

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

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

For The Year Ended June 30, 2017

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**ROCHESTER STEM ACADEMY  
 CHARTER SCHOOL NO. 4204  
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## **INTRODUCTORY SECTION**

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**BOARD OF DIRECTORS**

<u>Name</u>	<u>Board Position During 2016-2017</u>
Mohamoud Hamud	Board Chair
Abdulkadir Abdalla	Board Treasurer
Zachary Jones	Board Vice-Chair
Mohamed Abdalla	Board Member
Ayan Mumin	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, 2017, 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, 2017, 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 2016 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 October 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 November 14, 2017, 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

November 14, 2017

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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, 2017. Please read it in conjunction with the School’s financial statements, which immediately follow this section. Certain comparative information between the current year (2016-2017) and the prior year (2015-2016) is required to be presented in the MD&A.

### **Financial Highlights**

Key financial highlights for the 2016-2017 fiscal year includes the following:

- Net revenues of \$1,546,838 were recognized and net expenses of \$1,668,284 were incurred, which resulted in a \$121,446 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. These 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.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

The two school-wide statements report the School’s net position and how it has changed. Net position – the difference between the School’s assets and liabilities – is one way to measure the School’s financial health or position.

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

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 or other regulations. 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 (\$454,016) and (\$332,570) on June 30, 2017 and 2016, respectively.

	June 30,	
	2017	2016
Current assets	\$292,432	\$380,174
Noncurrent assets	23,657	34,985
Deferred outflows of resources	1,232,419	142,909
Total assets and deferred outflows	<u>\$1,548,508</u>	<u>\$558,068</u>
Current liabilities	\$106,611	\$306,639
Noncurrent liabilities	1,793,484	503,898
Deferred inflows of resources	102,429	80,101
Total liabilities and deferred inflows	<u>2,002,524</u>	<u>890,638</u>
Net position:		
Net investment in capital assets	23,657	34,985
Unrestricted	(477,673)	(367,555)
Total net position	<u>(\$454,016)</u>	<u>(\$332,570)</u>

The School participates in cost-sharing multiple-employer defined benefit pension plans administered by the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA). Governmental accounting standards require that the School's share of each plan's net pension liability be recorded on the Statement of Net Position. The portion attributable to the School is based on its contributions to each plan in comparison to contributions made by all plan participants.

The School's net pension liability, combined with pension related deferred outflows and inflows of resources, negatively impacted unrestricted net position by \$663,494 and \$441,090 as of June 30, 2017 and 2016, respectively. The increased deficit was primarily due to changes in actuarial assumptions used to calculate the net pension liability, as well as lower than expected investment earnings by each plan.

The School continues to make its required contributions to each plan. Additional information can be found in Note 4 to the financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

### Changes in Net Assets

The School's total revenues were \$1,546,838 and \$1,187,894 for the years ended June 30, 2017 and 2016, respectively. Program revenues accounted for 30% and 34% of total revenue for these years, respectively. The cost of all government activities of 2017 and 2016 was \$1,668,284 and \$1,262,397, respectively.

	<u>2017</u>	<u>2016</u>
Revenues:		
Program revenues:		
Operating grants and contributions	\$471,411	\$339,852
General revenues	1,075,427	848,042
Total revenues	<u>1,546,838</u>	<u>1,187,894</u>
Expenses:		
School support services	323,355	243,748
Regular instruction	604,196	444,498
Special education instruction	197,931	146,966
Instructional support services	1,818	91
Pupil support services	286,395	222,222
Site, building and equipment	245,897	196,334
Fiscal and other fixed costs	8,692	8,538
Total expenses	<u>1,668,284</u>	<u>1,262,397</u>
Change in net position	(121,446)	(74,503)
Net position - beginning	<u>(332,570)</u>	<u>(258,067)</u>
Net position - ending	<u><u>(\$454,016)</u></u>	<u><u>(\$332,570)</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 \$1,523,817 and \$1,180,127 while total expenditures were \$1,411,531 and \$1,233,070 for 2017 and 2016, respectively. Financial information from the fund statements is as follows:

