

**ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

For The Year Ended June 30, 2014

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 CHARTER SCHOOL NO. 4204
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INTRODUCTORY SECTION

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BOARD OF DIRECTORS

<u>Name</u>	<u>Board Position During 2013-2014</u>
Jill Leet-Otley	Board Chair
Ryan Todd	Board Treasurer
Mohamoud Hamud	Board Vice-Chair
Abdulkadir Abdalla	Board Member
Ahmed Sugulle	Board Member

MANAGEMENT

<u>Name</u>	<u>Title</u>
Bryan Rossi	Director
Dieci School Finance, LLC	Business Manager

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FINANCIAL SECTION

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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, 2014, 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, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Rochester STEM Academy's 2013 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 1, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 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 and the budgetary comparison 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.



REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

November 11, 2014

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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, 2014. Please read it in conjunction with the School’s financial statements, which immediately follow this section. Certain comparative information between the current year (2013-2014) and the prior year (2012-2013) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2013-2014 fiscal year includes the following:

- Net revenues of \$1,170,450 were recognized and net expenses of \$1,143,903 were incurred, which resulted in a \$26,547 increase 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.

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

- Over time, increases or decreases in the School’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional non-financial factors such as changes in the School’s creditworthiness and the condition of school buildings and other facilities.

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

- Governmental activities – 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 \$200,264 and \$173,717 on June 30, 2014 and 2013, respectively. The School has ended the fiscal year with an increase in net position through careful budget planning and fiscal responsibility.

	June 30,	
	2014	2013
Current assets	\$226,396	\$204,719
Noncurrent assets	63,205	72,914
Total assets	<u>\$289,601</u>	<u>\$277,633</u>
Current liabilities	<u>\$89,337</u>	<u>\$103,916</u>
Net position:		
Net investment in capital assets	63,205	72,914
Unrestricted	<u>137,059</u>	<u>100,803</u>
Total net position	<u>\$200,264</u>	<u>\$173,717</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Changes in Net Assets

The School's total revenues were \$1,170,450 and \$1,021,558 for the years ended June 30, 2014 and 2013, respectively. Program revenues accounted for 30% and 36% of total revenue for these years, respectively. The cost of all government activities of 2014 and 2013 was \$1,143,903 and \$959,705, respectively.

	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ -	\$500
Operating grants and contributions	361,110	350,219
Capital grants and contributions	-	14,784
General revenues	809,340	656,055
Total revenues	<u>1,170,450</u>	<u>1,021,558</u>
Expenses:		
School support services	232,204	251,322
Regular instruction	402,838	300,073
Special education instruction	82,158	85,558
Instructional support services	3,552	12,762
Pupil support services	206,766	121,770
Site, building and equipment	205,212	182,268
Fiscal and other fixed costs	11,173	5,952
Total expenses	<u>1,143,903</u>	<u>959,705</u>
Change in net position	26,547	61,853
Net position - beginning	<u>173,717</u>	<u>111,864</u>
Net position - ending	<u><u>\$200,264</u></u>	<u><u>\$173,717</u></u>

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 \$1,170,450 and \$1,021,558 while total expenditures were \$1,134,194 and \$960,289 for 2014 and 2013, respectively. Financial information from the fund statements is as follows:

	2014		2013	
	General	Food Service	General	Food Service
Assets	\$212,008	\$14,388	\$204,719	\$1,975
Liabilities	74,949	14,388	103,916	1,975
Fund balance	<u>\$137,059</u>	<u>\$ -</u>	<u>\$100,803</u>	<u>\$ -</u>

	2014		2013	
	General	Food Service	General	Food Service
Revenue	\$1,097,350	\$73,100	\$968,793	\$52,765
Expenditures	1,033,486	100,708	889,722	70,567
Transfers	(27,608)	27,608	(17,802)	17,802
Change in fund balance	<u>\$36,256</u>	<u>\$0</u>	<u>\$61,269</u>	<u>\$0</u>

BUDGETARY COMPARISON – GENERAL FUND

An annual budget was legally adopted for the period ending June 30, 2014 with an ending change in fund balance of \$53,725. The actual change in fund balance for the period ending June 30, 2014 was \$36,256.

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 \$990,358 and were revised to \$1,112,135 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 \$1,097,350 which was under the budget by \$14,785.

Overall, actual expenditures were \$1,033,486 and were under budgeted expenditures for fiscal year 2014 by \$474.

