

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

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

For The Year Ended June 30, 2016

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**ROCHESTER STEM ACADEMY
 CHARTER SCHOOL NO. 4204
 TABLE OF CONTENTS**

	<u>Reference</u>	<u>Page Number</u>
INTRODUCTORY SECTION		
School Board and Management		3
FINANCIAL SECTION		
Independent Auditor's Report		7
Management's Discussion and Analysis		11
Basic Financial Statements:		
School-Wide Financial Statements:		
Statement of Net Position	Statement 1	18
Statement of Activities	Statement 2	19
Fund Financial Statements:		
Balance Sheet - Governmental Funds	Statement 3	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	Statement 4	21
Notes to Financial Statements		23
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule - General Fund	Statement 5	40
Budgetary Comparison Schedule - Food Service Special Revenue Fund	Statement 6	42
Schedule of Proportionate Share of Net Pension Liability		43
Schedule of Pension Contributions		44
Notes to RSI		45
INDIVIDUAL FUND FINANCIAL STATEMENTS		
Balance Sheet - General Fund	Statement 7	48
Balance Sheet - Food Service Special Revenue Fund	Statement 8	49
SUPPLEMENTAL INFORMATION		
Uniform Financial Accounting and Reporting Standards - Compliance Table	Schedule 1	52
OTHER REQUIRED REPORTS		
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 <i>Government Auditing Standards</i>		55
Minnesota Legal Compliance Report		57

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INTRODUCTORY SECTION

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BOARD OF DIRECTORS

<u>Name</u>	<u>Board Position During 2015-2016</u>
Mohamoud Hamud	Board Chair
Abdulkadir Abdalla	Board Treasurer
Zachary Jones	Board Vice-Chair
Abdullahi Yare	Board Member
Mohamed Abdalla	Board Member

MANAGEMENT

<u>Name</u>	<u>Title</u>
Bryan Rossi Dieci School Finance, LLC	Director 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, 2016, 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, 2016, 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.

Report on Summarized Comparative Information

We have previously audited Rochester STEM Academy's 2015 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 12, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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, budgetary comparison information, and 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund 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 October 21, 2016, 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.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

October 21, 2016

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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 the fiscal year ended June 30, 2016. Please read it in conjunction with the School’s financial statements, which immediately follow this section. Certain comparative information between the current year (2015-2016) and the prior year (2014-2015) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2015-2016 fiscal year includes the following:

- Net revenues of \$1,187,894 were recognized and net expenses of \$1,262,397 were incurred, which resulted in a \$74,503 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.

MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)

- 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 (\$332,570) and (\$258,067) on June 30, 2016 and 2015, respectively.

	June 30,	
	2016	2015
Current assets	\$380,174	\$195,196
Noncurrent assets	34,985	51,423
Deferred outflows of resources	142,909	66,925
Total assets and deferred outflows	<u>\$558,068</u>	<u>\$313,544</u>
Current liabilities	\$306,639	\$68,718
Noncurrent liabilities	503,898	343,225
Deferred inflows of resources	80,101	159,668
Total liabilities and deferred inflows	<u>890,638</u>	<u>571,611</u>
Net position:		
Net investment in capital assets	34,985	51,423
Unrestricted	<u>(367,555)</u>	<u>(309,490)</u>
Total net position	<u><u>(\$332,570)</u></u>	<u><u>(\$258,067)</u></u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Changes in Net Assets

The School's total revenues were \$1,187,894 and \$1,187,679 for the years ended June 30, 2016 and 2015, respectively. Program revenues accounted for 34% and 27% of total revenue for these years, respectively. The cost of all government activities of 2016 and 2015 was \$1,262,397 and \$1,185,176, respectively.