	2017		2016	
	General	Food Service	General	Food Service
Assets	\$279,518	\$12,914	\$378,706	\$8,573
Liabilities	93,697	12,914	305,171	8,573
Fund balance	\$185,821	\$ -	\$73,535	\$ -

	2017		2016	
	General	Food Service	General	Food Service
Revenues	\$1,437,136	\$86,681	\$1,122,172	\$57,955
Expenditures	1,298,916	112,615	1,134,350	98,720
Transfers	(25,934)	25,934	(40,765)	40,765
Change in fund balance	\$112,286	\$ -	(\$52,943)	\$ -

**BUDGETARY COMPARISON – GENERAL FUND**

An annual budget was legally adopted for the period ending June 30, 2017 with an ending change in fund balance of \$70,596. The actual change in fund balance for the period ending June 30, 2017 was \$112,286.

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.

Projected revenues were at \$1,263,115 and were revised to \$1,479,859 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 \$1,437,136, which was under the budget by \$42,723.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)**

Overall, actual expenditures were \$1,298,916 and were under budgeted expenditures for fiscal year 2017 by \$79,047.

### **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 2017.

### **FACTORS BEARING ON THE SCHOOL’S FUTURE**

The board of directors has mandated that school management develop 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 16<sup>th</sup> 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, 2017

With Comparative Totals For June 30, 2016

	Governmental Activities	
	2017	2016
Assets:		
Cash	\$167,334	\$262,056
Due from other governments	96,784	95,039
Prepaid items	28,314	23,079
Capital assets (net of accumulated depreciation)	23,657	34,985
Total assets	<u>316,089</u>	<u>415,159</u>
Deferred outflows of resources related to pensions	<u>1,184,613</u>	<u>142,909</u>
Total assets and deferred outflows of resources	<u>\$1,500,702</u>	<u>\$558,068</u>
Liabilities:		
Accounts payable	\$21,198	\$15,695
Salaries and taxes payable	65,303	60,259
Unearned revenue	20,110	230,685
Net pension liability, due in more than one year	1,793,484	503,898
Total liabilities	<u>1,900,095</u>	<u>810,537</u>
Deferred inflows of resources related to pensions	<u>54,623</u>	<u>80,101</u>
Net position:		
Net investment in capital assets	23,657	34,985
Unrestricted	(477,673)	(367,555)
Total net position	<u>(454,016)</u>	<u>(332,570)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$1,500,702</u>	<u>\$558,068</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, 2017

With Comparative Totals For The Year Ended June 30, 2016

<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>2017</u>	<u>2016</u>
Governmental activities:					
School support services	\$323,355	\$ -	\$ -	(\$323,355)	(\$243,748)
Regular instruction	604,196	-	106,265	(497,931)	(405,879)
Special education instruction	197,931	-	130,903	(67,028)	(4,883)
Instructional support services	1,818	-	-	(1,818)	(91)
Pupil support services	286,395	-	86,681	(199,714)	(164,267)
Site, building and equipment	245,897	-	147,562	(98,335)	(95,139)
Fiscal and other fixed costs	8,692	-	-	(8,692)	(8,538)
Total governmental activities	<u>\$1,668,284</u>	<u>\$0</u>	<u>\$471,411</u>	<u>(1,196,873)</u>	<u>(922,545)</u>
General revenues:					
Local sources				17,409	10,264
State sources				1,058,018	837,778
Total general revenues				<u>1,075,427</u>	<u>848,042</u>
Change in net position				(121,446)	(74,503)
Net position - beginning				<u>(332,570)</u>	<u>(258,067)</u>
Net position - ending				<u>(\$454,016)</u>	<u>(\$332,570)</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, 2017  
With Comparative Totals For June 30, 2016

