

**SUMMIT CHARTER SCHOOL
CHARTER SCHOOL NO. 4232**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2016

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CHARTER SCHOOL NO. 4232
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JUNE 30, 2016**

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INTRODUCTORY SECTION

**SUMMIT CHARTER SCHOOL
CHARTER SCHOOL NO. 4232
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2016**

SCHOOL BOARD

NAME	TERM ON BOARD EXPIRES	BOARD POSITION
Lesley Guyton	2018	Chair
Aleem Mahammed	2018	Vice-Chair
Abuad Rahi	2018	Member
James Engler	2018	Secretary
Merita Haliti	2018	Member

ADMINISTRATION

Executive Director	Magdy Rabeaa
Scott Brown, The Anton Group	Financial Management
School Offices:	Charter School No. 4232 Summit Charter School 3109 50 th St. E. Minneapolis, MN 55417

FINANCIAL SECTION

**CHUCK RINKEY, LTD.
CERTIFIED PUBLIC ACCOUNTANT**

5775 WAYZATA BOULEVARD
SUITE 990
MINNEAPOLIS, MN 55416
TELEPHONE (952) 546-1052
FAX (952) 546-1284

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Summit Charter School

I have audited the accompanying financial statements of the governmental activities and each major fund, and the aggregate remaining fund information of Summit Charter School as of and for the year ended June 30, 2016, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Members of the Board of Education
Charter School No. 4232
Summit Charter School

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. 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 Summit Charter School, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the Summit Charter School's basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards Compliance Table listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Members of the Board of Education
Charter School No. 4232
Summit Charter School

Other Matters

Supplementary Information (Continued)

Such information has been subjected to the auditing procedures applied in the audit of the basis 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 statement 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 accompanying Uniform Financial Accounting and Reporting Standards Compliance Table is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016, on our consideration of Summit Charter School'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 result 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 Summit Charter School's internal control over financial reporting and compliance.

Chuck Rinkey, Ltd.

CHUCK RINKEY, LTD.

Minneapolis, Minnesota
October 28, 2016

SUPPLEMENTARY INFORMATION

**SUMMIT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The discussion and analysis of the Summit Charter School's financial performance provides an overall review of financial activities for the fiscal year. The analysis focuses on school's financial performance as a whole.

FINANCIAL HIGHLIGHTS

- Entity-wide total revenues were \$103,612 as compared to \$119,340 of expenses.
- As the school completed the year, its governmental funds reported a combined fund balance of \$(728).
- The School's overall net position is \$(15,728). With the federal startup grant it is not possible to gain a fund balance as revenue can only offset actual expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of the following parts:

- Independent Auditor's Report;
- Management's Discussion and Analysis; and
- Basic financial statements, including the entity-wide financial statements, fund financial statements, and the notes to basic financial statements.

**SUMMIT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

The following explains the two types of statements included in the basic financial statements:

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, deferred outflows, liabilities and deferred inflows. 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 deferred outflows, liabilities and deferred inflows—is one way to measure the School's financial health or *position*. Over time, increases or decreases in the School's net position are indicators of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the School requires consideration of additional non-financial factors such as changes in the School's student population and the condition of school buildings and other facilities.

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. Minnesota charter schools must establish funds within the guidelines of the state's Uniform Financial Accounting and Reporting Standards (UFARS).

The School maintains the following type of fund:

Governmental Funds – Most of the School's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can be readily 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 less 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 entity-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

**SUMMIT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Financial Analysis of the School as a Whole

Table #1 is a summarized view of the School's Statement of Net Position:

	<u>2016</u>
<u>Assets</u>	
Current Assets	13,866
Capital Assets	-
	<hr/>
Total Assets	<u><u>13,866</u></u>
<u>Liabilities</u>	
Current Liabilities	14,594
Non-Current Liabilities	15,000
	<hr/>
Total Liabilities	<u><u>29,594</u></u>
<u>Net Position</u>	
Net Investment in Capital Assets	-
Unrestricted	(15,728)
	<hr/>
Total Net Position	<u><u>(15,728)</u></u>

As of June 30, 2016 Summit Charter School reported total assets of \$13,866 and total liabilities of \$29,594. Net position amounts to \$(15,728).