	<u>2016</u>	<u>2015</u>
Revenues:		
Program revenues:		
Operating grants and contributions	\$339,852	\$317,074
General revenues	848,042	870,605
Total revenues	<u>1,187,894</u>	<u>1,187,679</u>
Expenses:		
School support services	243,748	245,085
Regular instruction	444,498	425,256
Special education instruction	146,966	77,178
Instructional support services	91	-
Pupil support services	222,222	207,799
Site, building and equipment	196,334	220,856
Fiscal and other fixed costs	8,538	9,002
Total expenses	<u>1,262,397</u>	<u>1,185,176</u>
Change in net position	(74,503)	2,503
Net position - beginning	(258,067)	200,264
Prior period adjustment	-	(460,834)
Net position - beginning, as restated	<u>(258,067)</u>	<u>(260,570)</u>
Net position - ending	<u>(\$332,570)</u>	<u>(\$258,067)</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 \$1,180,127 and \$1,186,992 while total expenditures were \$1,233,070 and \$1,197,573 for 2016 and 2015, respectively. Financial information from the fund statements is as follows:

	2016		2015	
	General	Food Service	General	Food Service
Assets	\$378,706	\$8,573	\$193,756	\$3,679
Liabilities	305,171	8,573	67,278	3,679
Fund balance	<u>\$73,535</u>	<u>\$ -</u>	<u>\$126,478</u>	<u>\$ -</u>

	2016		2015	
	General	Food Service	General	Food Service
Revenues	\$1,122,172	\$57,955	\$1,115,807	\$71,185
Expenditures	1,134,350	98,720	1,094,356	103,217
Transfers	(40,765)	40,765	(32,032)	32,032
Change in fund balance	<u>(\$52,943)</u>	<u>\$ -</u>	<u>(\$10,581)</u>	<u>\$ -</u>

BUDGETARY COMPARISON – GENERAL FUND

An annual budget was legally adopted for the period ending June 30, 2016 with an ending change in fund balance of (\$30,930). The actual change in fund balance for the period ending June 30, 2016 was (\$52,943).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

Projected revenues were at \$1,353,580 and were revised to \$1,139,947 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 \$1,122,172 which was under the budget by \$17,775.

Overall, actual expenditures were \$1,134,350 and were under budgeted expenditures for fiscal year 2016 by \$2,979.

CAPITAL ASSETS

The School's capital assets consist mainly of computer and other technology equipment and leasehold improvements. There were no capital asset additions during fiscal year 2016.

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, 2016

With Comparative Amounts For June 30, 2015

	Governmental Activities	
	2016	2015
Assets:		
Cash	\$262,056	\$60,543
Accounts receivable	-	417
Due from other governments	95,039	107,310
Prepaid items	23,079	26,926
Capital assets (net of accumulated depreciation)	34,985	51,423
Total assets	<u>415,159</u>	<u>246,619</u>
Deferred outflows of resources:		
Related to pensions	<u>142,909</u>	<u>66,925</u>
Total assets and deferred outflows of resources	<u>\$558,068</u>	<u>\$313,544</u>
Liabilities:		
Accounts payable	\$15,695	\$4,016
Salaries and taxes payable	60,259	62,588
Unearned revenue	230,685	2,114
Net pension liability, due in more than one year	503,898	343,225
Total liabilities	<u>810,537</u>	<u>411,943</u>
Deferred inflows of resources:		
Related to pensions	<u>80,101</u>	<u>159,668</u>
Net position:		
Net investment in capital assets	34,985	51,423
Unrestricted	(367,555)	(309,490)
Total net position	<u>(332,570)</u>	<u>(258,067)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$558,068</u>	<u>\$313,544</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, 2016

With Comparative Totals For The Year Ended June 30, 2015

<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>2016</u>	<u>2015</u>
Governmental activities:					
School support services	\$243,748	\$ -	\$ -	(\$243,748)	(\$245,085)
Regular instruction	444,498	-	38,619	(405,879)	(375,887)
Special education instruction	146,966	-	142,083	(4,883)	(6,802)
Instructional support services	91	-	-	(91)	-
Pupil support services	222,222	-	57,955	(164,267)	(136,614)
Site, building and equipment	196,334	-	101,195	(95,139)	(94,712)
Fiscal and other fixed costs	8,538	-	-	(8,538)	(9,002)
Total governmental activities	<u>\$1,262,397</u>	<u>\$0</u>	<u>\$339,852</u>	<u>(922,545)</u>	<u>(868,102)</u>
General revenues:					
Local sources				10,264	86
State sources				837,778	870,519
Total general revenues				<u>848,042</u>	<u>870,605</u>
Change in net position				<u>(74,503)</u>	<u>2,503</u>
Net position - beginning, as previously reported				(258,067)	200,264
Prior period adjustment				-	(460,834)
Net position - beginning, as restated				<u>(258,067)</u>	<u>(260,570)</u>
Net position - ending				<u>(\$332,570)</u>	<u>(\$258,067)</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, 2016