	General Fund	Food Service Fund	Total Governmental Funds	
			2017	2016
<b>Assets:</b>				
Cash	\$156,703	\$10,631	\$167,334	\$262,056
Due from Minnesota Department of Education	53,004	55	53,059	26,307
Due from Federal Government through Minnesota Department of Education	41,497	2,228	43,725	68,732
Due from other funds	-	-	-	7,105
Prepaid items	28,314	-	28,314	23,079
<b>Total assets</b>	<b>\$279,518</b>	<b>\$12,914</b>	<b>\$292,432</b>	<b>\$387,279</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$10,508	\$10,690	\$21,198	\$15,695
Salaries and taxes payable	63,079	2,224	65,303	60,259
Unearned revenue	20,110	-	20,110	230,685
Due to other funds	-	-	-	7,105
<b>Total liabilities</b>	<b>93,697</b>	<b>12,914</b>	<b>106,611</b>	<b>313,744</b>
<b>Fund balance:</b>				
Nonspendable - prepaid items	28,314	-	28,314	23,079
Unassigned	157,507	-	157,507	50,456
<b>Total fund balance</b>	<b>185,821</b>	<b>0</b>	<b>185,821</b>	<b>73,535</b>
<b>Total liabilities and fund balance</b>	<b>\$279,518</b>	<b>\$12,914</b>	<b>\$292,432</b>	<b>\$387,279</b>

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

Fund balance reported above	\$185,821	\$73,535
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds	23,657	34,985
Deferred outflows of resources related to pensions	1,184,613	142,909
Net pension liability is not due and payable in the current period and, therefore, is not reported in the funds	(1,793,484)	(503,898)
Deferred inflows of resources related to pensions	(54,623)	(80,101)
<b>Net position of governmental activities (Statement 1)</b>	<b>(\$454,016)</b>	<b>(\$332,570)</b>

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, 2017

With Comparative Totals For The Year Ended June 30, 2016

	General Fund	Food Service Fund	Total Governmental Funds	
			2017	2016
<b>Revenues:</b>				
Local sources	\$17,409	\$ -	\$17,409	\$10,264
State sources	1,354,733	2,051	1,356,784	1,052,999
Federal sources	64,994	84,630	149,624	116,864
Total revenues	<u>1,437,136</u>	<u>86,681</u>	<u>1,523,817</u>	<u>1,180,127</u>
<b>Expenditures:</b>				
Current:				
School support services	270,868	-	270,868	241,323
Regular instruction	439,105	-	439,105	425,328
Special education instruction	161,518	-	161,518	143,325
Instructional support services	1,818	-	1,818	91
Pupil support services	162,302	112,615	274,917	221,787
Site, building and equipment	241,420	-	241,420	192,678
Fiscal and other fixed costs	8,692	-	8,692	8,538
Capital outlay	13,193	-	13,193	-
Total expenditures	<u>1,298,916</u>	<u>112,615</u>	<u>1,411,531</u>	<u>1,233,070</u>
Revenues over (under) expenditures	<u>138,220</u>	<u>(25,934)</u>	<u>112,286</u>	<u>(52,943)</u>
<b>Other financing sources (uses):</b>				
Transfers in	-	25,934	25,934	40,765
Transfers out	(25,934)	-	(25,934)	(40,765)
Total other financing sources (uses)	<u>(25,934)</u>	<u>25,934</u>	<u>0</u>	<u>0</u>
Net change in fund balance	112,286	0	112,286	(52,943)
Fund balance - beginning	<u>73,535</u>	<u>-</u>	<u>73,535</u>	<u>126,478</u>
Fund balance - ending	<u>\$185,821</u>	<u>\$0</u>	<u>\$185,821</u>	<u>\$73,535</u>

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

Revenues over expenditures reported above	\$112,286	(\$52,943)
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	(11,328)	(16,438)
Governmental funds report pension contributions as expenditures, however, pension expense is reported in the statement of activities	(222,404)	(5,122)
Change in net position of governmental activities (Statement 2)	<u>(\$121,446)</u>	<u>(\$74,503)</u>

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

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**Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The 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 governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of significant accounting policies.

**A. FINANCIAL REPORTING ENTITY**

As required by state statute, the School operates as a nonprofit corporation under Minnesota Statutes §317A. 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 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 primary government is financially accountable. The School does not have any component units.