There was no change to compare as this is the first year for the charter school:

**SUMMIT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Table #2 is a condensed version of the School's Change in Net Position:

The School's total revenues were \$103,612 and expenses \$119,340 for the year ended June 30, 2016. See table #2 for a detailed breakdown of revenue sources.

Table 2

Revenues:

Program

Federal Sources	\$94,909	91.6%
Local Sources	8,703	8.4%

Total Revenue	103,612	100%
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Expenses:

District and school administration	113,268	94.9%
Regular instruction	2,290	1.9%
Instructional support services	3,512	2.9%
Sites and buildings	270	0.2%

Total Expense	119,340	100%
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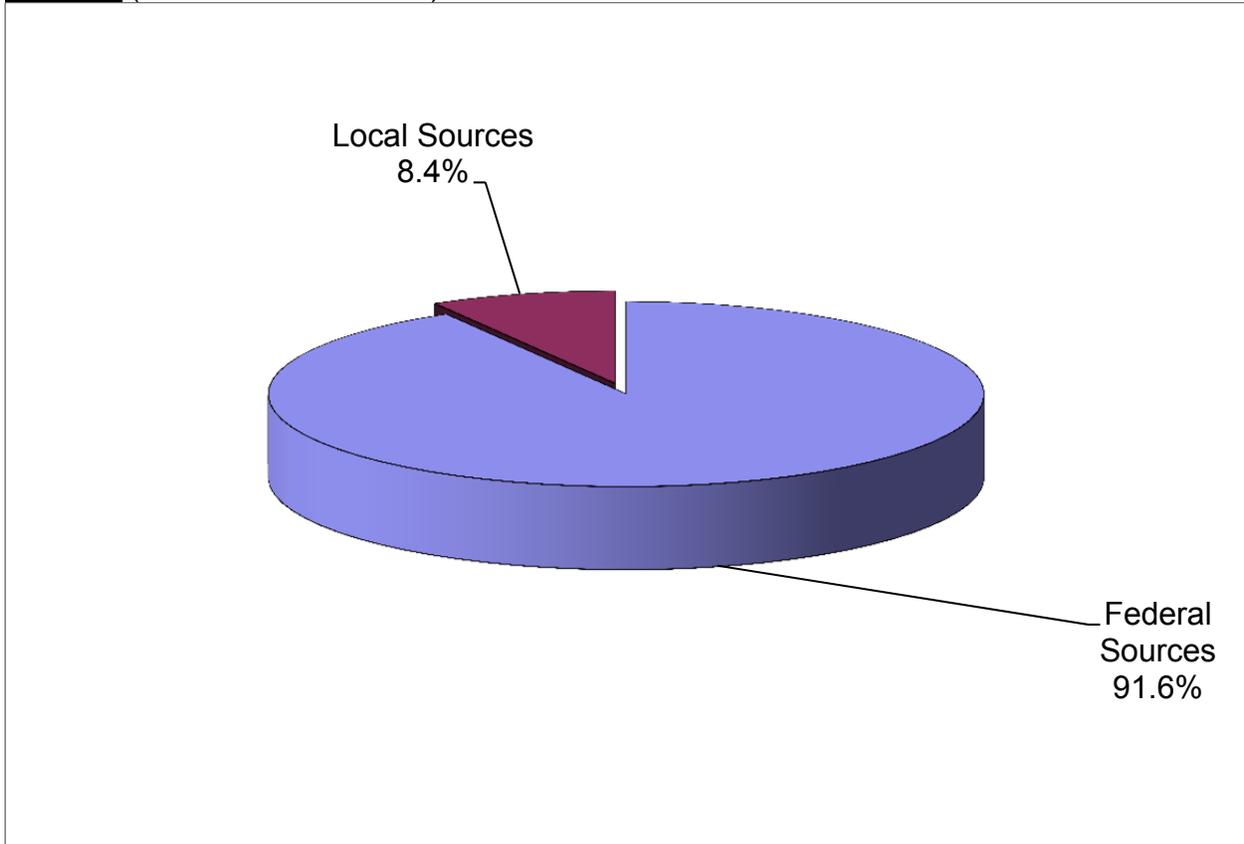
Change in Net Position	\$ (15,728)	
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Net Position - Beginning	-	
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Net Position - Ending	\$ (15,728)	
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**SUMMIT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Revenue (Table #2 and Chart #1)



