



**CliftonLarsonAllen**

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October 9, 2017

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

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

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

**CliftonLarsonAllen LLP**

Dennis Hoogeveen, CPA  
Principal

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

**EXECUTIVE AUDIT SUMMARY (EAS)**

**JUNE 30, 2017**

**CANNON RIVER STEM SCHOOL  
CHARTER SCHOOL NO. 4194  
EXECUTIVE AUDIT SUMMARY (EAS)  
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JUNE 30, 2017**

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**EXECUTIVE AUDIT SUMMARY (EAS)  
FOR  
CANNON RIVER STEM SCHOOL  
YEAR ENDED JUNE 30, 2017**

**AUDIT FINDINGS AND RESULTS**

**The Audit Process** – We found the School’s records to be in good order (organized, available, complete, etc.). We appreciated the time that staff took to work with us to complete the engagement.

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

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

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

**Legal Compliance** – No significant 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 \$1,367,917 at June 30, 2017, which is 41.2% of General Fund expenditures. We recommend that an operating charter school develop a plan that will eventually result in a target fund balance that is at least 20% to 25% of annual expenditures, although more and more schools are increasing their fund balance percentage to be able to cover the years the State implements the full 40% state aid holdback. Fund balance is an important aspect in the School’s financial well being since a healthy fund balance represents things such as cash flow, as a cushion against unanticipated expenditures, enrollment declines, funding deficiencies, state aid metering changes, and aid prorations at the state level and similar problems.

**General Fund Budget to Actual** – Total General Fund revenues on a net basis were \$51,009 (or 1.5%) higher than the budgeted amount while total expenditures were \$132,363 (or 3.8%) lower than had been budgeted. As part of any budget initiated for fiscal 2017-18, 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.

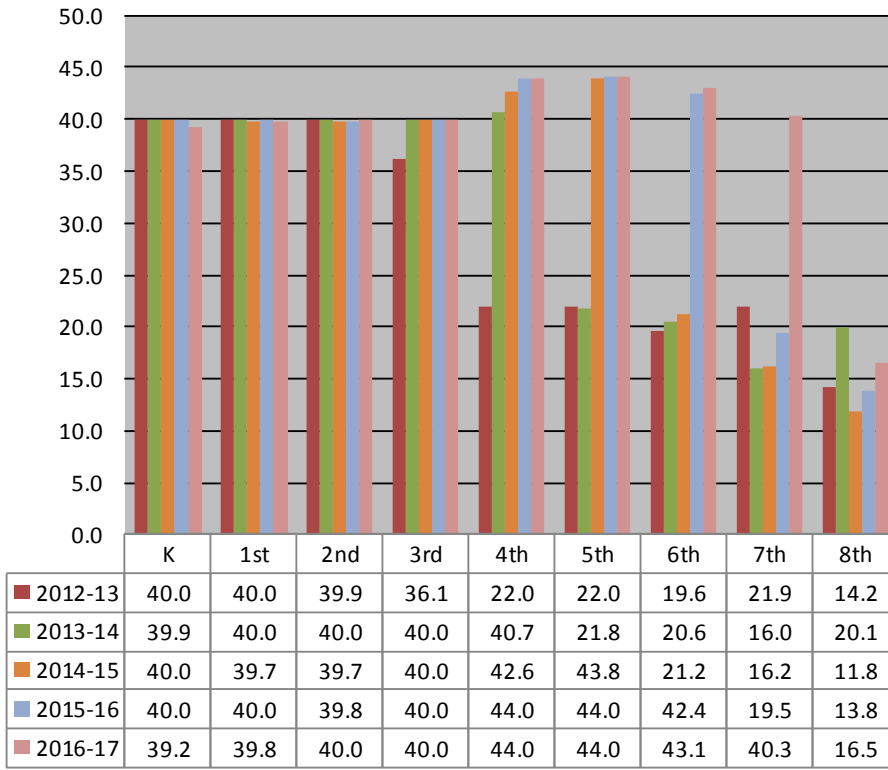
**Food Service Fund** – The School’s food service program operated at a deficit of \$17,407 for fiscal year 2017. After a transfer from the General Fund of \$9,658 the fund balance of the School’s Food Service Fund ended fiscal year 2017 with a fund balance of \$0.

