ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204

<u>FINANCIAL STATEMENTS</u>
<u>AND INDEPENDENT AUDITOR'S REPORT</u>

For The Year Ended June 30, 2015

- This page intentionally left blank -

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
TABLE OF CONTENTS

- This page intentionally left blank -

INTRODUCTORY SECTION

- This page intentionally left blank -

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
SCHOOL BOARD AND MANAGEMENT
June 30, 2015

BOARD OF DIRECTORS

Name	Board Position During 2014-2015
Jill Leet-Otley	Board Chair
Ryan Todd	Board Treasurer
Mohamoud Hamud	Board Vice-Chair
Abdulkadir Abdalla	Board Member
Ahmed Sugulle	Board Member

MANAGEMENT

Name	Title
Bryan Rossi	Director
Dieci School Finance, LLC	Business Manager

- This page intentionally left blank -

FINANCIAL SECTION

- This page intentionally left blank -

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Rochester STEM Academy
Charter School No. 4204
Rochester, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Rochester STEM Academy, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Rochester STEM Academy'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.

Auditor's 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 auditor's 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 Rochester STEM Academy, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 9 to the financial statements, Rochester STEM Academy adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* for the year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Rochester STEM Academy's 2014 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the governmental activities and each major fund in our report dated November 11, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 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, the budgetary comparison information, and the pension information 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rochester STEM Academy's basic financial statements. The introductory section and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented as supplemental information as required by the Minnesota Department of Education and is also not part of the basic financial statements.

The individual fund financial 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 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 financial 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated ______, 2015 on our consideration of Rochester STEM Academy'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 results 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 Rochester STEM Academy's internal control over financial reporting and compliance.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

___________, 2015

- This page intentionally left blank -

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of Rochester STEM Academy's (the School) annual financial reporting presents our discussion and analysis of the School's financial performance during its second year of operation that ended on June 30, 2015. Please read it in conjunction with the School's financial statements, which immediately follow this section. Certain comparative information between the current year (2014-2015) and the prior year (2013-2014) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2014-2015 fiscal year includes the following:

- Net revenues of $1,187,679 were recognized and net expenses of $1,185,176 were incurred, which resulted in a $2,503 decrease in net position.

Overview of the Financial Statements

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information which includes the MD&A (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.

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 it has 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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

- Governmental activities – all of the School's basic services will be included here, such as regular and special education, transportation, and administration. State and federal 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.
- The School may establish other funds to control and manage money for a specific purpose.

The School has the following fund type:

- Governmental funds – 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's net position was ($258,067) and $200,264 on June 30, 2015 and 2014, respectively. The School has ended the fiscal year with a decrease in net position primarily due to new accounting guidance, GASB Statement No. 68.

	June 30, 2015	June 30, 2014
Current assets	$195,196	$226,396
Noncurrent assets	51,423	63,205
Deferred outflows of resources	66,925	-
Total assets and deferred outflows	$313,544	$289,601
Current liabilities	$68,718	$89,337
Noncurrent liabilities	343,225	-
Deferred inflows of resources	159,668	-
Total liabilities and deferred inflows	571,611	89,337
Net position:		
Net investment in capital assets	51,423	63,205
Unrestricted	(309,490)	137,059
Total net position	($258,067)	$200,264

The School adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* for the year ended June 30, 2015. The standard is required to be adopted by all entities following GASB who provide defined benefit pension plans administered through trusts, such as TRA and PERA. Essentially, the standard required the unfunded portion of cost-sharing multiple-employer pension plans to be allocated pro-rata to participating employers, including the School. The net pension liability is noncurrent and does not affect the fund financial statements. Recording the liability does not change the School's future funding requirements or obligations under the plans, which are determined by Minnesota statutes.

Net position was negatively impacted by $435,968 at June 30, 2015 due to the implementation of this standard. Pension related amounts from above related to the standard are as follows:

Deferred outflows of resources	$66,925
Deferred inflows of resources	(159,668)
Noncurrent liabilities	(343,225)
	($435,968)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Changes in Net Assets

The School's total revenues were $1,187,679 and $1,170,450 for the years ended June 30, 2015 and 2014, respectively. Program revenues accounted for 27% and 31% of total revenue for these years, respectively. The cost of all government activities of 2015 and 2014 was $1,185,176 and $1,143,903, respectively.

