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November 12, 2010

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.

**LarsonAllen LLP**



Dennis Hoogeveen, CPA  
Principal



An independent member of Nexia International

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

**EXECUTIVE AUDIT SUMMARY (EAS)**

**JUNE 30, 2010**



**CANNON RIVER STEM SCHOOL  
CHARTER SCHOOL NO. 4194  
EXECUTIVE AUDIT SUMMARY (EAS)  
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JUNE 30, 2010**

**EXECUTIVE AUDIT SUMMARY**

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**EXECUTIVE AUDIT SUMMARY (EAS)  
FOR  
CANNON RIVER STEM SCHOOL  
YEAR ENDED JUNE 30, 2010**

**AUDIT FINDINGS AND RESULTS**

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

**Compliance** – 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** – No compliance issues were reported with respect to Minnesota Statutes related to charter schools and UFARS accounting.

**Fund Balance** – The fund balance of the School’s General Fund ended at a balance of \$209,444 at June 30, 2010, which is 16.9% of General Fund expenditures. In terms of thinking more long-term, if the Board has not already done so, it should consider establishing a fund balance policy which establishes a target fund balance percentage. We typically recommend that an operating charter school develop a plan that will eventually result in a target fund balance that is 20% to 25% of annual expenditures. 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 \$116,171 (or 8.7%) more than the budgeted amount while total expenditures were \$17,178 (or 1.4%) higher than had been budgeted. As part of any budget initiated for fiscal 2010-11, the Board will want to take these 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 the School is operational and the program has matured.

**Food Service Fund** – The School’s food service program operated at a deficit of \$3,971 for fiscal year 2010. The School transferred \$3,971 from the General Fund to eliminate the deficit at year-end. Under UFARS (Uniform Financial Accounting Reporting Standards) the School is required to eliminate a deficit either through operations during the next fiscal year or through an operating transfer from the General Fund. It is not uncommon for charter schools to operate a subsidized food service program in which a portion of general education funds are utilized (via an annual operating transfer from the General Fund to the Food Service Fund) to ensure that all students have access to a nutritious meal as part of a healthy learning environment. It is basically a board-level decision as to whether or not the intent of the School is to run a food service program on a break-even basis (which may necessitate higher meal prices for students that pay for full-price meals) or on a subsidized basis (where the conclusion is that it is not practical to operate the type of program you want to have without a subsidy). We recommend that the Board indicate in the budget the extent to which it is willing to subsidize the food service program.

Cannon River STEM School  
Audit Findings and Results (Continued)

**Community Service Fund** – The School's Community Service Fund ended fiscal year 2010 with a fund balance of \$97.

**Lease Amendment** – During our testing it was noted that the School did not receive a formal lease amendment reflecting the payment deferral allowed by the lessor. We recommend that the School receive a signed amendment to their lease when the payment terms have been modified.

## APPENDIX A

### 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 for the year ended June 30, 2010, and have issued our report thereon dated November 2, 2010. Professional standards require that we provide you with the following information related to our audit.

#### **Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards***

As stated in our engagement letter dated April 26, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

1. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
2. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.
3. We are also responsible for communicating Minnesota legal compliance issues.

#### **Other Information in Documents Containing Audited Financial Statements**

Our audit 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 client prepared document, such as an annual report, should be done only with our prior approval and review of the document. Our responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in such documents.



### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 2, 2010.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies established by Cannon River STEM School are described in Note 1 to the financial statements.

We noted no transactions entered into by the School during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate of Due from Minnesota Department of Education (MDE) is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2009-10. 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 - 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 2010 is not finalized until well into fiscal year 2011. 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 2009-10. 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.

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Charter School No. 4194  
Cannon River STEM School

Management's estimate of the useful lives for depreciable assets is based on guidance recommended by the Minnesota Department of Education and other sources. The useful life of a depreciable 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 evaluated the key factors and assumptions used to develop the above estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

***Difficulties Encountered in Performing the Audit***

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

***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are 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.

***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as 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. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated November 2, 2010.

***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.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention 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 retention.

Members of the Board of Education  
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Cannon River STEM School

This information is intended solely for the use of the Members of the School Board and management of the Cannon River STEM School and is not intended to be and should not be used by anyone other than these specified parties.

*Larson Allen LLP*  
LarsonAllen LLP

Minneapolis, Minnesota  
November 2, 2010