CAPITAL ASSETS

The School’s capital assets consist mainly of computer and other technology equipment and leasehold improvements. There were capital asset additions totaling \$6,005 during fiscal year 2014.

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, 2014

With Comparative Amounts For June 30, 2013

	Governmental Activities	
	2014	2013
Assets:		
Cash	\$85,178	\$48,766
Due from other governments	134,646	128,463
Prepaid items	6,572	27,490
Capital assets (net of accumulated depreciation)	63,205	72,914
Total assets	<u>289,601</u>	<u>277,633</u>
Liabilities:		
Accounts payable	22,644	42,805
Salaries and taxes payable	66,693	61,111
Total liabilities	<u>89,337</u>	<u>103,916</u>
Net position:		
Net investment in capital assets	63,205	72,914
Unrestricted	137,059	100,803
Total net position	<u>\$200,264</u>	<u>\$173,717</u>

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, 2014

With Comparative Totals For The Year Ended June 30, 2013

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>2014</u>	<u>2013</u>
Governmental activities:						
School support services	\$232,204	\$ -	\$ -	\$ -	(\$232,204)	(\$251,322)
Regular instruction	402,838	-	90,428	-	(312,410)	(164,484)
Special education instruction	82,158	-	78,770	-	(3,388)	(4,283)
Instructional support services	3,552	-	-	-	(3,552)	(12,762)
Pupil support services	206,766	-	73,100	-	(133,666)	(69,005)
Site, building and equipment	205,212	-	118,812	-	(86,400)	(86,394)
Fiscal and other fixed costs	11,173	-	-	-	(11,173)	(5,952)
Total governmental activities	<u>\$1,143,903</u>	<u>\$0</u>	<u>\$361,110</u>	<u>\$0</u>	<u>(782,793)</u>	<u>(594,202)</u>
General revenues:						
Local sources					1,061	1,746
State sources					808,279	654,309
Total general revenues					<u>809,340</u>	<u>656,055</u>
Change in net position					26,547	61,853
Net position - beginning					<u>173,717</u>	<u>111,864</u>
Net position - ending					<u>\$200,264</u>	<u>\$173,717</u>

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, 2014
With Comparative Totals For June 30, 2013

	General	Food Service Fund	Total Governmental Funds	
			2014	2013
Assets:				
Cash	\$79,769	\$5,409	\$85,178	\$48,766
Due from Minnesota Department of Children, Families and Learning	114,474	235	114,709	104,797
Due from Federal Government through Minnesota Department of Education	11,193	8,744	19,937	23,666
Due from other funds	-	-	-	1,975
Prepaid items	6,572	-	6,572	27,490
Total assets	\$212,008	\$14,388	\$226,396	\$206,694
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$8,256	\$14,388	\$22,644	\$42,805
Salaries and taxes payable	66,693	-	66,693	61,111
Due to other funds	-	-	-	1,975
Total liabilities	74,949	14,388	89,337	105,891
Fund balance:				
Nonspendable - prepaid items	6,572	-	6,572	27,490
Unassigned	130,487	-	130,487	73,313
Total fund balance	137,059	0	137,059	100,803
Total liabilities and fund balance	\$212,008	\$14,388	\$226,396	\$206,694

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

Fund balance reported above	\$137,059	\$100,803
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds	63,205	72,914
Net position of governmental activities (Statement 1)	\$200,264	\$173,717

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, 2014

With Comparative Totals For The Year Ended June 30, 2013

	General	Food Service Fund	Total Governmental Funds	
			2014	2013
Revenues:				
Local sources	\$1,061	\$ -	\$1,061	\$2,246
State sources	1,012,832	1,979	1,014,811	823,048
Federal sources	83,457	71,121	154,578	196,264
Total revenues	<u>1,097,350</u>	<u>73,100</u>	<u>1,170,450</u>	<u>1,021,558</u>
Expenditures:				
Current:				
School support services	232,204	-	232,204	251,322
Regular instruction	390,336	-	390,336	288,698
Special education instruction	81,324	-	81,324	84,937
Instructional support services	3,552	-	3,552	12,762
Pupil support services	106,058	100,708	206,766	121,770
Site, building and equipment	202,834	-	202,834	180,064
Fiscal and other fixed costs	11,173	-	11,173	5,952
Capital outlay	6,005	-	6,005	14,784
Total expenditures	<u>1,033,486</u>	<u>100,708</u>	<u>1,134,194</u>	<u>960,289</u>
Revenues over (under) expenditures	<u>63,864</u>	<u>(27,608)</u>	<u>36,256</u>	<u>61,269</u>
Other financing sources (uses):				
Transfers in	-	27,608	27,608	17,802
Transfers out	(27,608)	-	(27,608)	(17,802)
Total other financing sources (uses)	<u>(27,608)</u>	<u>27,608</u>	<u>-</u>	<u>-</u>
Net change in fund balance	36,256	0	36,256	61,269
Fund balance - beginning	<u>100,803</u>	<u>-</u>	<u>100,803</u>	<u>39,534</u>
Fund balance - ending	<u>\$137,059</u>	<u>\$0</u>	<u>\$137,059</u>	<u>\$100,803</u>