**Community Service Fund** – The School’s Community Service Fund ended fiscal year 2017 with a fund balance of \$820.

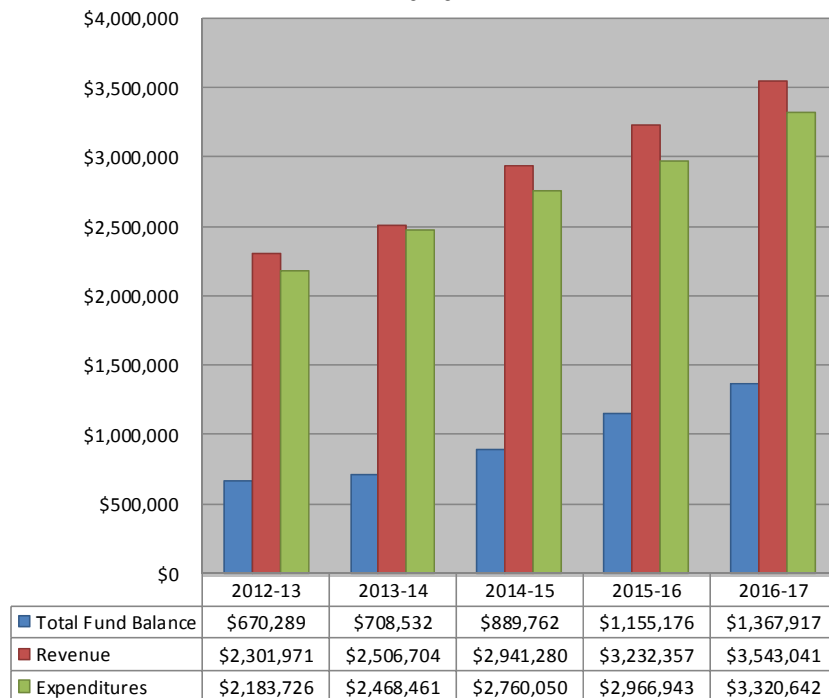
**Credit Card Policy** – Per our review of the internal controls surrounding credit card purchases, it appears that no one is directly approving the Executive Directors credit card purchases. We recommend that someone on the board review these expenditures and support for them on a regular basis and document that review.