The School is required to operate under a charter agreement with an entity that has been approved by the Minnesota Department of Education (MDE) to be a charter school “authorizer.” The authorizer monitors and evaluates the School’s performance, and periodically determines whether to renew the School’s charter. The School’s authorizer is Novation Education Opportunities. Aside from its responsibilities as authorizer, Novation Education Opportunities has no authority or control over the School, and is not financially accountable for it. Therefore, the School is not considered a component unit of Novation Education Opportunities.

**B. SCHOOL-WIDE FINANCIAL STATEMENTS**

The school-wide financial statements (the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School. Amounts 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. *Governmental activities* generally are financed through intergovernmental revenues, and other non-exchange transactions. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

As a general rule the effect of interfund activity has been eliminated from the school-wide financial statements. Exceptions to this general rule are transactions that would be treated as revenues, expenditures or expenses if they involved external organizations, such as buying goods and services, are similarly treated when they involve other funds of the School. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 charges for goods and services, as well as

operating and capital 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. FUND FINANCIAL STATEMENTS**

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.

The emphasis of fund financial statements is on major funds, each displayed in a separate column. The School reports the following major 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 Special Revenue 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**

The School's Board adopts an annual budget for each fund prepared on the same basis of accounting as the financial statements. 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.

**F. STUDENT ACTIVITIES**

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, school boards can elect to either control or not control extracurricular activities. The School's Board has elected to control extracurricular activities. Therefore, the extracurricular student activity accounts are included in the School's General Fund.

**G. 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 by each fund.

**H. 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.

**I. PREPAID ITEMS**

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

**J. 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

**K. 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.

**L. DEFINED BENEFIT PENSION PLANS**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA) and additions to/ deductions from the TRA's and PERA's fiduciary net position have been determined on the same basis as they are reported by TRA and PERA. Plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with 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, the City of Minneapolis, and the Minneapolis School District. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association 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. PERA also has a special funding situation created by direct aid contributions made by the State of Minnesota.

**M. 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 represents a consumption of net position that applies to future periods 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 represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

**N. UNEARNED REVENUE**

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

**O. FUND BALANCE**

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 that are established by resolution of the School's Board. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

*Assigned* - consists of internally imposed constraints that are intended to be used by the School for specific purposes, but do not meet the criteria to be classified as restricted or committed. Assigned amounts represent intended uses established by the School's Board itself or by an official to which the governing body delegates the authority. The Board has delegated to the School Director the authority to assign fund balance for specific purposes.

*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.

**P. MINIMUM FUND BALANCE POLICY**

The School's Board has formally adopted a fund balance policy for the General Fund. The policy establishes a minimum unassigned fund balance for the General Fund equal to 20% of current year expenditures.

At June 30, 2017, the targeted minimum fund balance for the General Fund was \$259,783. Actual fund balance in the General Fund was \$185,821. 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

on its 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. USE OF ESTIMATES**

The preparation of financial statements in accordance with 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.

**T. 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 for which the School carries commercial insurance. There were no significant reductions in insurance coverage from the previous year or settlements in excess of insurance coverage for any of the past three fiscal years.

**U. 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, 2017.

**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.

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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, 2017, all deposit bank balances were fully insured or collateralized.

**B. INVESTMENTS**

Minnesota statutes outline authorized investments for charter schools. During 2017, the School did not have any such investments.

**Note 3 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017 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	58,890	8,774	-	67,664
Leasehold improvements	10,161	2,554	-	12,715
Total accumulated depreciation	<u>69,051</u>	<u>11,328</u>	<u>0</u>	<u>80,379</u>
Governmental activities capital assets - net	<u>\$34,985</u>	<u>(\$11,328)</u>	<u>\$0</u>	<u>\$23,657</u>

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Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
Regular instruction	\$7,702
Special education instruction	630
Site, building and equipment	<u>2,996</u>
Total	<u><u>\$11,328</u></u>

**Note 4    DEFINED BENEFIT PENSION PLANS**

The School participates in cost-sharing multiple-employer defined benefit pension plans administered on a statewide basis by the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA). The defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code. Disclosures relating to these plans are as follows:

**A.    PLAN DESCRIPTIONS**

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

PERA administers the General Employees Retirement Fund (GERF) in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the School, other than teachers, are covered by the 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.