With Comparative Totals For June 30, 2015

	General Fund	Food Service Fund	Total Governmental Funds	
			2016	2015
Assets:				
Cash	\$262,056	\$ -	\$262,056	\$60,543
Accounts receivable	-	-	-	417
Due from Minnesota Department of Education	26,087	220	26,307	65,605
Due from Federal Government through Minnesota Department of Education	60,379	8,353	68,732	41,705
Due from other funds	7,105	-	7,105	2,239
Prepaid items	23,079	-	23,079	26,926
	<u>\$378,706</u>	<u>\$8,573</u>	<u>\$387,279</u>	<u>\$197,435</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$15,695	\$ -	\$15,695	\$4,016
Salaries and taxes payable	58,791	1,468	60,259	62,588
Unearned revenue	230,685	-	230,685	2,114
Due to other funds	-	7,105	7,105	2,239
Total liabilities	<u>305,171</u>	<u>8,573</u>	<u>313,744</u>	<u>70,957</u>
Fund balance:				
Nonspendable - prepaid items	23,079	-	23,079	26,926
Unassigned	50,456	-	50,456	99,552
Total fund balance	<u>73,535</u>	<u>0</u>	<u>73,535</u>	<u>126,478</u>
Total liabilities and fund balance	<u>\$378,706</u>	<u>\$8,573</u>	<u>\$387,279</u>	<u>\$197,435</u>

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

Fund balance reported above	\$73,535	\$126,478
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds	34,985	51,423
Deferred outflows of resources related to pensions	142,909	66,925
Net pension liability is not due and payable in the current period and, therefore, is not reported in the funds	(503,898)	(343,225)
Deferred inflows of resources related to pensions	<u>(80,101)</u>	<u>(159,668)</u>
Net position of governmental activities (Statement 1)	<u>(\$332,570)</u>	<u>(\$258,067)</u>

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, 2016

With Comparative Totals For The Year Ended June 30, 2015

	General	Food Service Fund	Total Governmental Funds	
			2016	2015
Revenues:				
Local sources	\$10,264	\$ -	\$10,264	\$86
State sources	1,051,529	1,470	1,052,999	1,078,845
Federal sources	60,379	56,485	116,864	108,061
Total revenues	<u>1,122,172</u>	<u>57,955</u>	<u>1,180,127</u>	<u>1,186,992</u>
Expenditures:				
Current:				
School support services	241,323	-	241,323	251,066
Regular instruction	425,328	-	425,328	428,547
Special education instruction	143,325	-	143,325	78,668
Instructional support services	91	-	91	-
Pupil support services	123,067	98,720	221,787	207,643
Site, building and equipment	192,678	-	192,678	218,213
Fiscal and other fixed costs	8,538	-	8,538	9,002
Capital outlay	-	-	-	4,434
Total expenditures	<u>1,134,350</u>	<u>98,720</u>	<u>1,233,070</u>	<u>1,197,573</u>
Revenues over (under) expenditures	<u>(12,178)</u>	<u>(40,765)</u>	<u>(52,943)</u>	<u>(10,581)</u>
Other financing sources (uses):				
Transfers in	-	40,765	40,765	32,032
Transfers out	<u>(40,765)</u>	-	<u>(40,765)</u>	<u>(32,032)</u>
Total other financing sources (uses)	<u>(40,765)</u>	<u>40,765</u>	<u>-</u>	<u>-</u>
Net change in fund balance	(52,943)	0	(52,943)	(10,581)
Fund balance - beginning	<u>126,478</u>	-	<u>126,478</u>	<u>137,059</u>
Fund balance - ending	<u>\$73,535</u>	<u>\$0</u>	<u>\$73,535</u>	<u>\$126,478</u>

