

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2013

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CHARTER SCHOOL NO. 4194
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YEAR ENDED JUNE 30, 2013**

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INTRODUCTORY SECTION

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
SCHOOL BOARD
JUNE 30, 2013**

SCHOOL BOARD

| NAME | TERM ON BOARD EXPIRES | BOARD POSITION |
|-----------------|----------------------------------|-----------------------|
| Teri Menard | January 2014 | Board Chair |
| Caren Putrah | January 2014 | Vice Chair |
| Todd Rost | January 2015 | Treasurer |
| Shelly Cole | January 2016 | Director |
| Jen Walls | January 2015 | Director |
| Marilyn Bongers | January 2016 | Director |
| Jane Jirik | January 2016 | Director |

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund Cannon River STEM School, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Cannon River STEM School as of June 30, 2013, and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Major Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Prior Year Information

We have previously audited Cannon River STEM School's 2012 financial statements of the governmental activities and each major fund, and we expressed an unmodified opinion on those audited financial statements in our report dated November 13, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cannon River STEM 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 supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Matters (Continued)

Supplementary Information (Continued)

The individual fund statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2013, on our consideration of Cannon River STEM School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cannon River STEM School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 16, 2013

REQUIRED SUPPLEMENTARY INFORMATION

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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, 2013. 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 2012-2013 fiscal period include the following:

- Total General Fund revenues were \$2,301,971 as compared to \$2,183,726 of expenditures for fiscal 2013.
- Total fund balance of the General Fund is \$670,289 at June 30, 2013.

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, 2013**

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 position 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 position* and how they have changed. Net position – 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 position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional non-financial factors such as changes in the School's creditworthiness and the condition of school buildings and other facilities.

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

- *Governmental Activities* – Most of the School's basic services are included here, such as regular and special education, 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, 2013**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's *combined* net position was \$859,491 on June 30, 2013.

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

| | Governmental Activities | | Percentage Change |
|----------------------------------|-------------------------|------------|----------------------|
| | 2013 | 2012 | |
| Current and Other Assets | \$ 888,513 | \$ 712,261 | 24.75 % |
| Capital and Non-Current Assets | 176,584 | 154,067 | 14.62 |
| Total Assets | 1,065,097 | 866,328 | 22.94 |
| Current Liabilities | 205,606 | 158,687 | 29.57 |
| Net Position: | | | |
| Net Investment in Capital Assets | 176,584 | 154,067 | 14.62 |
| Restricted | 12,618 | 1,530 | 724.71 |
| Unrestricted | 670,289 | 552,044 | 21.42 |
| Total Net Position | \$ 859,491 | 707,641 | 21.46 |

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (CONTINUED)

Changes in Net Position

The School's total revenues were \$2,392,943 for the period ended June 30, 2013. Most of the School's revenue was received from State aid and through federal grants.

