collateral which, when computed at its market value, shall be at least 10% more than the amount of the excess deposit. The school did not have sufficient collateral coverage at December 31, 2013 nor at June 30, 2014.

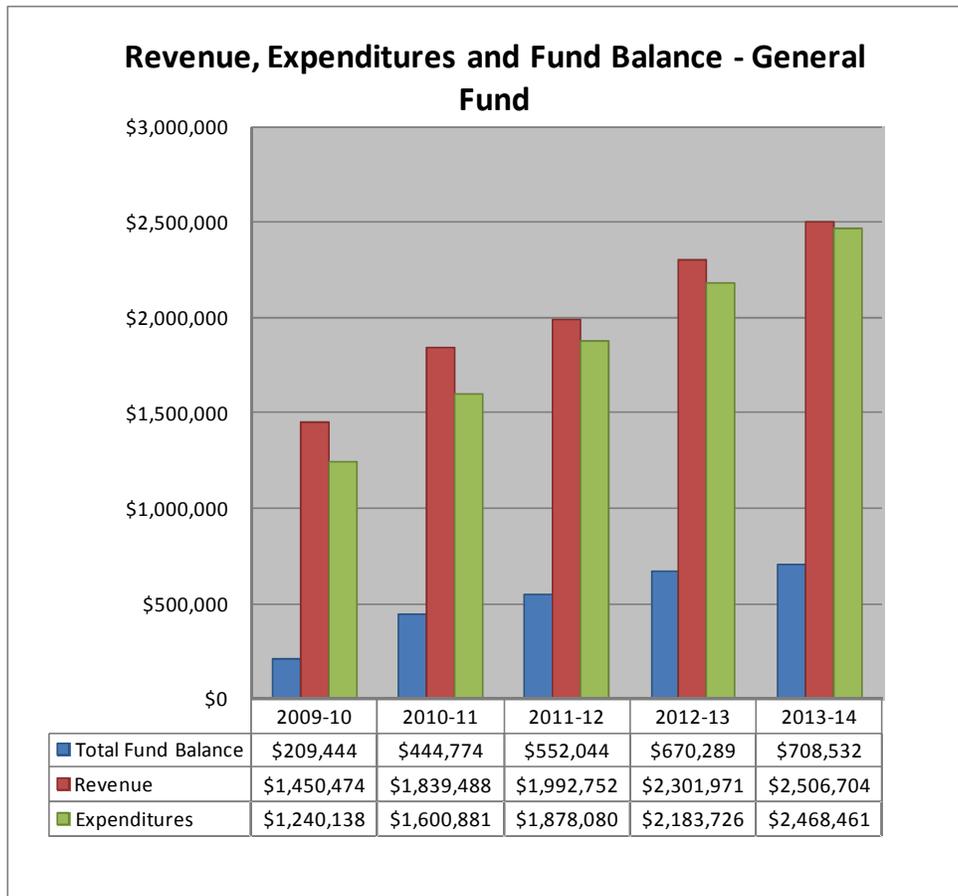
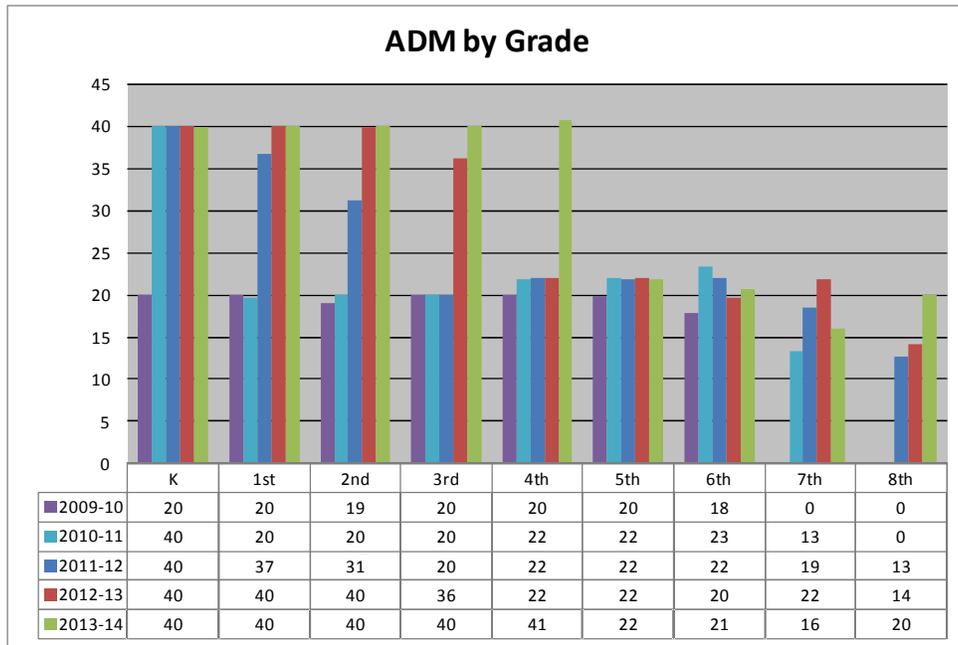
**Fund Balance** – The fund balance of the School’s General Fund ended at a balance of \$708,532 at June 30, 2014, which is 28.7% of General Fund expenditures. We recommend that an operating charter school develop a plan that will eventually result in a target fund balance that is at least 20% to 25% of annual expenditures, although more and more schools are increasing their fund balance percentage to be able to cover the full state aid holdback. Fund balance is an important aspect in the School’s financial well being since a healthy fund balance represents things such as cash flow, as a cushion against unanticipated expenditures, enrollment declines, funding deficiencies, state aid metering changes, and aid prorations at the state level and similar problems.