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

Revenues over expenditures reported above		(\$52,943)	(\$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		(16,438)	(16,216)
Capital outlay		-	4,434
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities		<u>(5,122)</u>	<u>24,866</u>
Change in net position of governmental activities (Statement 2)		<u>(\$74,503)</u>	<u>\$2,503</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. SCHOOL-WIDE AND FUND FINANCIAL STATEMENTS

The school-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* are also identifiable with a specific function and include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. 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 school-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.

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.

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 \$3,934.

F. CASH

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from pooled cash balances 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 school-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 school-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 acquisition 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, 2016, the targeted minimum unassigned fund balance for the General Fund was \$226,870. Actual unassigned fund balance in the General Fund was \$50,456. 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.

S. FAIR VALUE OF FINANCIAL INSTRUMENTS

The School defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date. To determine fair value, the School uses a fair value hierarchy categorized into three levels based on the inputs used. Generally, the three levels are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – Significant other observable inputs.
- Level 3 – Significant unobservable inputs.

The School does not have any significant fair value measurements as of June 30, 2016.

Note 2 DEPOSITS AND INVESTMENTS

A. DEPOSITS

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, 2016, all deposit bank balances were fully insured or collateralized.

**ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204**
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

B. INVESTMENTS

Minnesota statutes outline authorized investments for charter schools. During 2016, the School did not have any such investments.

Note 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, being depreciated:				
Furniture and equipment	\$78,236	\$ -	\$ -	\$78,236
Leasehold improvements	25,800	-	-	25,800
Total capital assets, being depreciated	<u>104,036</u>	<u>0</u>	<u>0</u>	<u>104,036</u>
Less accumulated depreciation for:				
Furniture and equipment	45,006	13,884	-	58,890
Leasehold improvements	7,607	2,554	-	10,161
Total accumulated depreciation	<u>52,613</u>	<u>16,438</u>	<u>0</u>	<u>69,051</u>
Governmental activities capital assets - net	<u>\$51,423</u>	<u>(\$16,438)</u>	<u>\$0</u>	<u>\$34,985</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	\$12,609
Special education instruction	834
Site, building and equipment	<u>2,995</u>
Total	<u>\$16,438</u>

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), both of which are cost-sharing multiple-employer defined benefit pension plans administered on a statewide basis. Disclosures relating to these plans are as follows:

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 PERA and additions to/deductions from TRA's and PERA's fiduciary net position have been determined on the same basis as they are reported by TRA and 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.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association in 2015. Additional information can be found in section E.

B. PLAN DESCRIPTIONS

The School participates in TRA's Basic Plan (without Social Security coverage) and its 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.

The School also participates in the General Employees Retirement Plan (GERF), which is administered by PERA 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 Basic Plan (without Social Security coverage) or the Coordinated Plan (with Social Security coverage). The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

C. BENEFITS PROVIDED

TRA

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 (Tier I and Tier II) are used to compute benefits for TRA's Basic and Coordinated Plan members.

Tier I Benefits – a step rate formula of 2.2% per year for the first ten years of service and 2.7% for all other years is applied for Basic Plan members. For years of service prior to July 1, 2006, a step rate formula of 1.2% per year for the first ten years of service and 1.7% for all other years is applied for Coordinated Plan members. For years of service July 1, 2006 and after, a step rate formula of 1.4% per year for the first ten years of service and 1.9% for all other years is applies.

Tier II Benefits – for years of service prior to July 1, 2006, a level formula of 1.7% per year for Coordinated Plan members and 2.7% per year for Basic Plan members is applied. For years of

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated Plan members and 2.7% per year for Basic Plan 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 before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described. 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.

PERA

PERA provides retirement, disability, and death benefits. Benefit provisions are established by Minnesota 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 the member's highest average salary for any five successive years of allowable service.