	2015	2014
Revenues:		
Program revenues:		
Charges for services	$ -	$ -
Operating grants and contributions	317,074	361,110
Capital grants and contributions	-	-
General revenues	870,605	809,340
Total revenues	1,187,679	1,170,450
Expenses:		
School support services	245,085	232,204
Regular instruction	425,256	402,838
Special education instruction	77,178	82,158
Instructional support services	-	3,552
Pupil support services	207,799	206,766
Site, building and equipment	220,856	205,212
Fiscal and other fixed costs	9,002	11,173
Total expenses	1,185,176	1,143,903
Change in net position	2,503	26,547
Net position - beginning	200,264	173,717
Prior period adjustment	(460,834)	-
Net position - beginning, as restated	(260,570)	173,717
Net position - ending	($258,067)	$200,264

The prior period adjustment is due to the implementation of GASB Statement No. 68 as discussed on the previous page.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds as well. Revenues for the School's governmental funds were $1,183,730 and $1,170,450 while total expenditures were $1,186,992 and $1,134,194 for 2015 and 2014, respectively. Financial information from the fund statements is as follows:

	2015		2014	
	General	Food Service	General	Food Service
Assets	$193,756	$3,679	$212,008	$14,388
Liabilities	67,278	3,679	74,949	14,388
Fund balance	$126,478	$ -	$137,059	$ -

	2015		2014	
	General	Food Service	General	Food Service
Revenue	$1,115,807	$71,185	$1,097,350	$73,100
Expenditures	1,094,356	103,217	1,033,486	100,708
Transfers	(32,032)	32,032	(27,608)	27,608
Change in fund balance	($10,581)	$ -	$36,256	$ -

BUDGETARY COMPARISON – GENERAL FUND

An annual budget was legally adopted for the period ending June 30, 2015 with an ending change in fund balance of ($15,823). The actual change in fund balance for the period ending June 30, 2015 was ($10,581).

Following approval of the budget prior to the beginning of the fiscal year, the School revises the annual operating budget in mid-year and again at year end if necessary.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Projected revenues were at $1,215,173 and were revised to $1,123,783 after reviewing state and federal expenditures and actual enrollment of the school. Some of these programs are based on student services provided or actual expenditures which are calculated on a reimbursement basis. By the end of the fiscal year, the actual amount was at $1,115,807 which was under the budget by $7,976.

Overall, actual expenditures were $1,094,356 and were under budgeted expenditures for fiscal year 2015 by $11,354.

CAPITAL ASSETS

The School's capital assets consist mainly of computer and other technology equipment and leasehold improvements. There were capital asset additions totaling $4,434 during fiscal year 2015.

FACTORS BEARING ON THE SCHOOL'S FUTURE

The board of directors has mandated that school management develops balanced budgets and monitor revenues and expenditures throughout the year. The School is dependent on the State of Minnesota for most of its revenue. This revenue source is mostly impacted by two variables: legislation and school enrollment. Recent experience demonstrates that legislative revenue increases have not been sufficient to meet increased costs due to inflation.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our stakeholders 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, please contact: Bryan Rossi, School Director, Rochester STEM Academy, 415 16th Street SW, Rochester, Minnesota 55902, 507-281-2381.

BASIC FINANCIAL STATEMENTS

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204 **Statement 1**
STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities
Assets:	
Cash	$60,543
Accounts receivable	417
Due from other governments	107,310
Prepaid items	26,926
Capital assets (net of accumulated depreciation)	51,423
Total assets	246,619
Deferred outflows of resources:	
Related to pensions	66,925
Total assets and deferred outflows of resources	$313,544
Liabilities:	
Accounts payable	$4,016
Salaries and taxes payable	62,588
Unearned revenue	2,114
Net pension liability, due in more than one year	343,225
Total liabilities	411,943
Deferred inflows of resources:	
Related to pensions	159,668
Net position:	
Net investment in capital assets	51,423
Unrestricted	(309,490)
Total net position	(258,067)
Total liabilities, deferred inflows and net position	$313,544

The accompanying notes are an integral part of these financial statements.

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204 **Statement 2**
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2015

		Program Revenues			Net (Expense)
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
Governmental activities:					
School support services	$245,085	$ -	$ -	$ -	($245,085)
Regular instruction	425,256	-	49,369	-	(375,887)
Special education instruction	77,178	-	70,376	-	(6,802)
Pupil support services	207,799	-	71,185	-	(136,614)
Site, building and equipment	220,856	-	126,144	-	(94,712)
Fiscal and other fixed costs	9,002	-	-	-	(9,002)
Total governmental activities	$1,185,176	$0	$317,074	$0	(868,102)
General revenues:					
Local sources					86
State sources					870,519
Total general revenues					870,605
Change in net position					2,503
Net position - beginning, as previously reported					200,264
Prior period adjustment					(460,834)
Net position - beginning, as restated					(260,570)
Net position - ending					($258,067)

The accompanying notes are an integral part of these financial statements.