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

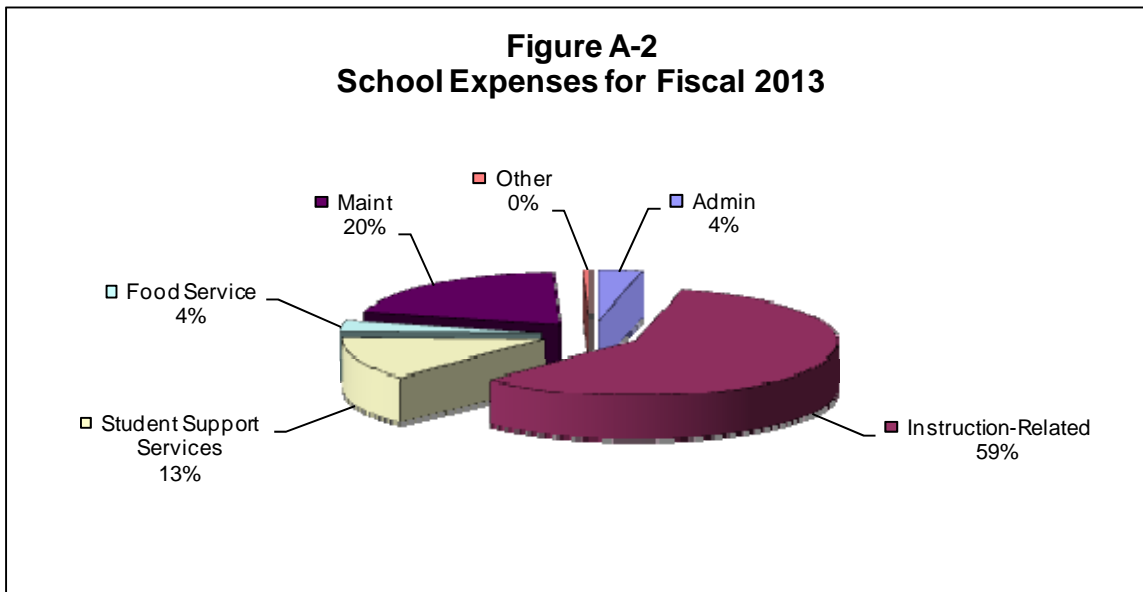
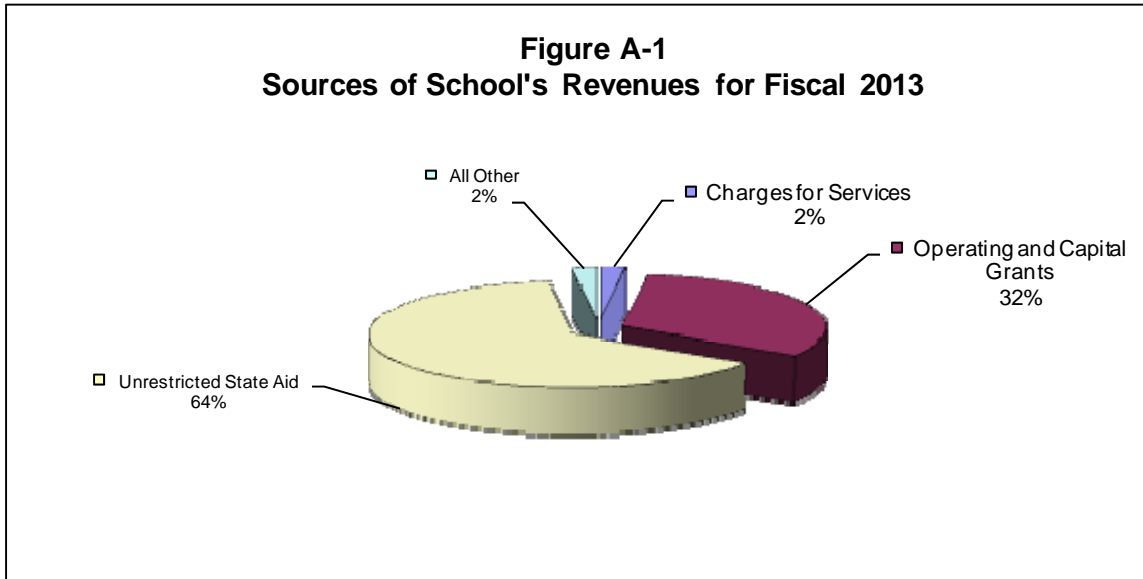
| | Governmental Activities for the Fiscal Year Ended June 30, | | Total % Change |
|--------------------------------------|---|-------------------|-------------------|
| | 2013 | 2012 | |
| Revenues | | | |
| <u>Program Revenues</u> | | | |
| Charges for Services | \$ 47,166 | \$ 32,244 | 46.28 % |
| Operating Grants and Contributions | 767,606 | 715,234 | 7.32 |
| <u>General Revenues</u> | | | |
| Unrestricted State Aid | 1,533,068 | 1,285,751 | 19.24 |
| Investment Earnings | 27 | - | N/A |
| Gain on Sale of Capital Assets | - | 579 | |
| Other | 45,076 | 15,293 | 194.75 |
| Total Revenues | <u>2,392,943</u> | <u>2,049,101</u> | 16.78 |
| Expenses | | | |
| Administration | 81,285 | 76,358 | 6.45 |
| District Support Services | 229,087 | 203,696 | 12.47 |
| Regular Instruction | 987,874 | 881,779 | 12.03 |
| Special Education Instruction | 336,812 | 281,491 | 19.65 |
| Instructional Support Services | 54,526 | 39,455 | 38.20 |
| Pupil Support Services | 622 | 1,243 | (49.96) |
| Sites and Buildings | 458,408 | 400,361 | 14.50 |
| Fiscal and Other Fixed Cost Programs | 12,595 | 8,803 | 43.08 |
| Food Service | 79,662 | 62,176 | 28.12 |
| Community Service | 222 | 391 | (43.22) |
| Total Expenses | <u>2,241,093</u> | <u>1,955,753</u> | 14.59 |
| Increase in Net Position | 151,850 | 93,348 | 62.67 |
| Beginning Net Position | 707,641 | 614,293 | 15.20 |
| Ending Net Position | <u>\$ 859,491</u> | <u>\$ 707,641</u> | 21.46 |

The total cost of all programs and services was \$2,241,093. Total revenues exceeded expenses by \$151,850 resulting in ending Net Position of \$859,491 at June 30, 2013.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (CONTINUED)

The cost of all *governmental* activities this period was \$2,241,093.



**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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 |
|---|------------------------|--------------|----------------------|----------------------|--------------|----------------------|
| | 2013 | 2012 | | 2013 | 2012 | |
| Administration | \$ 81,285 | \$ 74,040 | 9.79 % | \$ 81,285 | \$ 76,358 | 6.45 % |
| District Support Services | 229,087 | 184,986 | 23.84 | 229,087 | 203,696 | 12.47 |
| Regular Instruction | 987,874 | 651,215 | 51.70 | 927,261 | 750,959 | 23.48 |
| Special Education Instruction | 336,812 | 179,745 | 87.38 | 5,828 | 1,340 | 334.93 |
| Instructional Support Services | 54,526 | 80,357 | (32.15) | 54,526 | 39,455 | 38.20 |
| Pupil Support Services | 622 | 17,593 | (96.46) | 622 | 1,243 | (49.96) |
| Sites and Buildings | 458,408 | 318,682 | 43.84 | 126,205 | 120,221 | 4.98 |
| Fiscal and Other Fixed Cost Programs | 12,595 | 6,050 | 108.18 | 12,595 | 8,803 | 43.08 |
| Food Service | 79,662 | 69,476 | 14.66 | (9,467) | 7,402 | (227.90) |
| Community Service | 222 | 819 | (72.89) | (1,621) | (1,202) | 34.86 |
| Interest and Fiscal Charges on Long-Term Liabilities | - | 409 | (100.00) | - | - | N/A |
| Total | \$ 2,241,093 | \$ 1,583,372 | 41.54 | \$ 1,426,321 | \$ 1,208,275 | 18.05 |

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 \$682,907. The combined fund balance percentage as of June 30, 2013 is 30.2% of expenditures.

Revenues and expenditures for the School's governmental funds were \$2,392,943 and \$2,263,610, respectively.

GENERAL FUND

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

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

FOOD SERVICE FUND

The Food Service Fund accounts for the food service operations. During the 2012-2013 fiscal year, Food Service Fund revenues exceeded expenditures by \$9,467.