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

D. CONTRIBUTIONS

Employee and employer contribution rates are established by Minnesota Statutes. Rates for the years ended June 30, 2015 and 2016 are as follows:

	<u>Employee</u>	<u>Employer</u>
TRA - Basic Plan	11.0%	11.5%
TRA - Coordinated Plan	7.5%	7.5%
PERA - Basic Plan	9.1%	11.78%
PERA - Coordinated Plan	6.5%	7.5%

The School's contributions to TRA and PERA were equal to the required contributions as set by state statute. Contributions to TRA and PERA for the previous two fiscal years were as follows:

<u>Year Ended</u>	<u>TRA</u>	<u>PERA</u>
June 30, 2016	\$26,571	\$12,181
June 30, 2015	22,025	11,729

E. MERGER OF DULUTH TEACHER'S RETIREMENT FUND ASSOCIATION (DTRFA)

Legislation enacted in 2014 merged the DTRFA with TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	<u>TRA CAFR</u>	<u>Restated</u>
	<u>June 30, 2014</u>	
Total pension liability	\$24,901,612,000	\$25,299,564,000
Plan fiduciary net position	20,293,684,000	20,519,756,000
Net pension liability	<u>\$4,607,928,000</u>	<u>\$4,779,808,000</u>

F. NET PENSION LIABILITY AND PENSION EXPENSE

The net pension liability reported at June 30, 2016 was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of the measurement date. The School's proportionate share of the net pension liability was based on its contributions to each respective plan in relation to total contributions to the plan. For TRA, total contributions to the plan include direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. Pension-related assets reported by the School relating to TRA and PERA are \$0.

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

The School's net pension liability, its proportionate share of the plan's net pension liability, and pension expense as of and for the year ended June 30, 2016 are as follows:

	<u>TRA</u>	<u>PERA</u>	<u>Total</u>
Net pension liability	\$358,787	\$145,111	\$503,898
Proportionate share of net pension liability:			
Measurement date	0.0058%	0.0028%	
Prior measurement date	0.0049%	0.0025%	
Pension expense	\$32,526	\$19,115	\$51,641

The pension liability related to TRA 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 direct aid, and the total portion of the net pension liability that was associated with the School were \$358,787, \$43,931 and \$402,718, respectively. In addition, pension expense related to TRA includes recognition of \$7,767 as an increase to pension expense for the support provided by direct aid.

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

G. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

At June 30, 2016, the School reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience:		
TRA	\$15,585	\$ -
PERA	1,201	7,316
Difference between projected and actual investment earnings:		
TRA	-	17,662
PERA	-	10,062
Changes in actuarial assumptions:		
TRA	27,581	-
PERA	8,069	-
Changes in proportion:		
TRA	41,152	45,061
PERA	10,569	-
Contributions paid subsequent to the measurement date:		
TRA	26,571	-
PERA	12,181	-
Total	<u>\$142,909</u>	<u>\$80,101</u>

Amounts reported as deferred outflows of resources resulting from the School's contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense during the following years:

Year	<u>Pension Expense</u>		
	<u>TRA</u>	<u>PERA</u>	<u>Total</u>
2017	\$548	\$1,220	\$1,768
2018	548	1,220	1,768
2019	550	(3,414)	(2,864)
2020	19,949	3,435	23,384

H. ACTUARIAL ASSUMPTIONS

TRA

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Information

Measurement date	June 30, 2015
Valuation date	July 1, 2015
Experience study	October 30, 2009
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	8.00%
Wage inflation	3.0%
Projected salary increase	3.5 - 12%, based on years of service
Cost of living adjustment	2.0%

Mortality Assumption

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortality, without adjustment.

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 be 2% annually with no increase to 2.5% projected. The prior year valuation assumed a 2.5% increase commencing July 1, 2034. Also, the assumed investment rate of return and the discount rate used to measure the net pension liability was reduced from 8.25% at the prior measurement date to 8.0% at the current measurement date.

The actuarial assumptions used in the June 30, 2015 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

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

(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.

PERA

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Measurement date	June 30, 2015
Valuation date	June 30, 2015
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. Cost of living benefit increases for retirees are assumed to be 1% effective every January 1st until 2034 and 2.5% thereafter.