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

Revenues over expenditures reported above	\$36,256	\$61,269
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	(15,714)	(14,200)
Capital outlay	<u>6,005</u>	<u>14,784</u>
Change in net position of governmental activities (Statement 2)	<u>\$26,547</u>	<u>\$61,853</u>

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

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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.

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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.

Governmental 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 \$2,208.

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 office 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. The School has no items that qualify for reporting in this category.

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. The School has no items that qualify for reporting in this category.

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, 2014, the targeted minimum unassigned fund balance for the General Fund was \$206,697. Actual unassigned fund balance in the General fund was \$130,487. 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 and liabilities in the School-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulation 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 statement 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 section 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, 2014, all deposit bank balances were fully insured or collateralized.

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

B. INVESTMENTS

Minnesota Statutes outline authorized investments for Charter Schools. During the year ended June 30, 2014, the School did not have any such investments.

Note 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, being depreciated:				
Furniture and equipment	\$72,231	\$6,005	\$ -	\$78,236
Leasehold improvements	21,366	-	-	21,366
Total capital assets, being depreciated	<u>93,597</u>	<u>6,005</u>	<u>0</u>	<u>99,602</u>
Less accumulated depreciation for:				
Furniture and equipment	17,518	13,604	-	31,122
Leasehold improvements	3,165	2,110	-	5,275
Total accumulated depreciation	<u>20,683</u>	<u>15,714</u>	<u>0</u>	<u>36,397</u>
Governmental activities capital assets - net	<u>\$72,914</u>	<u>(\$9,709)</u>	<u>\$0</u>	<u>\$63,205</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	\$12,502
Special education	834
Site, building and equipment	<u>2,378</u>
Total	<u>\$15,714</u>

Note 4 **PENSION PLANS**

A. TEACHERS' RETIREMENT ASSOCIATION (TRA)

PLAN DESCRIPTION

All teachers employed by the School are covered by defined benefit plans administered by the Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The plans are established and administered in accordance with Minnesota Statutes, Chapters 354 and 356. The School does not have any employees participating under the Basic Plan.

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

TRA publicly issues a Comprehensive Annual Financial Report (CAFR) presenting financial statements, supplemental information on funding levels, investment performance, and further information on benefits provisions. The report may be accessed at the TRA web site, www.minnesotatra.org. Alternatively, a copy of the report may be obtained by writing or calling TRA at 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-4000, (651)296-2409, (800)657-3669.

FUNDING POLICY

Minnesota Statutes Chapter 354 sets the rates for employee and employer contributions. These Statutes are established and amended by the State legislature. Coordinated Plan members are required to contribute 7% of their annual covered salary as employee contributions. The TRA employer contribution rate is 7% for Coordinated Plan members. The School is required to contribute 7% of annual covered payroll. The School's contribution for the years ended June 30, 2014, 2013, and 2012 were \$15,588, \$17,968 and \$17,908, equal to the required contribution as set by State Statute.

The 2010 Legislature approved employee and employer contribution rate increases to be phased-in over a four-year period beginning July 1, 2011. Employee and employer contribution rates will rise 0.5 percent on July 1 of each year of the four-year period. Beginning July 1, 2014, TRA Coordinated employee and employer contribution rates will each be 7.5 percent.

B. PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION (PERA)

PLAN DESCRIPTION

All full-time and certain part-time employees of the School (other than teachers) are covered by a defined benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This Plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan. The School does not have any employees participating under the Basic Plan.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by State Statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age and years of credit at termination of service.

The benefit provisions stated in the previous paragraphs of this section 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for GERF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA, 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088 or by calling (651)296-7460 or (800)652-9026.