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204 **Statement 3**
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015

	General	Food Service Fund	Total Governmental Funds
Assets:			
Cash	$60,543	$ -	$60,543
Accounts receivable	-	417	417
Due from Minnesota Department of Education	65,510	95	65,605
Due from Federal Government through Minnesota Department of Education	38,538	3,167	41,705
Due from other funds	2,239	-	2,239
Prepaid items	26,926	-	26,926
Total assets	$193,756	$3,679	$197,435
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$4,016	$ -	$4,016
Salaries and taxes payable	61,148	1,440	62,588
Unearned revenue	2,114	-	2,114
Due to other funds	-	2,239	2,239
Total liabilities	67,278	3,679	70,957
Fund balance:			
Nonspendable - prepaid items	26,926	-	26,926
Unassigned	99,552	-	99,552
Total fund balance	126,478	0	126,478
Total liabilities and fund balance	$193,756	$3,679	$197,435

Amounts reported for governmental activities in the statement of net position are different because:

Fund balance reported above	$126,478
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds	51,423
Deferred outflows of resources related to pensions - see Note 4	66,925
Net pension liability is not due and payable in the current period and, therefore, is not reported in the funds	(343,225)
Deferred inflows of resources related to pensions - see Note 4	(159,668)
Net position of governmental activities (Statement 1)	($258,067)

The accompanying notes are an integral part of these financial statements.

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204 **Statement 4**
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2015

	General	Food Service Fund	Total Governmental Funds
Revenues:			
Local sources	$86	$ -	$86
State sources	1,077,183	1,662	1,078,845
Federal sources	38,538	69,523	108,061
Total revenues	1,115,807	71,185	1,186,992
Expenditures:			
Current:			
School support services	251,066	-	251,066
Regular instruction	428,547	-	428,547
Special education instruction	78,668	-	78,668
Pupil support services	104,426	103,217	207,643
Site, building and equipment	218,213	-	218,213
Fiscal and other fixed costs	9,002	-	9,002
Capital outlay	4,434	-	4,434
Total expenditures	1,094,356	103,217	1,197,573
Revenues over (under) expenditures	21,451	(32,032)	(10,581)
Other financing sources (uses):			
Transfers in	-	32,032	32,032
Transfers out	(32,032)	-	(32,032)
Total other financing sources (uses)	(32,032)	32,032	-
Net change in fund balance	(10,581)	0	(10,581)
Fund balance - beginning	137,059	-	137,059
Fund balance - ending	$126,478	$0	$126,478

Amounts reported for governmental activities in the statement of activities are different because:

Revenues over expenditures reported above	($10,581)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Depreciation	(16,216)
Capital outlay	4,434
Amortization of deferred outflows and inflows of resources relating to pensions	24,866
Change in net position of governmental activities (Statement 2)	$2,503

The accompanying notes are an integral part of these financial statements.

- This page intentionally left blank -

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Rochester STEM Academy (the School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the School are described below:

The School's financial statements include all funds, departments, agencies, boards, commissions and other organizations for which the School is considered to be financially accountable.

A. FINANCIAL REPORTING ENTITY

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the School (the primary government) and its component units. Generally, component units are legally separate organizations for which the officials of the primary government are financially accountable. The School does not have any component units, nor is it a component unit of any other entity.

In its role as School authorizer, Novation Education Opportunities has limited oversight responsibility but is not financially accountable for the School. Therefore, the School is not considered a component unit of the authorizer.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* generally are financed through intergovernmental revenues, and other nonexchange transactions.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not included among program revenues are reported instead as *general revenues*.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

As required by State Statute, the 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 accounting structure.

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 as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers all revenues, except reimbursement grants, to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement grants are considered available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, as applicable, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenues, grants, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School.

Fund Financial Statements: The fund financial statements provide information about the School's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The School reports the following major governmental funds:

The *General Fund* is the general operating fund of the School. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund.

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues.

D. 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.

A tax expense or benefit from an uncertain income tax position (including tax-exempt status) may be recognized only when it is more likely than not that the position will be sustained upon examination by taxing authorities. Management believes the School has no uncertain income tax positions that would result in an accrual, expense or benefit under the more likely than not standard. Generally, tax filings for the prior three years remain open to inspection by regulatory authorities.

E. BUDGETS

A budget for each fund is prepared on the same basis of accounting as the financial statements. The School's Board adopts an annual budget for the following fiscal year for the General and Special Revenue Funds. Legal budgetary control is at the fund level. Budgeted amounts are as originally adopted or as amended by the Board. Budgeted expenditure appropriations lapse at year end. Encumbrance accounting is not used.

Expenditures in the Food Service Fund exceeded budget appropriations by $3,383.

F. CASH AND INVESTMENTS

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation of each fund.

G. RECEIVABLES

Receivables represent amounts receivable from other governments, 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.

H. PREPAID ITEMS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and recorded as expenditures at the time of consumption.