**FINANCIAL TRENDS**

**ADM by Grade**

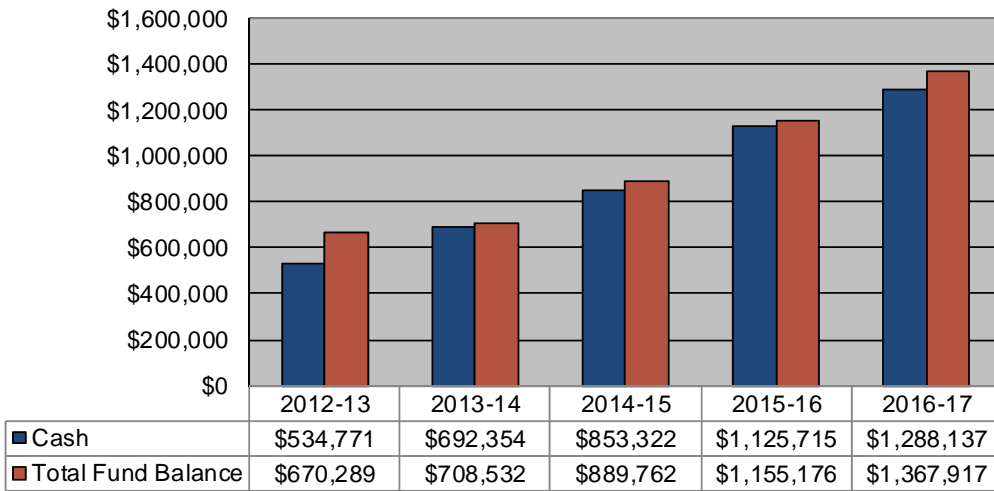


**Revenue, Expenditures and Fund Balance - General Fund**

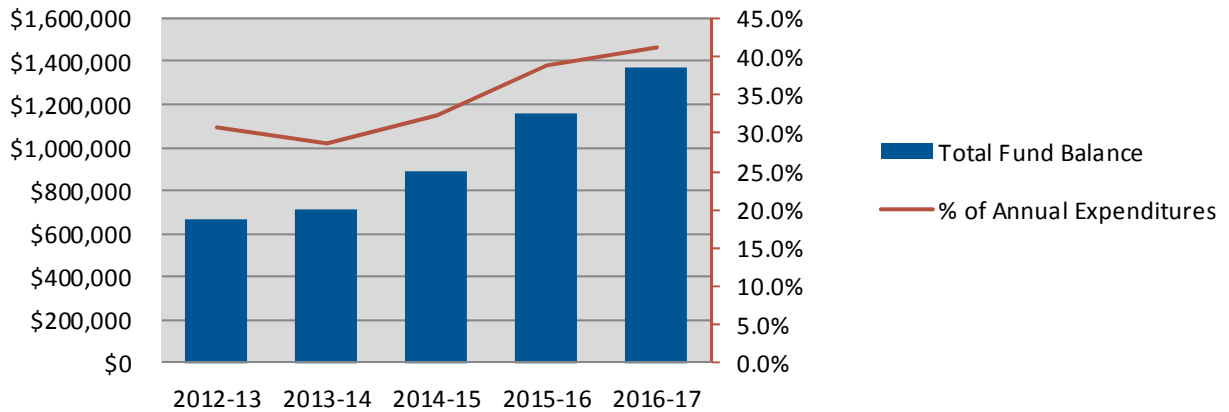


**FINANCIAL TRENDS (CONTINUED)**

**General Fund Cash and Total Fund Balance**



**Total Fund Balance - General Fund**



# APPENDIX A

## LEGISLATIVE ACTIVITY

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

### **General Education Formula Increase**

The General Education Revenue formula allowance was increased by 2% (by \$121 per pupil unit to \$6,188) for fiscal year 2018 and by another 2% (by \$124 per pupil unit to \$6,312) for fiscal year 2019 and later.

### **E-Learning Days**

School boards may offer online instruction due to inclement weather to be counted as a day of instruction. A plan must be developed and adopted by the school board in consultation with teachers. Requirements are: parent notification of the E-Learning Plan at the beginning of each school year; accommodations for students without internet access at home; must not exceed five days; parent notification of at least two hours prior to the normal school start time in which a student needs to participate in an E-Learning Day; and teachers must be accessible online and via telephone during the normal school hours.

### **Child Nutrition Exception to Contract Limits**

An exception to the rule limiting school district contracts to two years was provided. A contract between a school board and a food service management company may be renewed annually after the initial term, but not more than four additional years.

### **Pre-Kindergarten or Preschool Admission**

Requires charters to align their prekindergarten or preschool admission requirements with those of their K-12 programs.

### **Authorizer Withdrawal**

If there is a withdrawal, authorizers are required to provide a letter to the charter to give to families that explains the reasons for withdrawal.

### **Placement of Charter Students**

Prohibits the placement of charter students in classrooms with teachers on an improvement plan if the student was with a teacher in the prior year who had been disciplined under the evaluation statute.

### **Pupil Fair Dismissal Act**

A charter school is subject to and must comply with the Pupil Fair Dismissal Act.

### **Lease Aid**

A charter school is allowed to include students participating in PSEO in their pupil count for generating lease aid.

## APPENDIX B

### FORMAL REQUIRED COMMUNICATIONS

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

We have audited the financial statements of the governmental activities and each major fund of Cannon River STEM School (the School) as of and for the year ended June 30, 2017, and have issued our report thereon dated October 9, 2017. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant audit findings

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

###### Accounting policies

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

No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2017.

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

###### Accounting estimates

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

- Due from Minnesota Department of Education
- Due from Federal through the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets
- Estimated proportionate share of PERA's and TRA's net pension liability



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

*Accounting estimates (continued)*

Management's estimate of the due from Minnesota Department of Education is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2016-17. 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 2017 is not finalized until well into the next fiscal year. MDE calculates amounts owed to the School for special education excess cost tuition billing and adds the amount to the School's special education aid. Because the tuition amounts are based on estimated information, final entitlements are not expected to be known until well into the following fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from Federal through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2016-17. Many federal entitlements require that supporting financial reporting information be provided both in the UFARS accounting system and also the SERVS reporting system. To the extent that these two separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of the useful lives for depreciable 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.

Management's estimate of the School's proportionate share of PERA's and TRA's Net Pension Liability is based on guidance from GASB Statement No. 68 and each plan's respective allocation tables. Each plan's allocation tables allocate a portion of the plan's net pension liability based on the School's prior fiscal year contributions as a percentage of the total contributions received for the related year by the plan.

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

*Financial statement disclosures*

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

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

***Difficulties encountered in performing the audit***

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

***Uncorrected misstatements***

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

***Corrected misstatements***

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

***Disagreements with management***

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

***Management representations***

We have requested certain representations from management that are included in the management representation letter dated October 9, 2017.

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

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

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

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

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

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

With respect to the supplementary information accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated October 9, 2017.

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

\* \* \* \* \*

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

  
**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
October 9, 2017