FUNDING POLICY

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the State legislature. The School makes annual contributions to the pension plans equal to the amount required by State Statutes. GERF Coordinated Plan members are required to contribute 6.25% of their annual covered salary. The School was required to contribute 7.25% of annual covered payroll. The School's contribution to the Public Employees Retirement Fund for the years ending June 30, 2014, 2013, and 2012 were \$9,635, \$10,296 and \$9,565, which was equal to the contractually required contribution as set by State Statute.

Note 5 INTERFUND ACTIVITY

During 2014, the School made a routine transfer of \$27,608 to eliminate a deficit in the Food Service Fund.

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. Rent expense for the year ended June 30, 2014 was \$132,000. On June 27, 2013, the School’s lease agreement was amended for periods beginning July 1, 2013 through June 30, 2014. Total rent per month was amended to be \$11,000 per month. The future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$205,800
2016	<u>205,800</u>
Total	<u><u>\$411,600</u></u>

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.

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 in any of the School's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past two 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. At June 30, 2014, there was no amount drawn on the line of credit and the rate was 5.5%.

During the course of the fiscal year, the School drew on the line of credit as follows:

	Beginning Balance <u>June 30, 2013</u>	Total Advances <u> </u>	Total Repayments <u> </u>	Ending Balance <u>June 30, 2014</u>
Venture Bank Line of Credit	\$ -	\$50,000	\$50,000	\$ -

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REQUIRED SUPPLEMENTARY INFORMATION

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 For The Year Ended June 30, 2014
 With Comparative Actual Amounts For The Year Ended June 30, 2013

	2014				2013 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Revenues:					
Local sources	\$355	\$14,940	\$1,061	(\$13,879)	\$1,746
State sources	921,639	1,007,194	1,012,832	5,638	821,592
Federal sources	68,364	90,001	83,457	(6,544)	145,455
Total revenues	<u>990,358</u>	<u>1,112,135</u>	<u>1,097,350</u>	<u>(14,785)</u>	<u>968,793</u>
Expenditures:					
School support services:					
Current:					
Salaries and wages	133,471	61,062	65,373	4,311	128,929
Employee benefits	48,502	15,559	20,347	4,788	33,704
Purchased services	96,035	157,319	139,785	(17,534)	81,952
Supplies and materials	7,339	2,385	3,612	1,227	3,336
Other expenditures	-	335	3,087	2,752	3,401
Capital expenditures	-	-	-	-	-
Total School support services	<u>285,347</u>	<u>236,660</u>	<u>232,204</u>	<u>(4,456)</u>	<u>251,322</u>
Regular instruction:					
Current:					
Salaries and wages	215,919	251,824	243,802	(8,022)	200,301
Employee benefits	49,701	62,621	60,427	(2,194)	49,407
Purchased services	20,000	35,000	57,320	22,320	16,126
Supplies and materials	27,100	34,942	27,875	(7,067)	20,989
Other expenditures	5,000	5,000	912	(4,088)	1,875
Capital expenditures	12,350	7,371	4,267	(3,104)	11,867
Total regular instruction	<u>330,070</u>	<u>396,758</u>	<u>394,603</u>	<u>(2,155)</u>	<u>300,565</u>
Special education instruction:					
Current:					
Salaries and wages	56,486	58,824	52,746	(6,078)	57,298
Employee benefits	13,784	17,070	15,306	(1,764)	13,566
Purchased services	3,000	3,721	5,434	1,713	3,122
Supplies and materials	8,467	6,145	5,815	(330)	8,800
Other expenditures	3,000	1,500	2,023	523	2,151
Capital expenditures	3,000	-	-	-	2,917
Total special education instruction	<u>87,737</u>	<u>87,260</u>	<u>81,324</u>	<u>(5,936)</u>	<u>87,854</u>
Instructional support services:					
Current:					
Salaries and wages	3,048	1,267	1,267	-	9,570
Employee benefits	432	186	194	8	1,355
Purchased services	2,000	2,440	2,091	(349)	1,837
Other expenditures	800	-	-	-	-
Total instructional support services	<u>6,280</u>	<u>3,893</u>	<u>3,552</u>	<u>(341)</u>	<u>12,762</u>

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 For The Year Ended June 30, 2014
 With Comparative Actual Amounts For The Year Ended June 30, 2013