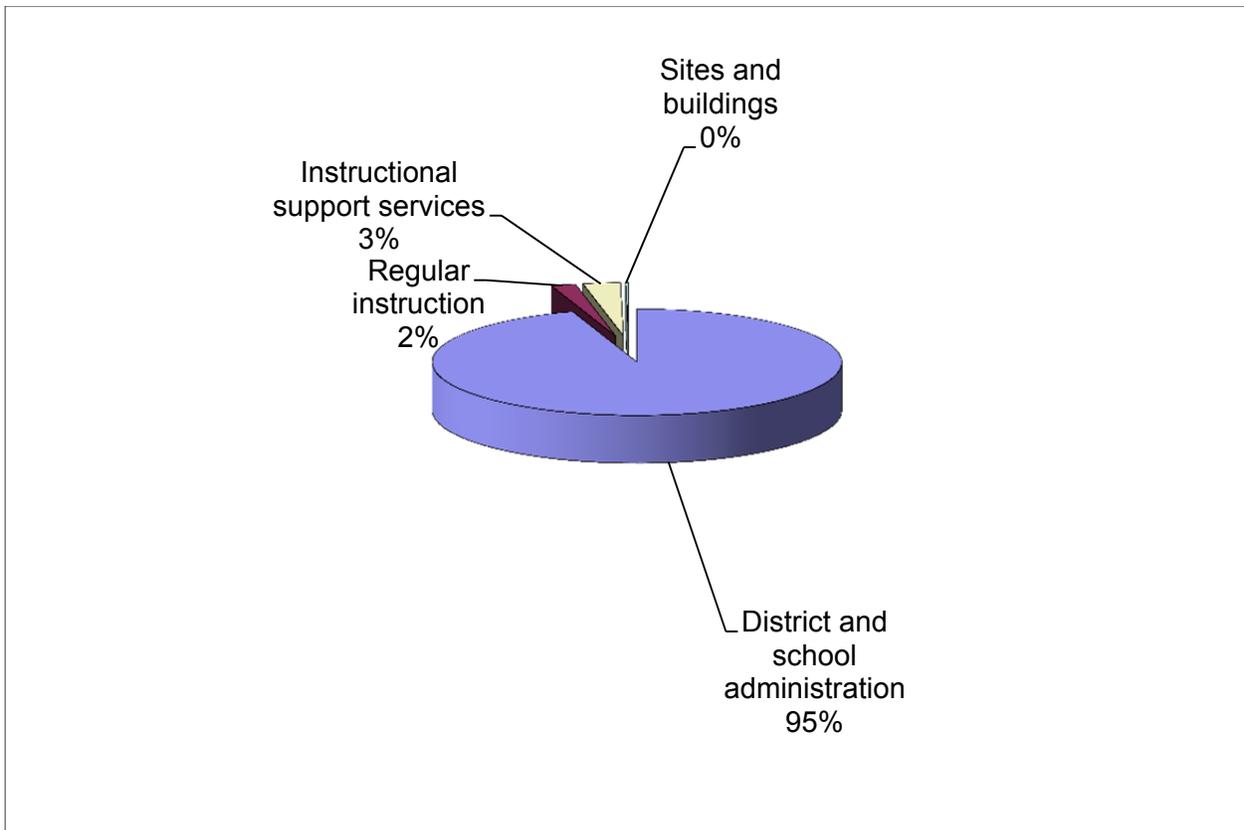
- In FY16, the school received \$103,612 in revenue, from the federal CSP startup grant. There were cash donations of \$8,700 and \$3 of interest income.
- This federal grant revenue was recognized only to offset expenses. The Charter School received an award of \$200,000 but only spent \$103,612 so will have the remainder to spend in the first 3 months of FY2017.
- FY2017 will bring many more revenue streams for the charter school as it will be open for students in the FY2017 fiscal year.