**B.    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 1 Benefits* – for Basic Plan members, a step rate formula of 2.2% per year for the first ten years of service and 2.7% per year thereafter is applied. For Coordinated Plan members with service years up to July 1, 2006, a step rate formula of 1.2% per year for the first ten years of service and 1.7% per year thereafter is applied. For Coordinated Plan members with service years

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beginning July 1, 2006, a step rate formula of 1.4% per year for the first ten years of service and 1.9% per year thereafter is applied.

*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 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 is applied. 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.

GERF 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.

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**C. CONTRIBUTIONS**

Employee and employer contribution rates are established by Minnesota Statutes. Rates for the years ended June 30, 2017 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, 2017	\$31,522	\$13,427
June 30, 2016	\$26,571	\$12,181

**D. NET PENSION LIABILITY AND PENSION EXPENSE**

The net pension liability reported at June 30, 2017 was measured as of June 30, 2016. 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 contributions received by each respective plan during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total contributions to the plan, which included direct aid from the State of Minnesota, the City of Minneapolis and the Minneapolis School District. The School has no pension-related assets.

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, 2017 are as follows:

	<u>TRA</u>	<u>PERA</u>	<u>Total</u>
Net pension liability	\$1,574,257	\$219,227	\$1,793,484
Proportionate share of net pension liability:			
Measurement date	0.0066%	0.0027%	
Prior measurement date	0.0058%	0.0028%	
Pension expense	\$259,770	\$30,606	\$290,376

The pension expense related to TRA and PERA includes recognition of \$22,178 and \$843, respectively, as an increase to pension expense (and grant revenue) for the support provided by direct aid.



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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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized as pension expense during the following years:

Year	Pension Expense		
	TRA	PERA	Total
2018	\$204,004	\$17,897	\$221,901
2019	204,006	12,894	216,900
2020	227,909	20,288	248,197
2021	205,755	7,918	213,673
2022	184,370	-	184,370
Thereafter	-	-	-

**F. ACTUARIAL ASSUMPTIONS**

TRA

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Measurement date	June 30, 2016
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	4.66%, from the Single Equivalent Interest Rate calculation
Price inflation	2.75%
Wage growth rate	3.5%
Projected salary increase	3.5 - 9.5%
Cost of living adjustment	2.0%

Mortality Assumptions:

Pre-retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

For TRA, 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 remain level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is six years. The “Difference Between Expected and Actual Economic Experience,” “Changes in Actuarial Assumptions,” and “Changes in Proportion” use the amortization period of six years in the schedule presented. The amortization period for “Difference Between Projected and Actual Investment Earnings” is over a period of five years as required by GASB 68.

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PERA

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Active member payroll growth	3.25% per year
Investment rate of return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return and the single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

TRA and PERA

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>100%</u>	

**G. DISCOUNT RATE**

TRA

The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from schools will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

PERA

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**H. PENSION LIABILITY SENSITIVITY**

The following presents the School’s proportionate share of the net pension liability calculated using the discount rate for each plan, as well as the liability measured using one percent lower (3.66% for TRA; 6.50% for PERA) and one percent higher (5.66% for TRA; 8.50% for PERA).

	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
TRA	\$2,028,037	\$1,574,257	\$1,204,669
PERA	\$311,367	\$219,227	\$143,328

**I. 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](http://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](http://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 2017, the School made a routine transfer of \$25,934 from the General Fund to eliminate a deficit in the Food Service Fund.

**Note 6 LINE OF CREDIT**

The School has a line of credit 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, 2017. As of June 30, 2017, the outstanding balance was \$0 and the interest rate was 5.5%. It is secured by the School's assets.

**Note 7 COMMITMENTS AND CONTINGENCIES**

**A. LEASE COMMITMENTS AND TERMS**

The School has a lease for office and classroom space through June 30, 2018. The lease calls for monthly rent plus CAM charges. Rent expense for the year ended June 30, 2017 was \$213,000 and estimated payments for fiscal year 2018 are \$230,259.