**General Fund Budget to Actual** – Total General Fund revenues on a net basis were \$70,675 (or 2.7%) lower than the budgeted amount while total expenditures were \$22,622 (or 0.9%) lower than had been budgeted. As part of any budget initiated for fiscal 2014-15, the Board will want to take these minor variances into consideration in order to limit budget differences to every extent possible. We recommend that budget variances in a charter school environment (which is more volatile than in a traditional school environment but on a much smaller scale) be limited to no more than 1% to 2% on either side of zero once a school is operational and the program has matured.

**Food Service Fund** – The School’s food service program operated at a surplus of \$9,872 for fiscal year 2014. The School’s Food Service Fund ended fiscal year 2014 with a fund balance of \$19,339.

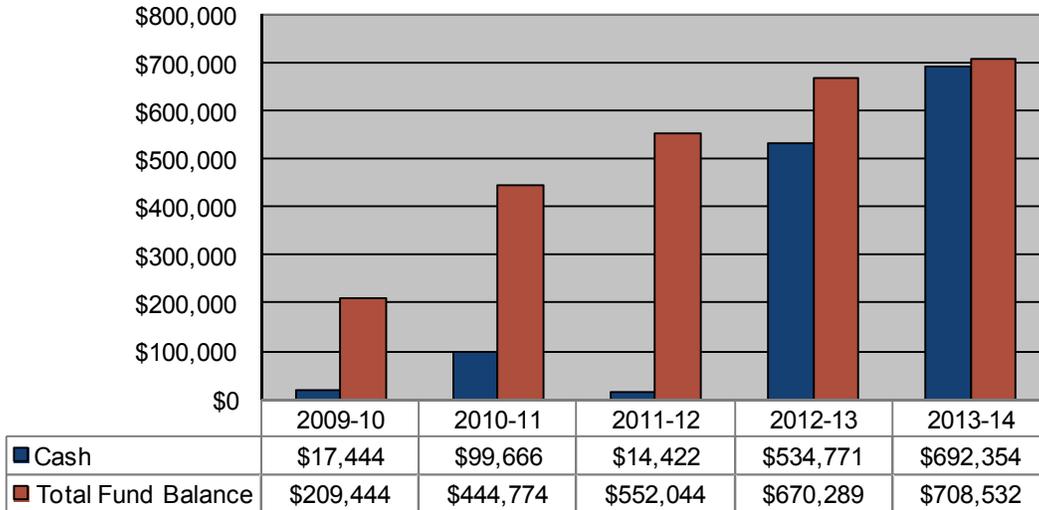
**Community Service Fund** – The School’s Community Service Fund ended fiscal year 2014 with a fund balance of \$5,162.