**SUMMIT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Expenses (Chart #2 & Table #2)

- In FY16, the school's total expenditure amount was \$119,340. As a startup, most of the expense was related to administrative staff working to put things in place to open the school. Administrative counted for 95% of all expenses. Regular instruction and instructional support services for opening the school accounted for 2% and 3% of the expenses, respectively. The school did not have students during FY 16, and has opened for FY 17.

Chart #2



**SUMMIT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Net Cost of Governmental Activities (Table #3)

	Total Cost of Services 2016	Net Cost of Services 2016
District administration & support services	113,268	18,359
Regular instruction	2,290	2,290
Instructional support services	3,512	3,512
Sites and buildings	270	270
Total	\$ 119,340	\$ 24,431

- Total cost of all governmental activities for FY15 was \$119,340. (Table #3)
- The net cost of governmental activities \$24,431 was financed by CSP startup grant of \$94,909, and general cash donations of \$8,700 and \$3 of interest income.

Budgetary Comparison:

The school adopted an original budget for the entire \$200,000 of available federal startup grant. The federal grant spans 2 fiscal years so not all of the \$200,000 was spent in FY2016.

Fund Balances:

- At year-end, June 30, 2016, the School had a total fund balance of \$(758) in the general fund..

**SUMMIT CHARTER SCHOOL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Factors Bearing on the School's Future:

- The school is dependent on the State of Minnesota for most of its revenue. This revenue source is mostly impacted by school enrollment. To get off to a good start in its first year of operation the charter school is working diligently to recruit a sufficient number of students to be able to build a fund balance.
- During the startup and first two years of operations, the school is dependent on the federal Charter School Planning grant. The Minnesota Department of Education has applied for an extension of the grant for the final 4 months of FY17 into FY18 and FY19. Should the MN Department of Education not receive the extension, the school will need to reevaluate its budgets and cash-flow projections.

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: Magdy Rabeaa, Summit Charter School, Charter School No. 4232, Summit Charter School 3109 50th St. E. Minneapolis, MN 55417, or Scott Brown, The Anton Group, 1355 Pierce Butler Route, Suite G1, St. Paul, MN 55104.

BASIC FINANCIAL STATEMENTS

**SUMMIT CHARTER SCHOOL
 CHARTER SCHOOL NO. 4232
 STATEMENT OF NET POSITION
 JUNE 30, 2016**

	Governmental Activities
Assets:	
Cash	\$ -
Due from Federal through MDE	13,866
Total assets	\$ 13,866
Liabilities and Net Assets:	
Liabilities:	
Accounts payable	\$ 14,594
Long term liabilities, due or payable after one year	15,000
Total Liabilities	29,594
Net Position:	(15,728)
Total Net Position	\$ (15,728)

The notes to the financial statements are an integral part of this statement

**SUMMIT CHARTER SCHOOL
CHARTER SCHOOL NO. 4232
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Functions	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instructional services:				
Regular instruction	\$ 2,290		\$ -	\$ (2,290)
Supporting services:				
Instructional staff	3,512			(3,512)
School administration	113,268		94,909	(18,359)
Sites, buildings and equipment	270			(270)
Fiscal and other fixed costs programs	-			-
Total school district	<u>\$ 119,340</u>		<u>\$ 94,909</u>	<u>\$ (24,431)</u>
 General revenues:				
				<u>8,703</u>
Local sources				8,703
Total general revenues				<u>8,703</u>
				(15,728)
				(15,728)
				-
				<u>\$ (15,728)</u>