Actuarial assumptions used in the June 30, 2015 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. There were no changes in actuarial assumptions in 2015.

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.

TRA and PERA

The target allocation and best estimates of 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%	

I. DISCOUNT RATE

The discount rates used to measure the total pension liability for TRA and PERA were 8.0% and 7.9%, respectively. The Legislature has since set the discount rate in statute at 8%. Beginning with the June 30, 2016 measurement date, the discount rate used when calculating the total net pension liability for PERA will be increased to 8% to be consistent with the rate set in statute used for funding progress.

The projection of cash flows used to determine the discount rate assumed that employee, employer, and state contributions, if any, will be made at current statutorily required rates. Based on those assumptions, 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.

J. PENSION LIABILITY SENSITIVITY

The following presents the School’s proportionate share of the net pension liability calculated using the discount rate for each plan, as well as the liability measured using one percent lower (7.0% for TRA; 6.9% for PERA) and one percent higher (9.0% for TRA; 8.9% for PERA).

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
TRA	\$546,121	\$358,787	\$202,452
PERA	\$228,165	\$145,111	\$76,520

K. PENSION PLAN FIDUCIARY NET POSITION

Detailed information about TRA’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; or by calling 651-296-2409 or 1-800-657-3669.

Detailed information about PERA’s fiduciary net position is available in a separately issued PERA financial report. That report may be obtained at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, St. Paul, MN, 55103; or by calling 651-296-7460 or 1-800-652-9026.

Note 5 INTERFUND ACTIVITY

During 2016, the School made a routine transfer of \$40,765 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 \$7,105 to cover negative cash.

Note 6 LINE OF CREDIT

The School has a line of credit with Venture Bank for short-term cash flow needs. The line has a maximum amount of \$100,000 with a variable interest rate equal to the prime rate plus 1%, with a 5.5% minimum, and maturity date of September 17, 2016. As of June 30, 2016, the line had a balance of \$0, an annual rate of 5.5% and there was no activity during the year. It is secured by the School's assets.

Note 7 COMMITMENTS AND CONTINGENCIES

A. LEASE COMMITMENTS AND TERMS

Base rent expense for the year ended June 30, 2016 was \$163,248. The School has a lease for office and classroom space through June 30, 2017. The lease calls for monthly rent of \$13,870 plus \$3,880 in CAM charges. Total expected payments for fiscal year 2017 are \$213,000.

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 the Uniform Guidance under 2 CFR 200, or audits by the grantor agency.

Note 8 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.

REQUIRED SUPPLEMENTARY INFORMATION

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 For The Year Ended June 30, 2016
 With Comparative Actual Amounts For The Year Ended June 30, 2015

	2016				2015 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Revenues:					
Local sources	\$255	\$7,005	\$10,264	\$3,259	\$86
State sources	1,300,400	1,071,217	1,051,529	(19,688)	1,077,183
Federal sources	52,925	61,725	60,379	(1,346)	38,538
Total revenues	<u>1,353,580</u>	<u>1,139,947</u>	<u>1,122,172</u>	<u>(17,775)</u>	<u>1,115,807</u>
Expenditures:					
School support services:					
Current:					
Salaries and wages	116,790	110,176	106,505	(3,671)	117,133
Employee benefits	41,698	39,372	35,192	(4,180)	39,005
Purchased services	88,838	90,835	89,190	(1,645)	83,091
Supplies and materials	7,725	8,000	7,967	(33)	10,677
Other expenditures	2,575	2,575	2,469	(106)	1,160
Total school support services	<u>257,626</u>	<u>250,958</u>	<u>241,323</u>	<u>(9,635)</u>	<u>251,066</u>
Regular instruction:					
Current:					
Salaries and wages	291,780	282,548	297,221	14,673	311,514
Employee benefits	89,123	82,900	92,419	9,519	85,757
Purchased services	27,208	28,298	18,847	(9,451)	24,843
Supplies and materials	6,503	9,500	14,045	4,545	5,423
Other expenditures	5,150	5,000	2,796	(2,204)	1,010
Capital expenditures	13,500	8,500	-	(8,500)	-
Total regular instruction	<u>433,264</u>	<u>416,746</u>	<u>425,328</u>	<u>8,582</u>	<u>428,547</u>
Special education instruction:					
Current:					
Salaries and wages	75,145	89,088	92,034	2,946	50,385
Employee benefits	19,879	21,985	26,309	4,324	13,786
Purchased services	15,000	17,500	13,087	(4,413)	9,947
Supplies and materials	1,500	2,500	3,577	1,077	2,509
Other expenditures	-	-	8,318	8,318	2,041
Total special education instruction	<u>111,524</u>	<u>131,073</u>	<u>143,325</u>	<u>12,252</u>	<u>78,668</u>
Instructional support services:					
Current:					
Purchased services	1,030	1,000	91	(909)	-