COMMUNITY SERVICE FUND

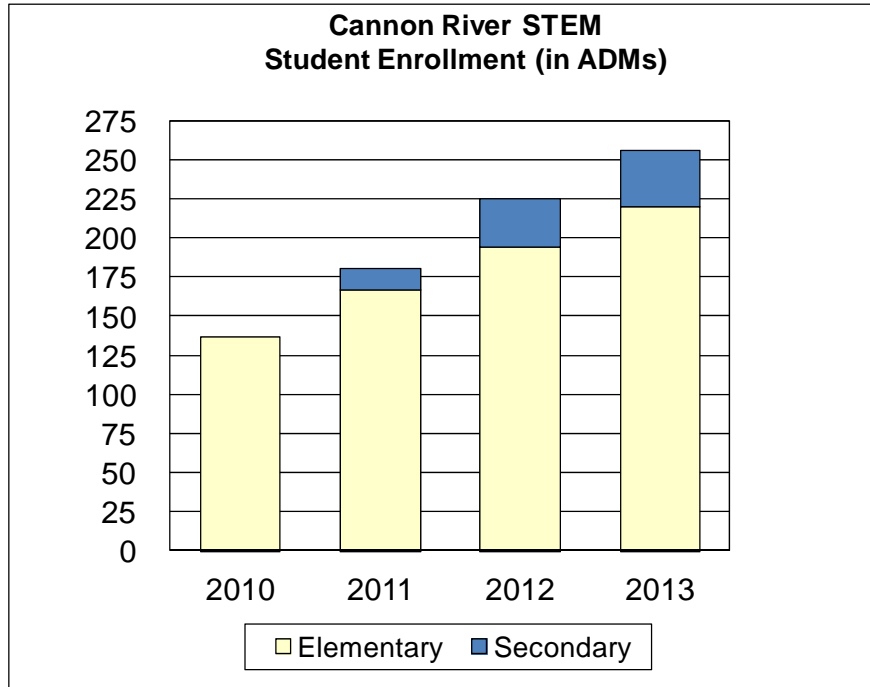
The Community Service Fund accounts for the before and after school programs offered to all students. During the 2012-13 fiscal year, the program produced a surplus of \$1,621.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

ENROLLMENT

Enrollment is a critical factor in determining revenue with approximately 93% 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, 2013 | June 30, 2012 | Increase (Decrease) | Percent |
| Local Sources: | | | | |
| Other | \$ 45,076 | \$ 15,293 | \$ 29,783 | 194.75 % |
| State Sources | 2,146,975 | 1,792,432 | 354,543 | 19.78 |
| Federal Sources | 109,893 | 184,430 | (74,537) | (40.41) |
| Total General Fund Revenue | <u>\$ 2,301,971</u> | <u>\$ 1,992,155</u> | <u>\$ 309,789</u> | 15.55 |

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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, 2013 | June 30, 2012 | | |
| Salaries | \$ 1,059,428 | \$ 862,406 | \$ 197,022 | 22.85 % |
| Employee Benefits | 238,365 | 189,608 | 48,757 | 25.71 |
| Purchased Services | 732,405 | 666,977 | 65,428 | 9.81 |
| Supplies and Materials | 70,131 | 91,515 | (21,384) | (23.37) |
| Capital Expenditures | 72,578 | 60,544 | 12,034 | 19.88 |
| Other Expenditures | 10,819 | 7,012 | 3,807 | 54.29 |
| Total Expenditures | <u>\$ 2,183,726</u> | <u>\$ 1,878,062</u> | <u>\$ 305,664</u> | 16.28 |

Salaries (48.5%), employee benefits (10.9%) purchased services (33.5%), supplies (3.2%), and capital expenditures (3.3%) made up 99.5% of all the expenditures incurred for the School's fourth 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 2013, the School had invested \$311,484 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 \$47,205. At June 30, 2013, the School had not incurred any long-term debt.

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

| | 2013 | 2012 | Percentage Change |
|--------------------------------|-------------------|-------------------|----------------------|
| Equipment | \$ 311,484 | \$ 241,762 | 28.84 % |
| Less: Accumulated Depreciation | <u>(134,900)</u> | <u>(87,695)</u> | 53.83 |
| Total | <u>\$ 176,584</u> | <u>\$ 154,067</u> | 14.62 |

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2013**

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.

Enrollment is expected to increase for the next several 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 2013-2014.

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 POSITION
 JUNE 30, 2013
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

| | Governmental Activities | |
|-------------------------------------|----------------------------|------------|
| | 2013 | 2012 |
| ASSETS | | |
| Cash and Investments | \$ 547,425 | \$ 15,981 |
| Receivables: | | |
| Other Governments | 320,554 | 673,849 |
| Other | - | 24 |
| Prepaid Items | 20,534 | 22,407 |
| Capital Assets, Net of Depreciation | 176,584 | 154,067 |
| Total Assets | 1,065,097 | 866,328 |
| LIABILITIES | | |
| Salaries Payable | 179,834 | 137,927 |
| Accounts and Contracts Payable | 25,772 | 20,760 |
| Total Liabilities | 205,606 | 158,687 |
| NET POSITION | | |
| Net Investment in Capital Assets | 176,584 | 154,067 |
| Restricted for: | | |
| Food Service | 9,467 | - |
| Community Service | 3,151 | 1,530 |
| Unrestricted | 670,289 | 552,044 |
| Total Net Position | \$ 859,491 | \$ 707,641 |