The notes to the financial statements are an integral part of this statement

**SUMMIT CHARTER SCHOOL
 CHARTER SCHOOL NO. 4232
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>
Assets:	
Cash	\$ -
Due from Federal through MDE	13,866
Total assets	<u>\$ 13,866</u>
 Liabilities and fund balances:	
Liabilities:	
Accounts Payable	\$ 14,594
Total Liabilities	<u>14,594</u>
 Fund Balance	
Unassigned	<u>(728)</u>
Total Fund Balances	<u>(728)</u>
Total Liabilities and Fund Balances	<u>\$ 13,866</u>

The notes to the financial statements are an integral part of this statement

**SUMMIT CHARTER SCHOOL
CHARTER SCHOOL NO. 4232
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2016**

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

Total fund balance - governmental funds	\$ (728)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	<u>(15,000)</u>
Total net position - governmental activities	<u><u>\$ (15,728)</u></u>

The notes to the financial statements are an integral part of this statement

**SUMMIT CHARTER SCHOOL
 CHARTER SCHOOL NO. 4232
 STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>
Revenues:	
Federal Sources	\$ 94,909
Local Sources	<u>8,703</u>
Total revenues	<u>103,612</u>
 Expenditures:	
School Administration and Support Services	113,268
Regular Instruction	2,290
Instructional Support Services	3,512
Sites and Buildings	<u>270</u>
Total expenditures	<u>119,340</u>
Other Financing Sources - Loan Proceeds	30,000
Other Financing Uses - Loan Repayments	<u>(15,000)</u>
Other Financing Sources - Loan Proceeds	15,000
Net change in fund balance	<u>(728)</u>
 Fund Balance	
Fund balance - beginning	<u>-</u>
Fund balance - ending	<u><u>\$ (728)</u></u>

The notes to the financial statements are an integral part of this statement

**SUMMIT CHARTER SCHOOL
CHARTER SCHOOL NO. 4232
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

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

Net change in fund balances-total governmental funds	\$ (728)
Proceeds on long-term liabilities are recorded as revenues in the governmental funds.	<u>(15,000)</u>
Change in net position of governmental activities	<u><u>\$ (15,728)</u></u>

The notes to the financial statements are an integral part of this statement

**SUMMIT CHARTER SCHOOL
 CHARTER SCHOOL NO. 4232
 STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State Sources	\$ 1,295,797	\$ -	-	\$ -
Federal Sources	131,315	200,000	94,909	(105,091)
Other local sources	3,000	-	8,703	8,703
Total revenues	<u>1,430,112</u>	<u>200,000</u>	<u>103,612</u>	<u>(96,388)</u>
Expenditures:				
Current:				
School Administration and Support Services	217,528	167,025	113,268	(53,757)
Regular Instruction	512,619	17,328	2,290	(15,038)
Instructional Support Services	73,862	28,136	3,512	(24,624)
Sites and Buildings	7,500	2,777	270	(2,507)
Total expenditures	<u>811,509</u>	<u>215,266</u>	<u>119,340</u>	<u>(95,926)</u>
Other Financing Sources - Loan Proceeds			15,000	
Excess of revenues over expenditures	<u>\$ 618,603</u>	<u>\$ (15,266)</u>	(728)	<u>\$ (462)</u>
Fund balance				
Beginning of Year			<u>-</u>	
End of Year			<u>\$ (728)</u>	

The notes to the financial statements are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

**SUMMIT CHARTER SCHOOL
CHARTER SCHOOL NO. 4232
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Charter School No. 4232, also known as Summit Charter School, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units.

B. Financial Reporting Entity

Summit Charter School (the School), is a nonprofit corporation that was formed, and began operating in June 2014. The School is sponsored by Innovative Quality Schools and operates under a contract ends June 30, 2020. The primary objective of Summit Charter School is to educate students to become environmentally responsible, socially conscious, and scholastically prepared for college and active community life. The governing body consisted of a board of directors composed of the three founding directors, and will expand by the end of the third year to nine members elected at an annual meeting by voters of the general membership of the School to serve three-year terms.