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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ROCHESTER STEM ACADEMY**  
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 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 For The Year Ended June 30, 2017  
 With Comparative Actual Amounts For The Year Ended June 30, 2016

	2017		Actual Amounts	Variance with Final Budget - Over (Under)	2016 Actual Amounts
	Budgeted Amounts				
	Original	Final			
<b>Revenues:</b>					
Local sources	\$7,005	\$28,240	\$17,409	(\$10,831)	\$10,264
State sources	1,206,606	1,390,230	1,354,733	(35,497)	1,051,529
Federal sources	49,504	61,389	64,994	3,605	60,379
Total revenues	<u>1,263,115</u>	<u>1,479,859</u>	<u>1,437,136</u>	<u>(42,723)</u>	<u>1,122,172</u>
<b>Expenditures:</b>					
School support services:					
Current:					
Salaries and wages	115,851	129,292	127,433	(1,859)	106,505
Employee benefits	21,887	26,424	22,595	(3,829)	35,192
Purchased services	103,858	110,264	95,542	(14,722)	89,190
Supplies and materials	8,160	6,300	9,786	3,486	7,967
Other expenditures	2,627	5,000	15,512	10,512	2,469
Total school support services	<u>252,383</u>	<u>277,280</u>	<u>270,868</u>	<u>(6,412)</u>	<u>241,323</u>
Regular instruction:					
Current:					
Salaries and wages	277,643	292,546	305,611	13,065	297,221
Employee benefits	83,856	83,720	85,263	1,543	92,419
Purchased services	34,495	47,851	36,414	(11,437)	18,847
Supplies and materials	10,474	12,854	10,104	(2,750)	14,045
Other expenditures	5,100	5,000	1,713	(3,287)	2,796
Capital expenditures	8,570	13,500	13,193	(307)	-
Total regular instruction	<u>420,138</u>	<u>455,471</u>	<u>452,298</u>	<u>(3,173)</u>	<u>425,328</u>
Special education instruction:					
Current:					
Salaries and wages	91,106	126,720	111,083	(15,637)	92,034
Employee benefits	22,932	32,867	28,471	(4,396)	26,309
Purchased services	16,362	17,250	14,893	(2,357)	13,087
Supplies and materials	2,000	623	627	4	3,577
Other expenditures	2,000	6,000	6,444	444	8,318
Total special education instruction	<u>134,400</u>	<u>183,460</u>	<u>161,518</u>	<u>(21,942)</u>	<u>143,325</u>
Instructional support services:					
Current:					
Purchased services	1,020	2,000	1,818	(182)	91

**ROCHESTER STEM ACADEMY**  
**CHARTER SCHOOL NO. 4204**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
 For The Year Ended June 30, 2017  
 With Comparative Actual Amounts For The Year Ended June 30, 2016

	2017				2016 Actual Amounts
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	
	Original	Final			
Pupil support services:					
Current:					
Salaries and wages	\$ -	\$42,257	\$24,165	(\$18,092)	\$ -
Employee benefits	-	8,082	4,463	(3,619)	-
Purchased services	122,747	139,000	133,663	(5,337)	123,067
Supplies and materials	-	-	11	11	-
Total pupil support services	<u>122,747</u>	<u>189,339</u>	<u>162,302</u>	<u>(27,037)</u>	<u>123,067</u>
Site, building and equipment:					
Current:					
Salaries and wages	15,447	15,447	15,447	-	15,484
Employee benefits	2,812	3,026	2,800	(226)	3,294
Purchased services	208,866	234,940	219,207	(15,733)	169,683
Supplies and materials	3,060	4,000	3,966	(34)	4,217
Total site, building and equipment	<u>230,185</u>	<u>257,413</u>	<u>241,420</u>	<u>(15,993)</u>	<u>192,678</u>
Fiscal and other fixed costs:					
Current:					
Purchased services	<u>20,315</u>	<u>13,000</u>	<u>8,692</u>	<u>(4,308)</u>	<u>8,538</u>
Total expenditures	<u>1,181,188</u>	<u>1,377,963</u>	<u>1,298,916</u>	<u>(79,047)</u>	<u>1,134,350</u>
Revenues over (under) expenditures	81,927	101,896	138,220	36,324	(12,178)
Other financing (uses):					
Transfer to Food Service Fund	<u>(37,970)</u>	<u>(31,300)</u>	<u>(25,934)</u>	<u>5,366</u>	<u>(40,765)</u>
Net change in fund balance	<u>\$43,957</u>	<u>\$70,596</u>	112,286	<u>\$41,690</u>	(52,943)
Fund balance - beginning			<u>73,535</u>		<u>126,478</u>
Fund balance - ending			<u>\$185,821</u>		<u>\$73,535</u>