See accompanying Notes to Basic Financial Statements.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2012)**

| Functions | 2013 | | | 2012 | |
|---|---------------------|-------------------------|--|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position Total Governmental Activities | Net (Expense) Revenue and Changes in Net Position Total Governmental Activities |
| Governmental Activities | | | | | |
| Administration | \$ 81,285 | \$ - | \$ - | \$ (81,285) | \$ (76,358) |
| District Support Services | 229,087 | - | - | (229,087) | (203,696) |
| Regular Instruction | 987,874 | - | 60,613 | (927,261) | (750,959) |
| Special Education Instruction | 336,812 | - | 330,984 | (5,828) | (1,340) |
| Instructional Support Services | 54,526 | - | - | (54,526) | (39,455) |
| Pupil Support Services | 622 | - | - | (622) | (1,243) |
| Sites and Buildings | 458,408 | - | 332,203 | (126,205) | (120,221) |
| Fiscal and Other Fixed Cost Programs | 12,595 | - | - | (12,595) | (8,803) |
| Food Service | 79,662 | 45,323 | 43,806 | 9,467 | (7,402) |
| Community Service | 222 | 1,843 | - | 1,621 | 1,202 |
| Total | <u>\$ 2,241,093</u> | <u>\$ 47,166</u> | <u>\$ 767,606</u> | (1,426,321) | (1,208,275) |
| General Revenues | | | | | |
| State Aid Not Restricted to Specific Purposes | | | | 1,533,068 | 1,285,751 |
| Earnings on Investments | | | | 27 | - |
| Gain on Sale of Capital Assets | | | | - | 579 |
| Miscellaneous | | | | 45,076 | 15,293 |
| Total General Revenues | | | | <u>1,578,171</u> | <u>1,301,623</u> |
| Change in Net Position | | | | 151,850 | 93,348 |
| Net Position - Beginning | | | | <u>707,641</u> | <u>614,293</u> |
| Net Position - Ending | | | | <u>\$ 859,491</u> | <u>\$ 707,641</u> |

See accompanying Notes to Basic Financial Statements.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

| | Major Funds | | | Total Governmental Funds | |
|--|-------------------|-----------------|-------------------|--------------------------|-------------------|
| | General | Food Service | Community Service | 2013 | 2012 |
| ASSETS | | | | | |
| Cash and Investments | \$ 534,771 | \$ 9,473 | \$ 3,181 | \$ 547,425 | \$ 15,981 |
| Receivables: | | | | | |
| Due from Minnesota Department of Education | 302,713 | 1 | - | 302,714 | 657,869 |
| Due from Federal through Minnesota Department of Education | 17,840 | - | - | 17,840 | 15,980 |
| Other Receivables | - | - | - | - | 24 |
| Prepaid Items | 20,534 | - | - | 20,534 | 22,407 |
| Total Assets | <u>\$ 875,858</u> | <u>\$ 9,474</u> | <u>\$ 3,181</u> | <u>\$ 888,513</u> | <u>\$ 712,261</u> |
| LIABILITIES AND FUND BALANCE | | | | | |
| Liabilities: | | | | | |
| Salaries and Compensated Absences Payable | \$ 145,233 | \$ - | \$ 27 | \$ 145,260 | \$ 111,175 |
| Payroll Deductions and Employer Contributions Payable | 34,571 | - | 3 | 34,574 | 26,752 |
| Accounts and Contracts Payable | 25,765 | 7 | - | 25,772 | 20,760 |
| Total Liabilities | 205,569 | 7 | 30 | 205,606 | 158,687 |
| Fund Balance: | | | | | |
| Nonspendable: | | | | | |
| Prepaid Items | 20,534 | - | - | 20,534 | 22,407 |
| Restricted: | | | | | |
| Food Service | - | 9,467 | - | 9,467 | - |
| Community Service | - | - | 3,151 | 3,151 | 1,530 |
| Unassigned | 649,755 | - | - | 649,755 | 529,637 |
| Total Fund Balance | 670,289 | 9,467 | 3,151 | 682,907 | 553,574 |
| Total Liabilities and Fund Balance | <u>\$ 875,858</u> | <u>\$ 9,474</u> | <u>\$ 3,181</u> | <u>\$ 888,513</u> | <u>\$ 712,261</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 POSITION
 JUNE 30, 2013
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

| | 2013 | 2012 |
|--|-------------------|-------------------|
| Total Fund Balance for Governmental Funds | \$ 682,907 | \$ 553,574 |
| <p>Total net position reported for governmental activities in the statement of net position 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 | 176,584 | 154,067 |
| Total Net Position of Governmental Activities | \$ 859,491 | \$ 707,641 |

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, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2012)**

| | Major | | | Total Governmental | |
|--|-------------------|-----------------|----------------------|--------------------|-------------------|
| | General | Food Service | Community Service | Funds 2013 | 2012 |
| REVENUES | | | | | |
| Local Sources: | | | | | |
| Earnings on Investments | \$ 27 | \$ - | - | \$ 27 | \$ - |
| Other | 45,076 | 45,323 | 1,843 | 92,242 | 47,537 |
| State Sources | 2,146,975 | 4,418 | - | 2,151,393 | 1,794,731 |
| Federal Sources | 109,893 | 39,388 | - | 149,281 | 206,254 |
| Total Revenues | <u>2,301,971</u> | <u>89,129</u> | <u>1,843</u> | <u>2,392,943</u> | <u>2,048,522</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Administration | 81,285 | - | - | 81,285 | 76,358 |
| District Support Services | 224,971 | - | - | 224,971 | 199,993 |
| Regular Instruction | 948,480 | - | - | 948,480 | 819,136 |
| Special Education Instruction | 336,692 | - | - | 336,692 | 281,491 |
| Instructional Support Services | 54,526 | - | - | 54,526 | 39,455 |
| Pupil Support Services | 622 | - | - | 622 | 1,243 |
| Sites and Buildings | 451,977 | - | - | 451,977 | 391,039 |
| Fiscal and Other Fixed Cost Programs | 12,595 | - | - | 12,595 | 8,803 |
| Food Service | - | 79,662 | - | 79,662 | 62,176 |
| Community Service | - | - | 222 | 222 | 391 |
| Capital Outlay | 72,578 | - | - | 72,578 | 60,544 |
| Total Expenditures | <u>2,183,726</u> | <u>79,662</u> | <u>222</u> | <u>2,263,610</u> | <u>1,940,629</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 118,245 | 9,467 | 1,621 | 129,333 | 107,893 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Proceeds from Sale of Equipment | - | - | - | - | 579 |
| Transfers In | - | - | - | - | 7,402 |
| Transfers Out | - | - | - | - | (7,402) |
| Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>579</u> |
| Net Change in Fund Balance | 118,245 | 9,467 | 1,621 | 129,333 | 108,472 |
| Fund Balance - Beginning | <u>552,044</u> | <u>-</u> | <u>1,530</u> | <u>553,574</u> | <u>445,102</u> |
| Fund Balance - Ending | <u>\$ 670,289</u> | <u>\$ 9,467</u> | <u>\$ 3,151</u> | <u>\$ 682,907</u> | <u>\$ 553,574</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, 2013
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2012)**