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

Component units are legally separate entities for which the School is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no component units of the School.

Aside from its authorizer role, Innovative Quality Schools has no authority, control, power, or administrative responsibilities over Summit Charter School. Therefore, the School is not considered a component unit of Innovative Quality Schools.

Student activity accounts are under control of the School Board and are included in these financial statements as part of the General Fund.

**SUMMIT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

School-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the School.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The School applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Generally, the effect of material inter-fund activity has been removed from the School-wide financial statements.

Separate Fund financial statements are provided for governmental funds.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. 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 when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

**SUMMIT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means that the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Community education tuition and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

The School reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the School has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Description of Funds

As required by state statute, Summit Charter 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 fund accounting structure. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. A description of the School's funds included in this report is as follows:

**SUMMIT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations of the School, as well as the capital related activities such as maintenance of facilities and equipment purchases.

E. Income Taxes

The School has 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.

F. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the School Board adopts an annual budget for the following fiscal year for each fund. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Executive Director submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board. Individual amendments were not material in relation in relation to the original appropriations.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

At the end of each fiscal year, if the General Fund has a net unreserved deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota schools which excludes certain reserves specified in Minnesota statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

**SUMMIT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Accounts Receivable

Accounts receivable represents amounts due from 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 prepayments. Expense is allocated over the periods benefitted.

J. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The School maintains a threshold level of \$500 or more for capitalizing capital assets. 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 recorded in the School-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 20 years for equipment.

K. Accrued Employee Benefits

Unpaid sick and personal leave is not accrued in any funds as these benefits, when vesting is applicable, are paid prior to year-end according to School policy.

L. Fund Balance

In the fund financial statements, governmental funds report non-spendable portions of fund balance related to prepaids. Unassigned fund balances are considered the remaining amounts in the General Fund. The School goal is to maintain a fund balance of 20% of the next year's budgeted general fund expenditures after its fifth year.

SUMMIT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016

M. 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.

N. Net Position

Net position represents the difference between assets and liabilities in the School-wide financial statements. Net position invested 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 statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**SUMMIT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 2 DEPOSITS

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

Custodial Credit Risk - 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 departments of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

The School's deposits in banks at June 30, 2016 in the amount of \$0 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

NOTE 3 SHORT-TERM LIABILITIES

The School owed \$15,000 to Diyar Real Estate LLC, pursuant to a July 16, 2015 loan for \$30,000 bearing no interest until maturity of January 29, 2016. The loan, which was extended to January, 2017, with no interest, is unsecured.

Short-term liability activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Total governmental activity	-	30,000	15,000	15,000
short-term liabilities	\$ -	\$ 30,000	\$ 15,000	\$ 15,000

**SUMMIT CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2016**

NOTE 4 LONG-TERM LIABILITIES

The School owed \$15,000 to Diyar Real Estate LLC, pursuant to a July 16, 2015 loan for \$30,000 bearing no interest until maturity of January 29, 2016. The loan, which was extended to January, 2017, with no interest, is unsecured.

Long-term liability activity for the year ended June 30, 2016 was as follows:

	Beginning		Ending	Due Within
	Balance	Additions	Reductions	Balance
				One Year
Governmental activities:	<hr/>			
Note Payable	-	15,000	-	15,000
Total governmental activity				15,000
long-term liabilities	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ -</u>	<u>\$ 15,000</u>
				<u>\$ 15,000</u>
				<u>\$ 15,000</u>

NOTE 5 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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 fund. 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.

B. Operating Lease for Educational Space

The school will lease space from Lake Nokomis Lutheran Church effective July 1, 2016 through June 30, 2019 for \$9,583.33 monthly for fiscal year 2017.