I. CAPITAL ASSETS

Capital assets, which include property, plant and equipment are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than $500, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. 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 depreciated using the straight-line method over the following estimated useful lives:

Furniture and equipment	5 -10 years
Leasehold improvements	10 - 20 years

J. STUDENT ACTIVITIES

There were no student activities that were not under Board control.

K. USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates that affect amounts reported in the financial statements during the reporting period. Actual results could differ from such estimates.

L. UNEARNED REVENUE

Unearned revenue represents amounts received under grant programs but not expended in the current year. Such amounts are unearned until subsequent periods when the funds are expended.

M. ACCRUED EMPLOYEE BENEFITS

Since vacation benefits do not carryover at year end, no long-term liability for unused vacation has been recorded. Substantially all employees are entitled to sick leave at rates specified in their contracts. Employees are not compensated for unused sick leave upon termination of employment; therefore, no long-term liability for unused sick leave has been recorded.

N. FUND BALANCE CLASSIFICATIONS

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable - consists of amounts that are not in spendable form, such as prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of internally imposed constraints. These constraints are established by Resolution of the School Board.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the School's intended use. These constraints are established by the School Board and/or management. Pursuant to Board Resolution, the School's Director is authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the School's policy to first use restricted resources, then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the School's policy to use resources in the following order; 1) committed 2) assigned and 3) unassigned.

O. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

P. MINIMUM FUND BALANCE POLICY

The School Board has formally adopted a fund balance policy for the General Fund. The policy establishes a minimum unassigned fund balance of 20% of annual expenditures in the General Fund.

At June 30, 2015, the targeted minimum unassigned fund balance for the General Fund was $218,871. Actual unassigned fund balance in the General Fund was $99,552. The School's intent is to build up fund balance over time to meet the target.

Q. NET POSITION

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the School-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the School-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

R. COMPARATIVE DATA

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the School's financial position and operations.

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

The School maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is displayed on the statement of net position and the balance sheet as "cash and investments." In accordance with Minnesota Statutes, the School maintains deposits at financial institutions which are authorized by the School Board.

Custodial Credit Risk – 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 include: 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 department of a commercial bank or other financial institution not owned or controlled by the depository. The School does not have a deposit policy that is more restrictive than Minnesota Statutes.

At June 30, 2015, all deposit bank balances were fully insured or collateralized.

B. INVESTMENTS

Minnesota Statutes outline authorized investments for Charter Schools. During the year ended June 30, 2015, the School did not have any such investments.

Note 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, being depreciated:				
Furniture and equipment	$78,236	$ -	$ -	$78,236
Leasehold improvements	21,366	4,434	-	25,800
Total capital assets, being depreciated	99,602	4,434	0	104,036
Less accumulated depreciation for:				
Furniture and equipment	31,122	13,884	-	45,006
Leasehold improvements	5,275	2,332	-	7,607
Total accumulated depreciation	36,397	16,216	0	52,613
Governmental activities capital assets - net	$63,205	($11,782)	$0	$51,423

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	$12,609
Special education	834
Site, building and equipment	2,773
Total	$16,216

Note 4 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 are as follows:

TEACHER'S RETIREMENT ASSOCIATION (TRA)

A. Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of TRA and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. Additional information can be found in section G.

B. Plan Description

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials. Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state are required to be TRA members.

C. Benefits Provided

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

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2 percent per year
	First ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 of after	1.9 percent per year

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) 3 percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

D. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

	Ending June 30, 2014		Ending June 30, 2015	
	Employee	Employer	Employee	Employer
Basic	10.5%	11.0%	11.0%	11.5%
Coordinated	7.0%	7.0%	7.5%	7.5%

The School's contributions to TRA for the plan's fiscal year ended June 30, 2014 were $15,558. The contributions were equal to the required contributions for each year as set by state statute.

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

	Amounts
Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$299,299,837
Deduct employer contributions not related to future contribution efforts	(398,798)
Deduct TRA's contributions not included in allocation	(370,701)
Employer contributions reported in schedule of employer and non-employer pension allocations	$298,530,338

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

E. Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Information	
Measurement Date	June 30, 2014
Valuation Date	July 1, 2014
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	8.25%
Wage Inflation	3.0%
Projected Salary Increase	3.5 - 12%, based on years of service
Cost of living adjustment	2.0% until year 2034; 2.5% thereafter
Mortality Assumption	
Pre-retirement	RP 2000 non-annuitant generational mortaility, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortaility, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortaility, without adjustment.

The actuarial assumptions used in the June 30, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Unallocated Cash	2%	0.50%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension liability was 8.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2015 contribution rate, contributions from schools will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Net Pension Liability

On June 30, 2015, the School reported a liability of $225,788 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The School's proportionate share was 0.0049% at the end of the measurement period and 0.0061% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the School as its proportionate share of the net pension liability, the state's proportionate share, and the total portion of the net pension liability that was associated with the School were $225,788, $15,749 and $241,537, respectively.