| | 2013 | 2012 |
|--|-------------------|------------------|
| Net Change in Fund Balance - Total Governmental Funds | \$ 129,333 | \$ 108,472 |
| <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 depreciation exceeded capital outlays in the current period.</p> | | |
| Capital Outlays | 69,722 | 21,708 |
| Depreciation Expense | (47,205) | (36,832) |
| Change in Net Position of Governmental Activities | \$ 151,850 | \$ 93,348 |

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, 2013**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Over (Under) Final Budget</u> |
|--|-------------------------|------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Local Sources: | | | | |
| Earnings on Investments | \$ - | \$ - | \$ 27 | \$ 27 |
| Other | 13,500 | 46,900 | 45,076 | (1,824) |
| State Sources | 2,089,566 | 2,118,177 | 2,146,975 | 28,798 |
| Federal Sources | <u>88,937</u> | <u>92,044</u> | <u>109,893</u> | <u>17,849</u> |
| Total Revenues | 2,192,003 | 2,257,121 | 2,301,971 | 44,850 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administration | 96,386 | 96,603 | 81,285 | (15,318) |
| District Support Services | 230,270 | 244,456 | 224,971 | (19,485) |
| Elementary and Secondary Regular Instruction | 907,128 | 932,741 | 948,480 | 15,739 |
| Special Education Instruction | 270,705 | 304,986 | 336,692 | 31,706 |
| Instructional Support Services | 59,152 | 60,465 | 54,526 | (5,939) |
| Pupil Support Services | 1,000 | 500 | 622 | 122 |
| Sites and Buildings | 477,429 | 463,028 | 451,977 | (11,051) |
| Fiscal and Other Fixed Cost Programs | 18,166 | 17,546 | 12,595 | (4,951) |
| Capital Outlay | 64,130 | 64,130 | 72,578 | 8,448 |
| Debt Service: | | | | |
| Interest and Fiscal Charges | <u>2,979</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Expenditures | <u>2,127,345</u> | <u>2,184,455</u> | <u>2,183,726</u> | <u>(729)</u> |
| Excess of Revenues Over Expenditures | <u>\$ 64,658</u> | <u>\$ 72,666</u> | 118,245 | <u>\$ 45,579</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>552,044</u> | |
| End of Year | | | <u>\$ 670,289</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, 2013**

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Over (Under) Final Budget</u> |
|--|-------------------------|------------------|---------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Local Sources: | | | | |
| Other - Primarily Meal Sales | \$ 51,506 | \$ 51,506 | \$ 45,323 | \$ (6,183) |
| State Sources | 2,500 | 4,000 | 4,418 | 418 |
| Federal Sources | <u>25,000</u> | <u>33,000</u> | <u>39,388</u> | <u>6,388</u> |
| Total Revenues | 79,006 | 88,506 | 89,129 | 623 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Food Service | <u>88,000</u> | <u>77,000</u> | <u>79,662</u> | <u>2,662</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>\$ (8,994)</u> | <u>\$ 11,506</u> | 9,467 | <u>\$ (2,039)</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>-</u> | |
| End of Year | | | <u>\$ 9,467</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 COMMUNITY SERVICE FUND
 YEAR ENDED JUNE 30, 2013**

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Over</u> |
|--------------------------------------|-------------------------|-----------------|-----------------|---------------|
| | <u>Original</u> | <u>Final</u> | <u>Amounts</u> | <u>Final</u> |
| | | | | <u>Budget</u> |
| REVENUES | | | | |
| Local Sources: | | | | |
| Other - Primarily Tuition and Fees | \$ 1,500 | \$ 1,823 | \$ 1,843 | \$ 20 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community Service | <u>500</u> | <u>300</u> | <u>222</u> | <u>(78)</u> |
| Excess of Revenues Over Expenditures | <u>\$ 1,000</u> | <u>\$ 1,523</u> | 1,621 | <u>\$ 98</u> |
| FUND BALANCE | | | | |
| Beginning of Year | | | <u>1,530</u> | |
| End of Year | | | <u>\$ 3,151</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, 2013**

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 authorizer agreement extending through fiscal year ending June 30, 2017.

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. Change in Accounting Principle

During the year ended June 30, 2013, the School adopted GASB Statement No. 63. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basic Financial Statement Presentation

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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 position 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.

E. 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, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. 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 unearned revenue on its statement of net position and balance sheet. Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned 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 unearned revenue is removed from the statement of net position 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 Special Revenue Fund

The Food Service Fund is used to account for food service revenue and expenditures. The major revenue sources for this fund are state and federal meal reimbursements in addition to meal sales.

Community Service Special Revenue Fund

The Community Service Fund is used to account for the School's extended day childcare program. The major source of revenue for this fund are fees charged for providing the extended day or similar services.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. 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.

G. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with GAAP. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund 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 unassigned deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota schools which excludes certain restricted balances specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

Budgeted amounts include mid-year budget amendments that changed revenue budgets as follows:

| <u>Revenues</u> | <u>Original Budget</u> | <u>Amendments</u> | <u>Amended Budget</u> |
|-------------------------|----------------------------|-------------------|---------------------------|
| General Fund | \$ 2,192,003 | \$ 65,118 | \$ 2,257,121 |
| Special Revenue Funds: | | | |
| Food Service Fund | 79,006 | 9,500 | 88,506 |
| Community Service Fund | 1,500 | 323 | 1,823 |
| <u>Expenditures</u> | | | |
| General Fund | \$ 2,127,345 | \$ 57,110 | \$ 2,184,455 |
| Special Revenue Funds: | | | |
| Food Service Fund | 88,000 | (11,000) | 77,000 |
| Community Service Fund | 500 | (200) | 300 |

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash and Investments

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

I. Accounts Receivable

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

J. 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.

K. Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the school board. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period. The school board of Cannon River STEM School has also designated the Executive Director as the official authorized to assign fund balance to a specific purpose. Unassigned fund balances are considered the remaining amounts in the General Fund.