ROCHESTER STEM ACADEMY
CHARTER SCHOOL NO. 4204
 REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 For The Year Ended June 30, 2016
 With Comparative Actual Amounts For The Year Ended June 30, 2015

	2016				2015 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Pupil support services:					
Current:					
Purchased services	\$109,180	\$114,575	\$123,067	\$8,492	\$104,426
Site, building and equipment:					
Current:					
Salaries and wages	15,144	15,144	15,484	340	14,847
Employee benefits	2,575	2,766	3,294	528	2,519
Purchased services	223,090	183,188	169,683	(13,505)	196,854
Supplies and materials	6,180	3,000	4,217	1,217	3,993
Capital expenditures	-	-	-	-	4,434
Total site, building and equipment	246,989	204,098	192,678	(11,420)	222,647
Fiscal and other fixed costs:					
Current:					
Purchased services	9,270	18,570	8,538	(10,032)	8,788
Debt service	309	309	-	(309)	214
Total fiscal and other fixed costs	9,579	18,879	8,538	(10,341)	9,002
Total expenditures	1,169,192	1,137,329	1,134,350	(2,979)	1,094,356
Revenues over (under) expenditures	184,388	2,618	(12,178)	(14,796)	21,451
Other financing (uses):					
Transfer to Food Service Fund	(39,307)	(33,548)	(40,765)	(7,217)	(32,032)
Net change in fund balance	\$145,081	(\$30,930)	(52,943)	(\$22,013)	(10,581)
Fund balance (deficit) - beginning			126,478		137,059
Fund balance - ending			\$73,535		\$126,478

**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, 2016
With Comparative Actual Amounts For The Year Ended June 30, 2015

	2016				2015 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Revenues:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	1,928	1,517	1,470	(47)	1,662
Federal sources	81,605	59,721	56,485	(3,236)	69,523
Total revenues	<u>83,533</u>	<u>61,238</u>	<u>57,955</u>	<u>(3,283)</u>	<u>71,185</u>
Expenditures:					
Pupil support services:					
Current:					
Salaries and wages	10,199	10,199	10,199	-	9,166
Employee benefits	1,545	1,545	2,169	624	1,382
Purchased services	7,745	1,616	1,198	(418)	6,174
Supplies and materials	103,351	81,426	85,154	3,728	86,495
Total expenditures	<u>122,840</u>	<u>94,786</u>	<u>98,720</u>	<u>3,934</u>	<u>103,217</u>
Revenues over (under) expenditures	(39,307)	(33,548)	(40,765)	(7,217)	(32,032)
Other financing sources:					
Transfer from General Fund	<u>39,307</u>	<u>33,548</u>	<u>40,765</u>	<u>7,217</u>	<u>32,032</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
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY*
 For The Year Ended June 30, 2016