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer. Section D contains the rate information.

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to increase from 2.0 percent annually to 2.5 percent annually once the legally specified criteria are met. This is estimated to occur July 1, 2034.

For the year ended June 30, 2015, the School recognized pension expense of $804 including $687 for the support provided by direct aid.

On June 30, 2015, the School had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$19,266	$ -
Difference between projected and actual investment earnings	-	70,986
Changes in proportion	-	56,950
Contributions paid to TRA subsequent to the measurement date	22,025	-
Total	$41,291	$127,936

$22,025 reported as deferred outflows of resources related to pensions resulting from the School's contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized as pension expense during the following years:

Year	Pension Expense
2016	($25,614)
2017	(25,614)
2018	(25,614)
2019	(25,614)
2020	(6,214)

H. Pension Liability Sensitivity

The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 8.25 percent as well as the liability measured using one percent lower and one percent higher.

1% decrease (7.25%)	Current (8.25%)	1% increase (9.25%)
$373,151	$225,788	$102,939

The School's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

I. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling 651-296-2409 or 800-657-3669.

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION (PERA)

A. Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

B. Plan Description

The School participates in the General Employees Retirement Plan (GERF), which is a cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

All full-time and certain part-time employees of the School, other than teachers, are covered by GERF. 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. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

C. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraph are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

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. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

D. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the School was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The School's contributions to the GERF for the plan's fiscal year ended June 30, 2014, were $9,635. The School's contributions were equal to the required contributions for each year as set by state statute.

E. Pension Costs

At June 30, 2015, the School reported a liability of $117,437 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the School's proportion was .0025%.

For the year ended June 30, 2015, the School recognized pension expense of $8,771 for its proportionate share of GERF's pension expense.

At June 30, 2015, the School reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$1,802	$ -
Changes in actuarial assumptions	12,103	-
Difference between projected and actual investment earnings	-	31,732
Contributions paid to PERA subsequent to the measurement date	11,729	-
Total	$25,634	$31,732

$11,729 reported as deferred outflows of resources related to pensions resulting from the School's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized as pension expense as follows:

Year	Pension Expense
2016	($3,298)
2017	(3,298)
2018	(3,298)
2019	(7,933)

F. Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions:

Measurement Date	June 30, 2014
Valuation Date	June 30, 2014
Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2014, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014.

The long-term expected rate of return on pension plan investments is 7.9%. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

G. Discount Rate

The discount rate used to measure the total pension liability was 7.9%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

H. Pension Liability Sensitivity

The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 7.9 percent as well as the liability measured using one percent lower and one percent higher.

1% decrease (6.9%)	Current (7.9%)	1% increase (8.9%)
$189,314	$117,437	$58,300

I. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

TOTAL PENSION AMOUNTS – ALL PLANS

Total pension related assets, deferred outflows of resources, deferred inflows of resources, liabilities and expense for all pension plans is as follows:

	PERA	TRA	Total
Pension-related assets	$ -	$ -	$ -
Deferred outflows of resources	25,634	41,291	66,925
Liabilities	117,437	225,788	343,225
Deferred inflows of resources	31,732	127,936	159,668
Pension expense	8,771	804	9,575

Note 5 INTERFUND ACTIVITY

During 2015, the School made a routine transfer of $32,032 to eliminate a deficit in the Food Service Fund. In addition, there is a due from the Food Service Fund to the General Fund in the amount of $2,239 to cover negative cash.

Note 6 COMMITMENTS AND CONTINGENCIES

A. LEASE COMMITMENTS AND TERMS

On July 1, 2011, the School entered into a lease for office and classroom space through June 2016, which calls for annual rent payments of $1,715 multiplied by ADM, with a stipulated minimum and maximum annual lease payment. Lease payments are subject to increase in three month intervals dependent upon the School's ADM. The School has an option to extend the term for one additional five-year period. In addition to the lease payments, the School is also responsible for its pro-rata share of operating and maintenance costs of the building. Subsequent amendments to the original lease agreement have modified the rent requirement for fiscal years 2015 and 2016. Base rent expense for 2015 was $140,160 ($11,680 per month). Base rent expense for the final year of the lease, July 2015 through June 2016, is scheduled to be $134,858 ($11,238 per month).

The School's ability to make payments under these lease agreements 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.

B. GRANTS

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 funds. 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. The federal financial assistance received may be subject to an audit pursuant to OMB Circular A-133 or audits by the grantor agency.

Note 7 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 or settlements in excess of insurance coverage for any of the past three fiscal years.