The School has 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.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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.

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.

M. Net Position

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

N. Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts at June 30, 2013, as follows:

| | <u>Budget</u> | <u>Expenditures</u> | <u>Excess</u> |
|------------------------|---------------|---------------------|---------------|
| Special Revenue Funds: | | | |
| Food Service Fund | \$ 77,000 | \$ 79,662 | \$ 2,662 |

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

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013, in the amount of \$584,315 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, 2013 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Governmental Activities | | | | |
| Capital Assets, Being Depreciated: | | | | |
| Equipment | \$ 241,762 | \$ 69,722 | \$ - | \$ 311,484 |
| Accumulated Depreciation for: | | | | |
| Equipment | <u>(87,695)</u> | <u>(47,205)</u> | - | <u>(134,900)</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 154,067</u> | <u>\$ 22,517</u> | <u>\$ -</u> | <u>\$ 176,584</u> |

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

| | |
|---|------------------|
| Governmental Activities | |
| District Support Services | \$ 3,792 |
| Elementary and Secondary Regular Instruction | 36,862 |
| Special Education Instruction | 120 |
| Sites and Buildings | <u>6,431</u> |
| Total Depreciation Expense, Governmental Activities | <u>\$ 47,205</u> |

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

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 expired on November 7, 2012, and had an interest rate of 7%. The expiration date of the line of credit was extended to November 9, 2013. The agreement is secured by all business assets of the School. The outstanding balance on the line of credit agreement at June 30, 2013 was \$-0- and there was not any borrowing activity during the year.

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.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 RETIREMENT PLANS (CONTINUED)

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

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 6.5% and 10.0%, 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; 6.5% for Coordinated Plan members and 10.5% for Basic plan members during fiscal year 2013. 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, 2013, 2012, and 2011 were \$50,076, \$35,567, and \$28,201, respectively, equal to the required contributions for each year as set by state statute.

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

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 RETIREMENT PLANS (CONTINUED)

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

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. GERP Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.25%, respectively, of their annual covered salary in 2013.

The School was required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.25% for Coordinated Plan members. The School's contributions for the fiscal years ended June 30, 2013, 2012, and 2011 were \$19,429, \$18,537, and \$13,535, 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. This lease was renewed through June 30, 2014 with lease payments totaling \$1,200 per pupil unit with a maximum monthly payment of \$27,488 and \$29,820 for the years ending June 30, 2013 and 2014, respectively. The School is also responsible for its pro rata share of operating costs based on a rate of \$133 per pupil unit with a maximum monthly payment for operating expense of \$3,047 and \$3,305 for the years ending June 30, 2013 and 2014, respectively.

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

b. Operating Lease Commitments and Terms (Continued)

For fiscal 2013, the School incurred total MDE-approved lease costs of \$356,460 and qualified for state charter school lease aid based on a statutory cap of 90% of approved lease expenditures or \$320,814. 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.

SUPPLEMENTARY INFORMATION

**CANNON RIVER STEM SCHOOL
 CHARTER SCHOOL NO. 4194
 GENERAL FUND
 BALANCE SHEET
 JUNE 30, 2013
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

| | 2013 | 2012 |
|--|------------|------------|
| ASSETS | | |
| Cash and Investments | \$ 534,771 | \$ 14,422 |
| Receivables: | | |
| Other Accounts Receivable | - | 24 |
| Due from Minnesota Department of Education | 302,713 | 657,869 |
| Due from Federal through the Minnesota Department of Education | 17,840 | 15,980 |
| Prepaid Items | 20,534 | 22,407 |
| Total Assets | \$ 875,858 | \$ 710,702 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Salaries and Compensated Absences Payable | \$ 145,233 | \$ 111,148 |
| Employer Withholdings Payable | 34,571 | 26,750 |
| Accounts and Contracts Payable | 25,765 | 20,760 |
| Total Liabilities | 205,569 | 158,658 |
| Fund Balance: | | |
| Nonspendable: | | |
| Prepaid Items | 20,534 | 22,407 |
| Unassigned | 649,755 | 529,637 |
| Total Fund Balance | 670,289 | 552,044 |
| Total Liabilities and Fund Balance | \$ 875,858 | \$ 710,702 |