## FINANCIAL TRENDS

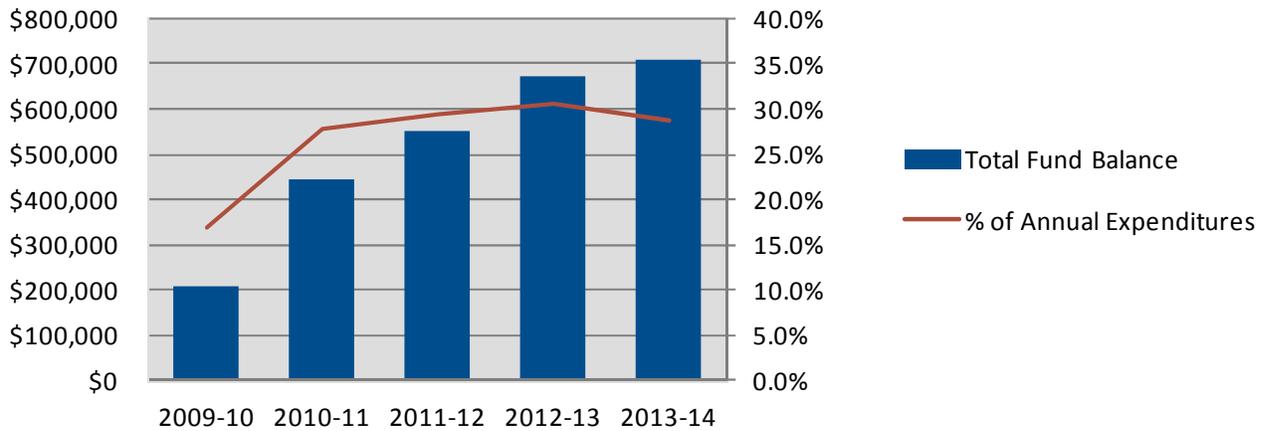


**FINANCIAL TRENDS (CONTINUED)**

**General Fund Cash and Total Fund Balance**



**Total Fund Balance - General Fund**



# APPENDIX A

## LEGISLATIVE ACTIVITY

What follows are some education-related highlights of recent legislative sessions as summarized from information made available by the Minnesota Department of Education, the Minnesota School Boards Association, Office of the Legislative Auditor, and the Minnesota House of Representatives.

### **Pupil Accounting Changes Effective FY 2015**

Pupil unit weights were simplified by the 2013 Legislature with the changes as follows:

- Pre-kindergarten Disabled: from 1.25 to 1.0
- Part-time Kindergarten: from .612 to .55
- All-Day Kindergarten: from .612 to 1.0
- Grades 1-3: from 1.115 to 1.0
- Grades 4-6: from 1.06 to 1.0
- Grades 7-12: from 1.3 to 1.2

### ***Marginal Cost Pupil Units***

Legislation from 2013 eliminated “marginal cost” calculations from the definition of pupil units. Beginning in FY 2015, establishes a new component of general education revenue, “declining enrollment revenue,” to replace funding previously provided to districts with declining enrollment through marginal cost pupil units. Sets declining enrollment revenue equal to the decline in adjusted pupil units between the prior year and the current year times 28% of the formula allowance.

### ***All Day Kindergarten***

As part of 2013 legislation, to qualify for the higher 1.0 kindergarten weight, a pupil must be enrolled in a free all-day program that is available free to all kindergarten students at the pupil’s school, and the annual school calendar for the kindergarten program must have at least 850 hours of instruction.

For purposes of calculating extended time revenue, an all-day kindergarten pupil must first receive at least 850 hours of instruction during the year before generating extended time pupil units.

### ***Early Admission to Kindergarten***

The 2013 Legislature required that board-adopted policies for early admission be based on a comprehensive evaluation to determine the child’s ability to meet kindergarten expectations and progress to first grade in the subsequent year. Required a school board that has adopted a policy to allow a child under the age of five to enroll in kindergarten to establish a comprehensive evaluation to be used to determine the kindergarten pupil’s cognitive, social, and emotional development. Required parents and the commissioner to have access to the board’s early kindergarten admission policy.

## **APPENDIX A – Legislative Activity (Continued)**

### **Pension Adjustment Effective FY 2015**

As a result of 2013 legislation, the aid reduction for the 1997 change in employer contribution rate for Teachers Retirement Association (TRA) and other pension rate changes was eliminated. Districts with a below average reduction for pension adjustment will be provided pension adjustment revenue to guarantee state average gain from elimination of pension adjustment. The basic formula was adjusted to neutralize the overall statewide impact.

### **General Education Formula Allowance**

For FY 2015, the 2013 Legislature increased the formula allowance to \$5,806 (1.5% after adjusting for new pupil weights and the elimination of the aid subtraction for pension rate changes). The formula allowance was determined by: 1) Calculating the state total general education revenue for FY 2015 with an \$80 (1.5%) increase in the formula allowance and no change in pupil weights or other formula changes, and 2) Setting the formula allowance at the amount that generates the same state total general education revenue with the new pupil weights, pension adjustment change and other formula changes in place. Of the \$504 increase over FY 2014, \$80 is for inflation at 1.5%; the remaining \$424 is to adjust for the pupil weight change, pension adjustment change and other restructuring.