	2014				2013 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Pupil support services:					
Current:					
Salaries and wages	\$ -	\$12,600	\$12,600	\$ -	\$ -
Employee benefits	-	2,342	2,167	(175)	-
Purchased services	53,200	83,500	91,291	7,791	51,203
Total pupil support services	53,200	98,442	106,058	7,616	51,203
Site, building and equipment:					
Current:					
Salaries and wages	14,420	14,700	14,700	-	14,000
Employee benefits	2,148	2,730	2,509	(221)	2,520
Purchased services	170,400	181,400	182,593	1,193	160,226
Supplies and materials	5,000	5,117	3,032	(2,085)	3,318
Capital expenditures	769	-	1,738	1,738	-
Total site, building and equipment	192,737	203,947	204,572	625	180,064
Fiscal and other fixed costs:					
Current:					
Purchased services	6,000	6,000	11,173	5,173	5,952
Debt service	3,000	1,000	-	(1,000)	-
Total fiscal and other fixed costs	9,000	7,000	11,173	4,173	5,952
Total expenditures	964,371	1,033,960	1,033,486	(474)	889,722
Revenues over (under) expenditures	25,987	78,175	63,864	(14,311)	79,071
Other financing (uses):					
Transfer to Food Service Fund	(21,500)	(24,450)	(27,608)	(3,158)	(17,802)
Net change in fund balance	\$4,487	\$53,725	36,256	(\$17,469)	61,269
Fund balance (deficit) - beginning			100,803		39,534
Fund balance - ending			\$137,059		\$100,803

**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, 2014
With Comparative Actual Amounts For The Year Ended June 30, 2013

	2014			Variance with Final Budget - Over (Under)	2013 Actual Amounts
	Budgeted Amounts		Actual Amounts		
	Original	Final			
Revenues:					
Local sources	\$1,000	\$1,000	\$ -	(\$1,000)	\$500
State sources	1,550	2,050	1,979	(71)	1,456
Federal sources	51,200	71,000	71,121	121	50,809
Total revenues	<u>53,750</u>	<u>74,050</u>	<u>73,100</u>	<u>(950)</u>	<u>52,765</u>
Expenditures:					
Pupil support services:					
Current:					
Purchased services	7,000	11,000	13,744	2,744	7,740
Supplies and materials	<u>68,250</u>	<u>87,500</u>	<u>86,964</u>	<u>(536)</u>	<u>62,827</u>
Total expenditures	<u>75,250</u>	<u>98,500</u>	<u>100,708</u>	<u>2,208</u>	<u>70,567</u>
Revenues over (under) expenditures	(21,500)	(24,450)	(27,608)	(3,158)	(17,802)
Other financing sources:					
Transfer from General Fund	<u>21,500</u>	<u>24,450</u>	<u>27,608</u>	<u>3,158</u>	<u>17,802</u>
Net change in fund balance	<u>\$0</u>	<u>\$0</u>	0	<u>\$0</u>	0
Fund balance - beginning			-		-
Fund balance - ending			<u>\$0</u>		<u>\$0</u>

**ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
June 30, 2014**

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.

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INDIVIDUAL FUND STATEMENTS

**ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204**

Statement 7

BALANCE SHEET - GENERAL FUND

June 30, 2014

With Comparative Amounts For June 30, 2013

	<u>2014</u>	<u>2013</u>
Assets:		
Cash	\$79,769	\$48,766
Due from Minnesota Department of Children, Families and Learning	114,474	104,732
Due from Federal Government through Minnesota Department of Education	11,193	21,756
Due from other funds	-	1,975
Prepaid items	<u>6,572</u>	<u>27,490</u>
Total assets	<u><u>\$212,008</u></u>	<u><u>\$204,719</u></u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$8,256	42,805
Salaries and taxes payable	<u>66,693</u>	<u>61,111</u>
Total liabilities	<u>74,949</u>	<u>103,916</u>
Fund balance:		
Nonspendable - prepaid items	6,572	27,490
Unassigned	<u>130,487</u>	<u>73,313</u>
Total fund balance	<u>137,059</u>	<u>100,803</u>
Total liabilities and fund balance	<u><u>\$212,008</u></u>	<u><u>\$204,719</u></u>

**ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204**

Statement 8

BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND

June 30, 2014

With Comparative Amounts For June 30, 2013

	<u>2014</u>	<u>2013</u>
Assets:		
Cash	\$5,409	\$ -
Due from Minnesota Department of Children, Families and Learning	235	65
Due from Federal Government through Minnesota Department of Education	<u>8,744</u>	<u>1,910</u>
Total assets	<u><u>\$14,388</u></u>	<u><u>\$1,975</u></u>
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	\$14,388	\$ -
Due to other funds	<u>-</u>	<u>1,975</u>
Total liabilities	14,388	1,975
Fund balance:		
Unassigned	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u><u>\$0</u></u>	<u><u>\$1,975</u></u>