**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, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2012)**

| | 2013 | | Over (Under) Final Budget | 2012 |
|--|-----------------|-------------------|------------------------------------|-------------------|
| | Final Budget | Actual Amounts | | Actual Amounts |
| REVENUES | | | | |
| Local Sources: | | | | |
| Earnings on Investments | \$ - | \$ 27 | \$ 27 | \$ - |
| Other | 46,900 | 45,076 | (1,824) | 15,293 |
| State Sources | 2,118,177 | 2,146,975 | 28,798 | 1,792,432 |
| Federal Sources | 92,044 | 109,893 | 17,849 | 184,430 |
| Total Revenues | 2,257,121 | 2,301,971 | 44,850 | 1,992,155 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administration: | | | | |
| Salaries | 77,000 | 67,000 | (10,000) | 63,345 |
| Employee Benefits | 18,103 | 13,552 | (4,551) | 12,753 |
| Purchased Services | 1,500 | 692 | (808) | 197 |
| Supplies and Materials | - | 41 | 41 | 63 |
| Total Administration | 96,603 | 81,285 | (15,318) | 76,358 |
| District Support Services: | | | | |
| Salaries | 86,537 | 80,080 | (6,457) | 49,733 |
| Employee Benefits | 21,201 | 22,105 | 904 | 12,073 |
| Purchased Services | 114,554 | 103,874 | (10,680) | 118,049 |
| Supplies and Materials | 13,399 | 12,931 | (468) | 14,034 |
| Capital Expenditures | - | 913 | 913 | 7,425 |
| Other Expenditures | 8,765 | 5,981 | (2,784) | 6,104 |
| Total District Support Services | 244,456 | 225,884 | (18,572) | 207,418 |
| Elementary and Secondary | | | | |
| Regular Instruction: | | | | |
| Salaries | 686,353 | 695,798 | 9,445 | 582,624 |
| Employee Benefits | 153,879 | 155,794 | 1,915 | 126,270 |
| Purchased Services | 41,509 | 55,464 | 13,955 | 44,181 |
| Supplies and Materials | 43,000 | 36,586 | (6,414) | 65,153 |
| Capital Expenditures | 44,130 | 52,934 | 8,804 | 46,732 |
| Other Expenditures | 8,000 | 4,838 | (3,162) | 908 |
| Total Elementary and Secondary Regular Instruction | 976,871 | 1,001,414 | 24,543 | 865,868 |

**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, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2012)**

| | 2013 | | Over (Under) Final Budget | 2012 |
|---------------------------------------|-----------------|-------------------|------------------------------------|-------------------|
| | Final Budget | Actual Amounts | | Actual Amounts |
| EXPENDITURES (Continued) | | | | |
| Current (Continued): | | | | |
| Special Education Instruction: | | | | |
| Salaries | \$ 173,550 | \$ 196,125 | \$ 22,575 | \$ 166,578 |
| Employee Benefits | 43,484 | 43,662 | 178 | 38,494 |
| Purchased Services | 85,452 | 95,652 | 10,200 | 74,178 |
| Supplies and Materials | 2,500 | 1,253 | (1,247) | 2,241 |
| Capital Expenditures | - | 1,195 | 1,195 | - |
| Total Special Education Instruction | 304,986 | 337,887 | 32,901 | 281,491 |
| Instructional Support Services: | | | | |
| Salaries | 18,361 | 20,425 | 2,064 | 126 |
| Employee Benefits | 2,947 | 3,252 | 305 | 18 |
| Purchased Services | 39,157 | 30,289 | (8,868) | 38,771 |
| Supplies and Materials | - | 560 | 560 | 540 |
| Total Instructional Support Services | 60,465 | 54,526 | (5,939) | 39,455 |
| Pupil Support Services: | | | | |
| Purchased Services | - | 283 | 283 | 988 |
| Supplies and Materials | 500 | 339 | (161) | 255 |
| Total Pupil Support Services | 500 | 622 | 122 | 1,243 |
| Sites and Buildings: | | | | |
| Purchased Services | 445,528 | 433,556 | (11,972) | 381,810 |
| Supplies and Materials | 17,500 | 18,421 | 921 | 9,229 |
| Capital Expenditures | 20,000 | 17,536 | (2,464) | 6,387 |
| Total Sites and Buildings | 483,028 | 469,513 | (13,515) | 397,426 |
| Fiscal and Other Fixed Cost Programs: | | | | |
| Purchased Services | 17,546 | 12,595 | (4,951) | 8,803 |

**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, 2013
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2012)**

| | 2013 | | Over (Under) Final Budget | 2012 |
|--|------------------|-------------------|------------------------------------|-------------------|
| | Final Budget | Actual Amounts | | Actual Amounts |
| EXPENDITURES (Continued) | | | | |
| Total Expenditures | \$ 2,184,455 | \$ 2,183,726 | \$ (729) | \$ 1,878,062 |
| Excess of Revenue Over Expenditures | 72,666 | 118,245 | 45,579 | 114,093 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from Sale of Equipment | - | - | - | 579 |
| Transfers Out | - | - | - | (7,402) |
| Total Other Financing Uses | - | - | - | (6,823) |
| Net Change in Fund Balance | <u>\$ 72,666</u> | 118,245 | <u>\$ 45,579</u> | 107,270 |
| FUND BALANCE | | | | |
| Beginning of Year | | <u>552,044</u> | | <u>444,774</u> |
| End of Year | | <u>\$ 670,289</u> | | <u>\$ 552,044</u> |

CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
GENERAL FUND
FOOD SERVICE SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2013
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)

| | 2013 | 2012 |
|--|----------|------|
| ASSETS | | |
| Cash and Investments | \$ 9,473 | \$ - |
| Receivables: | | |
| Due from Minnesota Department of Education | 1 | - |
| Total Assets | \$ 9,474 | \$ - |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Accounts and Contracts Payable | \$ 7 | \$ - |
| Fund Balance: | | |
| Restricted for Food Service | 9,467 | - |
| Total Liabilities and Fund Balance | \$ 9,474 | \$ - |

**CANNON RIVER STEM SCHOOL
 CHARTER SCHOOL NO. 4194
 FOOD SERVICE SPECIAL REVENUE FUND
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2013
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2012)**

| | 2013 | | Over (Under) Final Budget | 2012 |
|--|------------------|-------------------|------------------------------------|-------------------|
| | Final Budget | Actual Amounts | | Actual Amounts |
| REVENUES | | | | |
| Local Sources: | | | | |
| Other - Primarily Meal Sales | \$ 51,506 | \$ 45,323 | \$ (6,183) | \$ 30,651 |
| State Sources | 4,000 | 4,418 | 418 | 2,299 |
| Federal Sources | 33,000 | 39,388 | 6,388 | 21,824 |
| Total Revenues | <u>88,506</u> | <u>89,129</u> | <u>623</u> | <u>54,774</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Salaries | - | - | - | 4,743 |
| Employee Benefits | - | - | - | 707 |
| Purchased Services | - | - | - | 3,960 |
| Supplies and Materials | 77,000 | 79,001 | 2,001 | 51,874 |
| Other Expenditures | - | 661 | 661 | 892 |
| Total Expenditures | <u>77,000</u> | <u>79,662</u> | <u>2,662</u> | <u>62,176</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 11,506 | 9,467 | (2,039) | (7,402) |
| OTHER FINANCING SOURCES | | | | |
| Transfer in | - | - | - | 7,402 |
| Net Change in Fund Balance | <u>\$ 11,506</u> | 9,467 | <u>\$ (2,039)</u> | - |
| FUND BALANCE | | | | |
| Beginning of Year | | - | | - |
| End of Year | | <u>\$ 9,467</u> | | <u>\$ -</u> |