Note 8 SHORT-TERM DEBT

The School opened a line of credit on April 3, 2014 in the amount of $100,000 for short-term cash flow needs. Interest on the line of credit is variable (Prime rate plus 1%), with a 5.5% minimum. It is secured by substantially all the School's assets and expires April 3, 2015. The School elected to let the line of credit expire on April 3, 2015, and as of June 30, 2015 has not opened another line of credit.

During the course of the fiscal year, the School had no draws on the line of credit.

Note 9 CHANGES IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2015, the School implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.* GASB 68 addresses accounting and financial reporting for defined benefit pension plans that are provided to employees of state and local governments, including schools. The standard requires the School to record its share of the net pension liability of these plans, as well as any corresponding deferred inflows and outflows of resources. See Note 4 for further information.

As a result of implementing this standard, the School has recorded a prior period adjustment on the Statement of Activities to reduce its beginning net position by ($460,834), which is equal to its share of the net pension liability at June 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204 **Statement 5**
REQUIRED SUPPLEMENTARY INFORMATION **Page 1 of 2**
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended June 30, 2015
With Comparative Actual Amounts For The Year Ended June 30, 2014

	2015				
	Budgeted Amounts		Actual	Variance with Final Budget -	2014 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$855	$255	$86	($169)	$1,061
State sources	1,175,381	1,077,922	1,077,183	(739)	1,012,832
Federal sources	38,937	45,606	38,538	(7,068)	83,457
Total revenues	1,215,173	1,123,783	1,115,807	(7,976)	1,097,350
Expenditures:					
School support services:					
Current:					
Salaries and wages	119,938	112,000	117,133	5,133	65,373
Employee benefits	35,257	36,055	39,005	2,950	20,347
Purchased services	96,600	86,250	83,091	(3,159)	139,785
Supplies and materials	2,500	7,500	10,677	3,177	3,612
Other expenditures	3,000	2,500	1,160	(1,340)	3,087
Total School support services	257,295	244,305	251,066	6,761	232,204
Regular instruction:					
Current:					
Salaries and wages	268,108	305,078	311,514	6,436	243,802
Employee benefits	76,996	82,944	85,757	2,813	60,427
Purchased services	57,210	41,607	24,843	(16,764)	57,320
Supplies and materials	14,550	3,922	5,423	1,501	27,875
Other expenditures	5,000	5,000	1,010	(3,990)	912
Capital expenditures	7,000	-	-	-	4,267
Total regular instruction	428,864	438,551	428,547	(10,004)	394,603
Special education instruction:					
Current:					
Salaries and wages	42,547	52,675	50,385	(2,290)	52,746
Employee benefits	16,994	14,237	13,786	(451)	15,306
Purchased services	3,791	6,000	9,947	3,947	5,434
Supplies and materials	6,075	6,500	2,509	(3,991)	5,815
Other expenditures	5,000	4,000	2,041	(1,959)	2,023
Total special education instruction	74,407	83,412	78,668	(4,744)	81,324
Instructional support services:					
Current:					
Salaries and wages	-	-	-	-	1,267
Employee benefits	-	-	-	-	194
Purchased services	1,000	1,000	-	(1,000)	2,091
Total instructional support services	1,000	1,000	0	(1,000)	3,552

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For The Year Ended June 30, 2015
With Comparative Actual Amounts For The Year Ended June 30, 2014

	2015				
	Budgeted Amounts		Actual	Variance with Final Budget -	2014 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Pupil support services:					
Current:					
Salaries and wages	$12,725	$ -	$ -	$ -	$12,600
Employee benefits	2,017	-	-	-	2,167
Purchased services	98,500	106,000	104,426	(1,574)	91,291
Total pupil support services	113,242	106,000	104,426	(1,574)	106,058
Site, building and equipment:					
Current:					
Salaries and wages	14,847	14,847	14,847	-	14,700
Employee benefits	2,352	2,635	2,519	(116)	2,509
Purchased services	215,840	195,160	196,854	1,694	182,593
Supplies and materials	2,000	6,000	3,993	(2,007)	3,032
Capital expenditures	-	4,500	4,434	(66)	1,738
Total site, building and equipment	235,039	223,142	222,647	(495)	204,572
Fiscal and other fixed costs:					
Current:					
Purchased services	6,000	9,000	8,788	(212)	11,173
Debt service	1,000	300	214	(86)	-
Total fiscal and other fixed costs	7,000	9,300	9,002	(298)	11,173
Total expenditures	1,116,847	1,105,710	1,094,356	(11,354)	1,033,486
Revenues over (under) expenditures	98,326	18,073	21,451	3,378	63,864
Other financing (uses):					
Transfer to Food Service Fund	(32,969)	(33,896)	(32,032)	1,864	(27,608)
Net change in fund balance	$65,357	($15,823)	(10,581)	$5,242	36,256
Fund balance (deficit) - beginning			137,059		100,803
Fund balance - ending			$126,478		$137,059