**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, 2017  
With Comparative Actual Amounts For The Year Ended June 30, 2016

	2017			Variance with Final Budget - Over (Under)	2016 Actual Amounts
	Budgeted Amounts		Actual Amounts		
	Original	Final			
Revenues:					
State sources	\$1,809	\$2,127	\$2,051	(\$76)	\$1,470
Federal sources	71,190	84,688	84,630	(58)	56,485
Total revenues	<u>72,999</u>	<u>86,815</u>	<u>86,681</u>	<u>(134)</u>	<u>57,955</u>
Expenditures:					
Pupil support services:					
Current:					
Salaries and wages	10,403	15,446	15,446	-	10,199
Employee benefits	1,576	3,025	2,785	(240)	2,169
Purchased services	1,926	195	195	-	1,198
Supplies and materials	97,064	99,449	94,189	(5,260)	85,154
Total expenditures	<u>110,969</u>	<u>118,115</u>	<u>112,615</u>	<u>(5,500)</u>	<u>98,720</u>
Revenues over (under) expenditures	(37,970)	(31,300)	(25,934)	5,366	(40,765)
Other financing sources:					
Transfer from General Fund	<u>37,970</u>	<u>31,300</u>	<u>25,934</u>	<u>(5,366)</u>	<u>40,765</u>
Net change in fund balance	<u>\$0</u>	<u>\$0</u>	-	<u>\$0</u>	-
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, 2017

Measurement Date	Fiscal Year Ending	Proportion (Percentage) of the Net Pension Liability	Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the School (b)	Total Proportionate Share of the Net Pension Liability (a+b)	Covered Payroll (c)	School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b><u>Teacher's Retirement Association</u></b>								
June 30, 2014	June 30, 2015	0.0049%	\$225,788	\$15,748	\$241,536	\$221,967	108.8%	81.5%
June 30, 2015	June 30, 2016	0.0058%	358,787	43,931	402,718	293,647	137.1%	76.8%
June 30, 2016	June 30, 2017	0.0066%	1,574,257	158,831	1,733,088	354,272	489.2%	44.9%
<b><u>PERA - General Employees Retirement Fund</u></b>								
June 30, 2014	June 30, 2015	0.0025%	\$117,437	\$ -	\$117,437	\$132,895	88.4%	78.8%
June 30, 2015	June 30, 2016	0.0028%	145,111	-	145,111	160,137	90.6%	78.2%
June 30, 2016	June 30, 2017	0.0027%	219,227	2,826	222,053	162,413	136.7%	68.9%

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, 2017

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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	\$ -	\$293,647	7.5%
June 30, 2016	26,571	26,571	-	354,272	7.5%
June 30, 2017	31,522	31,522	-	420,293	7.5%

**PERA - General Employees Retirement Fund**

June 30, 2015	\$11,729	\$11,729	\$ -	\$160,137	7.3%
June 30, 2016	12,181	12,181	-	162,413	7.5%
June 30, 2017	13,427	13,427	-	179,053	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, 2017**

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**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**

*2016 Changes*

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.