Future minimum lease payments are as follows:

<u>Year</u> <u>Ended</u>	<u>Total</u> <u>Payments</u>
30-Jun-16	\$115,000
30-Jun-17	144,000
30-Jun-18	156,000
	<u>\$415,000</u>

The School's ability to make payments under the lease agreement is dependent on its revenues which are, in turn, largely dependent on sufficient enrollment being served at the School and 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.

SUPPLEMENTARY INFORMATION

**SUMMIT CHARTER SCHOOL
UNIFORM FINANCIAL ACCOUNTING AND REPORTING
STANDARDS COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2016**

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				02 FOOD SERVICE			
Total Revenue	\$ 103,612	\$ 94,909	\$ 8,703	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 119,340	\$ 128,758	\$ (9,418)	Total Expenditures	\$ -	\$ -	\$ -
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$ -	\$ -	\$ -	4.60 Non Spendable Fund Balance	\$ -	\$ -	\$ -
Restricted / Reserved:				Restricted / Reserved:			
4.03 Staff Development	\$ -	\$ -	\$ -	4.52 OPEB Liab Not In Trust	\$ -	\$ -	\$ -
4.05 Deferred Maintenance	\$ -	\$ -	\$ -	Restricted:			
4.06 Health and Safety	\$ -	\$ -	\$ -	4.64 Restricted Fund Balance	\$ -	\$ -	\$ -
4.07 Capital Projects Levy	\$ -	\$ -	\$ -	Unassigned:			
4.08 Cooperative Revenue	\$ -	\$ -	\$ -	4.63 Unassigned Fund Balance	\$ -	\$ -	\$ -
4.09 Alternative Facility Program	\$ -	\$ -	\$ -				
4.13 Project Funded by COP	\$ -	\$ -	\$ -				
4.14 Operating Debt	\$ -	\$ -	\$ -				
4.16 Levy Reduction	\$ -	\$ -	\$ -				
4.17 Taconite Building Maint	\$ -	\$ -	\$ -				
4.23 Certain Teacher Programs	\$ -	\$ -	\$ -				
4.24 Operating Capital	\$ -	\$ -	\$ -				
4.26 \$25 Taconite	\$ -	\$ -	\$ -				
4.27 Disabled Accessibility	\$ -	\$ -	\$ -				
4.28 Learning & Development	\$ -	\$ -	\$ -				
4.34 Area Learning Center	\$ -	\$ -	\$ -				
4.35 Contracted Alt. Programs	\$ -	\$ -	\$ -				
4.36 State Approved Alt. Program	\$ -	\$ -	\$ -				
4.38 Gifted & Talented	\$ -	\$ -	\$ -				
4.40 Teacher Development and Evaluation	\$ -	\$ -	\$ -				
4.41 Basic Skills Programs	\$ -	\$ -	\$ -				
4.45 Career Tech Programs	\$ -	\$ -	\$ -				
4.48 Achievement and Integration	\$ -	\$ -	\$ -				
4.49 Safe School Crime - Crime Levy	\$ -	\$ -	\$ -				
4.50 Pre-Kindergarten	\$ -	\$ -	\$ -				
4.51 QZAB Payments	\$ -	\$ -	\$ -				
4.52 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
4.53 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -				
Restricted:							
4.64 Restricted Fund Balance	\$ -	\$ -	\$ -				
Committed:							
4.18 Committed for Separation	\$ -	\$ -	\$ -				
4.61 Committed Fund Balance	\$ -	\$ -	\$ -				
Assigned:							
4.62 Assigned Fund Balance	\$ -	\$ -	\$ -				
Unassigned:							
4.22 Unassigned Fund Balance	\$ (728)	\$ (728)	\$ -				

**CHUCK RINKEY, LTD.
CERTIFIED PUBLIC ACCOUNTANT**

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**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 Members of the Board of Education
Summit Charter School
Minneapolis, Minnesota

I 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, each major fund for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Summit Charter School's basic financial statements, and have issued our report thereon dated October 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Summit Charter School'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 Summit Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Summit Charter School'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 Summit Charter School'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.