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204 **Statement 6**
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - FOOD SERVICE SPECIAL REVENUE FUND
For The Year Ended June 30, 2015
With Comparative Actual Amounts For The Year Ended June 30, 2014

	2015				
	Budgeted Amounts		Actual	Variance with Final Budget -	2014 Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues:					
Local sources	$1,000	$ -	$ -	$ -	$ -
State sources	2,292	1,551	1,662	111	1,979
Federal sources	79,353	65,340	69,523	4,183	71,121
Total revenues	82,645	66,891	71,185	4,294	73,100
Expenditures:					
Pupil support services:					
Current:					
Salaries and wages	13,332	9,999	9,166	(833)	-
Employee benefits	1,987	1,502	1,382	(120)	-
Purchased services	2,500	6,000	6,174	174	13,744
Supplies and materials	97,795	83,286	86,495	3,209	86,964
Total expenditures	115,614	100,787	103,217	3,383	100,708
Revenues over (under) expenditures	(32,969)	(33,896)	(32,032)	911	(27,608)
Other financing sources:					
Transfer from General Fund	32,969	33,896	32,032	(1,864)	27,608
Net change in fund balance	$0	$0	0	($953)	0
Fund balance - beginning			-		-
Fund balance - ending			$0		$0

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY*
For The Year Ended June 30, 2015

Measurement Date	Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability	Proportionate Share (Amount) of the Net Pension Liability (a)	Covered-Employee Payroll (b)	Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Teacher's Retirement Association						
June 30, 2014	June 30, 2015	0.00490%	$225,788	$221,967	101.7%	81.5%
PERA - General Employees Retirement Fund						
June 30, 2014	June 30, 2015	0.0025%	$117,437	$132,895	88.4%	78.8%

* The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS*
For The Year Ended June 30, 2015

	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
Teacher's Retirement Association						
	June 30, 2015	$22,025	$22,025	$0	$293,647	5.3%
PERA - General Employees Retirement Fund						
	June 30, 2015	$11,729	$11,729	$0	$160,137	6.02%

* The schedule is provided prospectively beginning with the School's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
REQUIRED SUPPLEMENTARY INFORMATION
NOTE TO RSI
June 30, 2015

Note A LEGAL COMPLIANCE – BUDGETS

The General and Special Revenue Funds budgets are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level.

Note B PENSION INFORMATION

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the financial reports of TRA and PERA.

- This page intentionally left blank -

INDIVIDUAL FUND FINANCIAL STATEMENTS

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204 **Statement 7**
BALANCE SHEET - GENERAL FUND
June 30, 2015
With Comparative Amounts For June 30, 2014

	2015	2014
Assets:		
Cash	$60,543	$79,769
Due from Minnesota Department of Education	65,510	114,474
Due from Federal Government through Minnesota Department of Education	38,538	11,193
Due from other funds	2,239	-
Prepaid items	26,926	6,572
Total assets	$193,756	$212,008
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	$4,016	$8,256
Salaries and taxes payable	61,148	66,693
Unearned revenue	2,114	-
Total liabilities	67,278	74,949
Fund balance:		
Nonspendable - prepaid items	26,926	6,572
Unassigned	99,552	130,487
Total fund balance	126,478	137,059
Total liabilities and fund balance	$193,756	$212,008

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204 **Statement 8**
BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND
June 30, 2015
With Comparative Amounts For June 30, 2014

	2015	2014
Assets:		
Cash	$ -	$5,409
Accounts receivable	417	-
Due from Minnesota Department of Education	95	235
Due from Federal Government through Minnesota Department of Education	3,167	8,744
Total assets	$3,679	$14,388
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	$ -	$14,388
Salaries and taxes payable	1,440	-
Due to other funds	2,239	-
Total liabilites	3,679	14,388
Fund balance:		
Unassigned	-	-
Total liabilities and fund balance	$3,679	$14,388

- This page intentionally left blank -

SUPPLEMENTAL INFORMATION

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204 **Schedule 1**
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS - COMPLIANCE TABLE
June 30, 2015