*2017 Changes*

TRA – Teachers Retirement Association:

Changes in actuarial assumptions for the July 1, 2016 valuation include:

- The assumed investment rate of return and discount rate was reduced from 8.00% to 4.66%.
- Post-retirement benefit adjustments are now assumed to remain level at 2.0% annually. In the previous measurement, benefit adjustments increased to 2.5% in 2034.
- The price inflation assumption was reduced from 3.00% to 2.75%.
- The general wage growth and payroll growth assumptions were reduced from 3.75% to 3.50%.
- Projected salary increases of 3.5% – 12.0% were changed to 3.5% – 9.5%.
- Mortality assumptions changed as a result of using updated mortality tables.

PERA – General Employees Retirement Fund:

Changes in actuarial assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation

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, 2017

With Comparative Amounts For June 30, 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Cash	\$156,703	\$262,056
Due from Minnesota Department of Education	53,004	26,087
Due from Federal Government through Minnesota Department of Education	41,497	60,379
Due from other funds	-	7,105
Prepaid items	28,314	23,079
Total assets	<u>\$279,518</u>	<u>\$378,706</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$10,508	\$15,695
Salaries and taxes payable	63,079	58,791
Unearned revenue	20,110	230,685
Total liabilities	<u>93,697</u>	<u>305,171</u>
Fund balance:		
Nonspendable - prepaid items	28,314	23,079
Unassigned	157,507	50,456
Total fund balance	<u>185,821</u>	<u>73,535</u>
Total liabilities and fund balance	<u>\$279,518</u>	<u>\$378,706</u>

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

**Statement 8**

**BALANCE SHEET - FOOD SERVICE SPECIAL REVENUE FUND**

June 30, 2017

With Comparative Amounts For June 30, 2016

	<u>2017</u>	<u>2016</u>
Assets:		
Cash	\$10,631	\$ -
Due from Minnesota Department of Education	55	220
Due from Federal Government through Minnesota Department of Education	2,228	8,353
Total assets	<u>\$12,914</u>	<u>\$8,573</u>
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	\$10,690	\$ -
Salaries and taxes payable	2,224	1,468
Due to other funds	-	7,105
Total liabilities	<u>12,914</u>	<u>8,573</u>
Fund balance:		
Unassigned	<u>-</u>	<u>-</u>
Total liabilities and fund balance	<u>\$12,914</u>	<u>\$8,573</u>

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## **SUPPLEMENTAL INFORMATION**

	Audit	UFARS	Variance		Audit	UFARS	Variance
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$1,437,136	\$1,437,136	\$ -	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	1,298,916	1,298,918	(2)	Total Expenditures	-	-	-
<i>Non-Spendable:</i>				<i>Non-Spendable:</i>			
4.60 Non Spendable Fund Balance	28,314	28,314	-	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	-	-	-	<b>07 DEBT SERVICE</b>			
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	-	-	-	<b>08 TRUST</b>			
4.52 OPEB Liab Not In Trust	-	-	-	Total Revenue	\$ -	\$ -	\$ -
4.53 Unfunded Sev & Retirement Levy	-	-	-	Total Expenditures	-	-	-
<i>Restricted:</i>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
4.64 Restricted Fund Balance	-	-	-				
<i>Committed:</i>				<b>20 INTERNAL SERVICE</b>			
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>				<b>25 OPEB REVOCABLE TRUST</b>			
4.22 Unassigned Fund Balance	157,507	157,506	1	Total Revenue	\$ -	\$ -	\$ -
				Total Expenditures	-	-	-
<b>02 FOOD SERVICE</b>				4.22 Unassigned Fund Balance (Net Assets)	-	-	-
Total Revenue	\$86,681	\$86,681	\$ -				
Total Expenditures	112,615	112,616	(1)	<b>45 OPEB IRREVOCABLE TRUST</b>			
<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>				<b>47 OPEB DEBT SERVICE FUND</b>			
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	-	-	-
<b>04 COMMUNITY SERVICE</b>				<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, 2017, 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 14, 2017.

**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

November 14, 2017



## 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, 2017, and the related notes to the financial statements, which collectively comprise the Rochester STEM Academy's basic financial statements, and have issued our report thereon dated November 14, 2017.

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

November 14, 2017

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