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SUPPLEMENTAL INFORMATION

	Audit	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$1,097,350	\$1,097,349	\$1	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	1,033,486	1,033,484	2	Total Expenditures	-	-	-
<i>Non-Spendable:</i>				<i>Non-Spendable:</i>			
4.60 Non Spendable Fund Balance	6,572	6,572	-	4.60 Non Spendable Fund Balance	-	-	-
<i>Restricted/Reserve:</i>				<i>Restricted/Reserve:</i>			
4.03 Staff Development	-	-	-	4.07 Capital Projects Levy	-	-	-
4.05 Deferred Maintenance	-	-	-	4.09 Alternative Fac. Program	-	-	-
4.06 Health and Safety	-	-	-	4.13 Projects Funded By COP	-	-	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Revenue	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.14 Operating Debt	-	-	-	<i>Unassigned:</i>			
4.16 Levy Reduction	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.17 Taconite Building Maint	-	-	-				
4.23 Certain Teacher Programs	-	-	-	07 DEBT SERVICE			
4.24 Operating Capital	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.26 \$25 Taconite	-	-	-	Total Expenditures	-	-	-
4.27 Disabled Accessibility	-	-	-	<i>Non-Spendable:</i>			
4.28 Learning and Development	-	-	-	4.60 Non Spendable Fund Balance	-	-	-
4.34 Area Learning Center	-	-	-	<i>Restricted/Reserve:</i>			
4.35 Contracted Alt. Programs	-	-	-	4.25 Bond Refundings	-	-	-
4.36 St. Approved Alt. Program	-	-	-	4.51 QZAB Payments	-	-	-
4.38 Gifted & Talented	-	-	-	<i>Restricted:</i>			
4.41 Basic Skills Programs	-	-	-	4.64 Restricted Fund Balance	-	-	-
4.45 Career & Tech Programs	-	-	-	<i>Unassigned:</i>			
4.49 Safe School Crime	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.50 Pre-Kindergarten	-	-	-				
4.51 QZAB Payments	-	-	-	08 TRUST			
4.52 OPEB Liab Not In Trust	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.53 Unfunded Sev & Retiremt Levy	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.64 Restricted Fund Balance	-	-	-				
<i>Committed:</i>				20 INTERNAL SERVICE			
4.18 Committed For Separation	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.61 Committed Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Assigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.62 Assigned Fund Balance	-	-	-				
<i>Unassigned:</i>				25 OPEB REVOCABLE TRUST			
4.22 Unassigned Fund Balance	130,487	130,488	(1)	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	-	-	-
02 FOOD SERVICE				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
Total Revenue	\$73,100	\$73,099	\$1				
Total Expenditures	100,708	100,707	1	45 OPEB IRREVOCABLE TRUST			
<i>Non-Spendable:</i>				Total Revenue	\$ -	\$ -	\$ -
4.60 Non Spendable Fund Balance	-	-	-	Total Expenditures	-	-	-
<i>Restricted/Reserve:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-				
<i>Restricted:</i>				47 OPEB DEBT SERVICE FUND			
4.64 Restricted Fund Balance	-	-	-	Total Revenue	\$ -	\$ -	\$ -
<i>Unassigned:</i>				Total Expenditures	-	-	-
4.63 Unassigned Fund Balance	-	-	-	<i>Non-Spendable:</i>			
				4.60 Non Spendable Fund Balance	-	-	-
04 COMMUNITY SERVICE				<i>Restricted:</i>			
Total Revenue	\$ -	\$ -	\$ -	4.25 Bond Refundings	-	-	-
Total Expenditures	-	-	-	4.64 Restricted Fund Balance	-	-	-
<i>Restricted/Reserve:</i>				<i>Unassigned:</i>			
4.26 \$25 Taconite	-	-	-	4.63 Unassigned Fund Balance	-	-	-
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	-	-	-				
<i>Restricted:</i>							
4.64 Restricted Fund Balance	-	-	-				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	-	-	-				

OTHER REQUIRED REPORTS

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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, 2014, 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 November 11, 2014.

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

November 11, 2014



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, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2014.

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.

A handwritten signature in black ink that reads "Redpath and Company, Ltd." in a cursive script.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

November 11, 2014

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