**CANNON RIVER STEM SCHOOL
 CHARTER SCHOOL NO. 4194
 COMMUNITY SERVICE SPECIAL REVENUE FUND
 BALANCE SHEET
 JUNE 30, 2013
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2012)**

| | 2013 | 2012 |
|---|----------|----------|
| ASSETS | | |
| Cash and Investments | \$ 3,181 | \$ 1,559 |
| LIABILITIES AND FUND BALANCE | | |
| Liabilities: | | |
| Salaries and Compensated Absences Payable | \$ 27 | \$ 27 |
| Payroll Deductions and Employer Contributions Payable | 3 | 2 |
| Total Liabilities | 30 | 29 |
| Fund Balance: | | |
| Restricted for Community Service | 3,151 | 1,530 |
| Total Liabilities and Fund Balance | \$ 3,181 | \$ 1,559 |

**CANNON RIVER STEM SCHOOL
 CHARTER SCHOOL NO. 4194
 COMMUNITY SERVICE SPECIAL REVENUE FUND
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET AND ACTUAL
 YEAR ENDED JUNE 30, 2013
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2012)**

| | 2013 | | | 2012 |
|--------------------------------------|-----------------|-------------------|------------------------------------|-------------------|
| | Final Budget | Actual Amounts | Over (Under) Final Budget | Actual Amounts |
| REVENUES | | | | |
| Local Sources: | | | | |
| Other - Primarily Tuition and Fees | \$ 1,823 | \$ 1,843 | \$ 20 | \$ 1,593 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Salaries | 200 | 162 | (38) | 180 |
| Employee Benefits | 100 | 60 | (40) | 211 |
| Total Expenditures | 300 | 222 | (78) | 391 |
| Excess of Revenues Over Expenditures | \$ 1,523 | 1,621 | \$ 98 | 1,202 |
| FUND BALANCE | | | | |
| Beginning of Year | | 1,530 | | 328 |
| End of Year | | \$ 3,151 | | \$ 1,530 |

**CANNON RIVER STEM SCHOOL
CHARTER SCHOOL NO. 4194
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2013**

| | AUDIT | UFARS | Difference |
|------------------------------------|--------------|--------------|------------|
| 01 GENERAL FUND | | | |
| Total Revenue | \$ 2,301,971 | \$ 2,301,970 | \$ 1 |
| Total Expenditures | \$ 2,183,726 | \$ 2,183,726 | \$ - |
| <i>Nonspendable:</i> | | | |
| 460 Nonspendable Fund Balance | \$ 20,534 | \$ 20,533 | \$ 1 |
| <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 | \$ 649,755 | \$ 649,756 | \$ (1) |
| 02 FOOD SERVICE | | | |
| Total Revenue | \$ 89,129 | \$ 89,130 | \$ (1) |
| Total Expenditures | \$ 79,662 | \$ 79,663 | \$ (1) |
| <i>Nonspendable:</i> | | | |
| 460 Nonspendable Fund Balance | \$ - | \$ - | \$ - |
| <i>Restricted:</i> | | | |
| 452 OPEB Liab Not In Trust | \$ - | \$ - | \$ - |
| 464 Restricted Fund Balance | \$ 9,467 | \$ 9,467 | \$ - |
| <i>Unassigned:</i> | | | |
| 463 Unassigned Fund Balance | \$ - | \$ - | \$ - |
| 04 COMMUNITY SERVICE | | | |
| Total Revenue | \$ 1,843 | \$ 1,843 | \$ - |
| Total Expenditures | \$ 222 | \$ 222 | \$ - |
| <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 | \$ 3,151 | \$ 3,151 | \$ - |
| <i>Unreserved:</i> | | | |
| 463 Unassigned Fund Balance | \$ - | \$ - | \$ - |

OTHER REQUIRED REPORTS

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

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

We have audited , in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Cannon River STEM School as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 16, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cannon River STEM School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Cannon River STEM School's internal control. Accordingly, we do not express an opinion on the effectiveness of Cannon River STEM 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 16, 2013

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

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

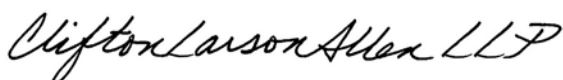
We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Cannon River STEM School as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 16, 2013.

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

In connection with our audit, nothing came to our attention that caused us to believe that Cannon River STEM School failed to comply with the provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions except for the item described in detail in the attached Schedule of Findings and Responses as finding 13-1. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the School's noncompliance with the above-referenced provisions.

Cannon River STEM School's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Cannon River STEM School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the Schools compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 16, 2013

**CANNON RIVER STEM SCHOOL
SCHEDULE OF MINNESOTA LEGAL COMPLIANCE FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

MINNESOTA LEGAL COMPLIANCE FINDINGS

Finding: 13-1

Insuring or Securing Deposits - Section 118A. 03

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

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

During fiscal year 2014, the School will monitor deposit levels throughout the year to ensure compliance with collateral requirements.

Official Responsible for Ensuring CAP:

The School Director will be responsible for implementing the CAP.

Planned Completion Date for CAP:

The School implemented the recommended changes beginning in April 2013.

Plan to Monitor Completion of CAP:

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