<u>Measurement Date</u>	<u>Fiscal Year Ending</u>	<u>Proportion (Percentage) of the Net Pension Liability</u>	<u>Proportionate Share (Amount) of the Net Pension Liability (a)</u>	<u>Covered Payroll (b)</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
<u>Teacher's Retirement Association</u>						
June 30, 2014	June 30, 2015	0.0049%	\$225,788	\$221,967	101.7%	81.5%
June 30, 2015	June 30, 2016	0.0058%	358,787	293,647	122.2%	76.8%
<u>PERA - General Employees Retirement Fund</u>						
June 30, 2014	June 30, 2015	0.0025%	\$117,437	\$132,895	88.4%	78.8%
June 30, 2015	June 30, 2016	0.0028%	145,111	160,137	90.6%	78.2%

* 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, 2016

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
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Teacher's Retirement Association

June 30, 2015	\$22,025	\$22,025	\$0	\$293,647	7.5%
June 30, 2016	26,571	26,571	-	354,272	7.5%

PERA - General Employees Retirement Fund

June 30, 2015	\$11,729	\$11,729	\$0	\$160,137	7.3%
June 30, 2016	12,181	12,181	-	162,413	7.5%

* 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
NOTES TO RSI
June 30, 2016**

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

Changes of benefit terms (TRA) – the Duluth Teacher’s Retirement Fund Association was merged into TRA on June 30, 2015.

Changes of assumptions (TRA) – Post-retirement benefit adjustments used for the June 30, 2015 valuation are now assumed to be 2% annually with no increase to 2.5% projected. The previous valuation assumed a 2.5% increase commencing July 1, 2034. Also, the discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

There were no changes of benefit terms or assumptions for PERA. Additional details can be obtained from the financial reports of TRA and PERA.

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INDIVIDUAL FUND FINANCIAL STATEMENTS

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

Statement 7

BALANCE SHEET - GENERAL FUND

June 30, 2016

With Comparative Amounts For June 30, 2015

	<u>2016</u>	<u>2015</u>
Assets:		
Cash	\$262,056	\$60,543
Due from Minnesota Department of Education	26,087	65,510
Due from Federal Government through Minnesota Department of Education	60,379	38,538
Due from other funds	7,105	2,239
Prepaid items	23,079	26,926
Total assets	<u>\$378,706</u>	<u>\$193,756</u>
 Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$15,695	\$4,016
Salaries and taxes payable	58,791	61,148
Unearned revenue	230,685	2,114
Total liabilities	<u>305,171</u>	<u>67,278</u>
 Fund balance:		
Nonspendable - prepaid items	23,079	26,926
Unassigned	50,456	99,552
Total fund balance	<u>73,535</u>	<u>126,478</u>
 Total liabilities and fund balance	 <u>\$378,706</u>	 <u>\$193,756</u>

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

Statement 8

BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND

June 30, 2016

With Comparative Amounts For June 30, 2015

	<u>2016</u>	<u>2015</u>
Assets:		
Accounts receivable	\$ -	\$417
Due from Minnesota Department of Education	220	95
Due from Federal Government through Minnesota Department of Education	<u>8,353</u>	<u>3,167</u>
Total assets	<u><u>\$8,573</u></u>	<u><u>\$3,679</u></u>
Liabilities and Fund Balance		
Liabilities:		
Salaries and taxes payable	\$1,468	\$1,440
Due to other funds	<u>7,105</u>	<u>2,239</u>
Total liabilities	<u>8,573</u>	<u>3,679</u>
Fund balance:		
Unassigned	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u><u>\$8,573</u></u>	<u><u>\$3,679</u></u>

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SUPPLEMENTAL INFORMATION

	Audit	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$1,122,172	\$1,122,172	\$ -	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	1,134,650	1,134,648	2	Total Expenditures	-	-	-
<i>Non-Spendable:</i>				<i>Non-Spendable:</i>			
4.60 Non Spendable Fund Balance	23,079	23,079	-	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	50,456	50,457	(1)	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	-	-	-
02 FOOD SERVICE				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
Total Revenue	\$57,955	\$57,955	\$ -				
Total Expenditures	98,720	98,721	(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, 2016, 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 October 21, 2016.

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.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

October 21, 2016



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, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2016.

The *Minnesota Legal Compliance Audit Guide for Charter Schools*, 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 Charter Schools*. 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.

REDPATH AND COMPANY, LTD.
St. Paul, Minnesota

October 21, 2016

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