Chuck Rinkey, Ltd.

Chuck Rinkey, Ltd.
Minneapolis, MN

October 28, 2016

CHUCK RINKEY, LTD. CERTIFIED PUBLIC ACCOUNTANT

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REPORT ON COMPLIANCE WITH MINNESOTA LAWS AND REGULATIONS

Members of the School Board
Summit Charter School
St. Paul, Minnesota

I have audited the financial statements of the governmental activities and each major fund of Summit Charter School, as of and for the year ended June 30, 2016, which collectively comprise the School's basic financial statements and have issued my report thereon dated October 28, 2016.

I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat 6.65. Accordingly, the audit included such tests of the accounting records and such auditing procedures I considered necessary in the circumstances.

The Minnesota Legal Compliance Audit Guide for Political Subdivisions promulgated by the State Auditor pursuant to Minn. Stat. 6.65 identifies two main categories of compliance to be tested: uniform financial accounting and reporting standards, and charter schools. My study included both of the listed categories.

The results of my tests indicate that, with respect to the items tested, the School complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings.

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

Chuck Rinkey, Ltd.

Chuck Rinkey, Ltd.
Minneapolis, MN

October 28, 2016

**SUMMIT CHARTER SCHOOL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2016**

FINDINGS – INTERNAL CONTROL OVER FINANCIAL REPORTING

NONE

FINDINGS – MINNESOTA LEGAL COMPLIANCE

NONE

**CHUCK RINKEY, LTD.
CERTIFIED PUBLIC ACCOUNTANT**

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October 28, 2016

Members of the Board of Education
Charter School No. 4232
Summit Charter School
Minneapolis, Minnesota

I have audited the financial statements of Summit Charter School (the School) as of and for the year ended June 30, 2016, and have issued our report thereon dated October 28, 2016. Professional standards require that I provide you with the following information related to my audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

Our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the School's internal control over financial reporting for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, grants, agreements and other matters, 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 my audit.

Report on Internal Controls and Compliance Over Financial Reporting

There were no current year findings related to the School's compliance with the provisions of certain laws, regulations, contracts, grant agreements, and other matters tested as part of our audit.

Report on Compliance with Minnesota Laws and Regulations

There were no findings in the current year:

Significant Accounting Policies

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

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

Accounting Estimates and Management Judgments

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

- Due from Minnesota Department of Education
- Due from Federal through the Minnesota Department of Education
- Estimated Useful Lives of Depreciable Capital Assets
- Estimated proportionate share of PERA and TRA's net pension liability

General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the School. Student attendance is accumulated in a statewide database - MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal Year 2016 is not finalized until well into fiscal year 2017. General education revenue and certain other revenues are computed using preliminary information of the number of students served in the resident district and also utilizing some estimates, particularly in the area of enrollment options.

Management's estimate of Due from Federal through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2015-16. Many federal entitlements require that supporting financial reporting information be provided both in the UFARS accounting system and also the EDRS reporting system. To the extent that these two separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of useful lives for depreciable assets is based on guidance recommended by the Minnesota Department of Education. The useful life of a depreciable asset determines the amount of depreciation that will be recorded in any given reporting period as well as the amount of accumulated depreciation that is reported at the end of a reporting period.

I evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the School's financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the School, either individually or in the aggregate, indicate matters that could have a significant effect on the School's financial reporting process.

Management did not identify and I did not notify them of any uncorrected financial statement misstatements. I recognize that for management purposes, the School maintains its accounting records primarily using the cash basis during the year. There may be adjustments which I propose while assisting your finance staff in the closing of the year-end accounting records. These types of adjustments, if any, are not considered to be "audit adjustments: for purposes of this communication.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

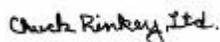
I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the School’s auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not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

Difficulties Encountered in Performing the Audit

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

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

Sincerely,



CHUCK RINKEY, LTD.
Minneapolis, Minnesota

October 28, 2016