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	$1,115,807	$1,115,807	$ -
Total Expenditures	1,094,356	1,094,356	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	26,926	26,926	-
Restricted/Reserve:			
4.03 Staff Development	-	-	-
4.05 Deferred Maintenance	-	-	-
4.06 Health and Safety	-	-	-
4.07 Capital Projects Levy	-	-	-
4.08 Cooperative Revenue	-	-	-
4.14 Operating Debt	-	-	-
4.16 Levy Reduction	-	-	-
4.17 Taconite Building Maint	-	-	-
4.23 Certain Teacher Programs	-	-	-
4.24 Operating Capital	-	-	-
4.26 $25 Taconite	-	-	-
4.27 Disabled Accessibility	-	-	-
4.28 Learning and Development	-	-	-
4.34 Area Learning Center	-	-	-
4.35 Contracted Alt. Programs	-	-	-
4.36 St. Approved Alt. Program	-	-	-
4.38 Gifted & Talented	-	-	-
4.41 Basic Skills Programs	-	-	-
4.45 Career & Tech Programs	-	-	-
4.49 Safe School Crime	-	-	-
4.50 Pre-Kindergarten	-	-	-
4.51 QZAB Payments	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
4.53 Unfunded Sev & Retiremt Levy	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Committed:			
4.18 Committed For Separation	-	-	-
4.61 Committed Fund Balance	-	-	-
Assigned:			
4.62 Assigned Fund Balance	-	-	-
Unassigned:			
4.22 Unassigned Fund Balance	99,552	99,552	-
02 FOOD SERVICE			
Total Revenue	$71,185	$71,185	$ -
Total Expenditures	103,217	103,217	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Restricted/Reserve:			
4.26 $25 Taconite	-	-	-
4.31 Community Education	-	-	-
4.32 E.C.F.E	-	-	-
4.44 School Readiness	-	-	-
4.47 Adult Basic Education	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.07 Capital Projects Levy	-	-	-
4.09 Alternative Fac. Program	-	-	-
4.13 Projects Funded By COP	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
07 DEBT SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
4.25 Bond Refundings	-	-	-
4.51 QZAB Payments	-	-	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
08 TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
20 INTERNAL SERVICE			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
25 OPEB REVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
4.22 Unassigned Fund Balance (Net Assets)	-	-	-
47 OPEB DEBT SERVICE FUND			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Non-Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted:			
4.25 Bond Refundings	-	-	-
4.64 Restricted Fund Balance	-	-	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-

OTHER REQUIRED REPORTS

- This page intentionally left blank -

INDEPENDENT AUDITOR'S 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*

To the Board of Directors
Rochester STEM Academy
Charter School No. 4204
Rochester, 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 Rochester STEM Academy, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Rochester STEM Academy's basic financial statements, and have issued our report thereon dated _________, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rochester STEM Academy'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 Rochester STEM Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of Rochester STEM Academy'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 Rochester STEM Academy'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 results 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.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

___________, 2015

MINNESOTA LEGAL COMPLIANCE REPORT

To the Board of Directors
Rochester STEM Academy
Charter School No. 4204
Rochester, Minnesota

We have audited, 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, the financial statements of the governmental activities and each major fund of Rochester STEM Academy, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated ____________, 2015.

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

In connection with our audit, nothing came to our attention that caused us to believe that Rochester STEM Academy failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions.* 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 Rochester STEM Academy's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

______________, 2015

- This page intentionally left blank -

AUDIT MANAGEMENT LETTER

To the Board of Directors
Rochester STEM Academy
Charter School No. 4204
Rochester, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Rochester STEM Academy (the School) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 3, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Results

Qualitative Aspects of Accounting Practices

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.

As described in Notes 4 and 9 to the financial statements, the School implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* for the year ended June 30, 2015. The most significant effect of this standard is that it required the School to record its proportionate share of the net pension liability of TRA and PERA on the School's government-wide financial statements. The liability was initially recorded by restating beginning net position, and has resulted in the School reporting a deficit in unrestricted net position at June 30, 2015. It should be noted that the School's contribution requirements to TRA and PERA have not changed as a result of this standard.

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 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. We believe the most sensitive estimate affecting the financial statements are the calculation of receivables due from Minnesota Department of Education and the factors used to calculate the net pension liability. Receivables due from Minnesota Department of Education are based on expenditures, reported enrollment and entitlements. Estimates relating to the net pension liabilities are based on actuarial studies. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Determining sensitivity is subjective, however, we believe the disclosure most likely to be considered sensitive is Note 9 – Changes in Accounting Principle.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no 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 clearly trivial, and communicate them to the appropriate level of management. There were no corrected nor uncorrected misstatements identified during the audit.

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 auditor's 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 __________, 2015.

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 auditor's 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.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the Budgetary Comparison Schedules, and the pension information which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express and opinion or provide any assurance on the RSI.

We were engaged to report on the Individual Fund Financial Statements and the Uniform Financial Accounting and Reporting Standards Compliance Table, which accompany the financial statements but are not RSI. With respect to the supplementary information, 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, 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 were not engaged to report on the Introductory Section, which accompanies the financial statements but is not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Other Reports

Various reports on compliance and internal controls are contained in the Other Required Reports section of the audited financial statements document. In those reports, we noted no reportable findings for the period under audit. The reader should refer to those reports for further detail.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of Rochester STEM Academy and is not intended to be, and should not be, used by anyone other than these specified parties.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

____________, 2015