The General Education Revenue formula allowance was further increased by \$25 per pupil (.5% increase) for FY2015 by the 2014 Legislature. This increases funding for other revenues linked to the formula allowance (e.g., compensatory, sparsity, transportation sparsity, nonpublic transportation, nonpublic pupil, Indian tribal contract, and, beginning in FY 2015, ECFE).

### **Special Education Tuition Billing Effective FY 2015**

Beginning in FY 2015, the 2013 Legislature required that the serving district or charter school cover 10% of unfunded special education costs, reducing the amount borne by the resident district from 100% to 90%. Intermediate districts, cooperatives and charter schools where at least 70% of students are eligible for special education are exempt from this provision and continue to be able to recover 100% of unfunded special education costs from the resident district.

### **Charter Schools Specific Legislation**

#### **Supplemental Information Provided to MDE**

The language on the supplemental information charter schools must submit with audited financial statements was modified. Copies must be provided of management agreements with a charter school management organization or an educational management organization and service agreements and contracts over the lesser of \$100,000 or 10% of the school's most recent audited expenditures.

#### **Pre-School Programs**

The language allowing a charter school to provide instruction to children under five was removed and replaced with authority to provide a free preschool or pre-K program. The primary focus of charter schools must still be on students aged 5 – 18.

#### **Transportation**

A charter school is prohibited from requiring parents to surrender their transportation rights.

## **APPENDIX A – Legislative Activity (Continued)**

### **Affiliated Building Company**

The requirements for a charter school to form an affiliated building corporation (ABC) were changed. One set of requirements would apply for all projects – both new facilities and purchase/renovation of existing facilities: the school must have been in operation at least six consecutive years and have had a net positive unreserved general fund balance in the preceding three fiscal years.

### **Review and Comment**

The language dealing with review and comment for charter school facilities projects was clarified. Any purchase agreement or construction contract finalized before a positive review and comment is null and void.

### **Building Leases**

The requirement for charter school building leases to have a closure clause was clarified. “Closures clause” relieves the charter school of lease obligation when charter contract is terminated or not renewed.

### **State Aid Payment Schedule**

Clarifies that the payment schedule for the 10% annual holdback for charter schools reverts back to the regular payment schedule which applies for all schools when the state is on to the 90/10 payment schedule – this change goes into effect on July 1, 2015.

### **Collective Bargaining Agreements**

Requires that a board of directors of a charter school with employees organized under a collective bargaining agreement must comply with the Group Insurance for Governmental Units Law (471.6161) and Certain Gifts of Interested Persons Prohibited Law (471.895).



## APPENDIX B

### FORMAL REQUIRED COMMUNICATIONS

Members of the 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 (the School) as of and for the year ended June 30, 2014, and have issued our report thereon dated September 23, 2014. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant audit findings

##### ***Qualitative aspects of accounting practices***

###### *Accounting policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School are described in Note 1 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2014.

We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

###### *Accounting estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Due from Minnesota Department of Education
- Due from federal through the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets

**Qualitative aspects of accounting practices (continued)**

Accounting estimates (continued)

Management's estimate of the due from Minnesota Department of Education is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2014. The most significant of these is the aid portion of general education revenue. General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the school. Student attendance is accumulated in a statewide database, Minnesota Automated Reporting Student System (MARSS). Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2014 is not finalized until well into the next fiscal year. MDE calculates amounts owed to the School for special education excess cost tuition billing and adds the amount to the School's special education aid. Because the tuition amounts are based on estimated information, final entitlements are not expected to be known until well into the following fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from federal through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2014. Many federal entitlements require that supporting financial reporting information be provided both in the UFARS accounting system and also the SERVS reporting system. To the extent that these two separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of the useful lives for depreciable capital assets is based on guidance recommended by the Minnesota Department of Education and other sources. The useful life of a depreciable capital asset determines the amount of depreciation that will be recorded in any given reporting period as well as the amount of accumulated depreciation that is reported at the end of a reporting period.

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

**Difficulties encountered in performing the audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

***Corrected misstatements***

Management did not identify and we did not notify them of any financial statement misstatements detected as a result of audit procedures.

***Disagreements with management***

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

***Management representations***

We have requested certain representations from management that are included in the management representation letter dated September 23, 2014.

***Management consultations with other independent accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Significant issues discussed with management prior to engagement***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

**Other information in documents containing audited financial statements**

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated September 23, 2014.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

\* \* \* \* \*

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

*CliftonLarsonAllen LLP*  
**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
September 23, 2014