Management Letter

TRIO Wolf Creek Distance Learning Charter School No. 4095

Chisago City, Minnesota

For the Year Ended
June 30, 2014

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

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ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

October 29, 2014

Management and the Board of Education
TRIO Wolf Creek
Distance Learning Charter School No. 4095
Chisago City, Minnesota

We have audited the financial statements of the governmental activities and the major fund of the TRIO Wolf Creek Distance Learning Charter School No. 4095 (the Charter School), Chisago City, Minnesota, for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 3, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control over financial reporting (internal control) of the Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Significant Audit Findings

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Charter School's compliance with those requirements. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* or statutes set forth by the State of Minnesota, which is described below as finding 2014-001.

2014-001 Late payment of claims

Condition: During our audit procedures, it came to our attention that the Charter School had not made a payment within the timeframe set forth by State statutes.

Criteria: Minnesota statute §471.425 requires that the Charter School pay bills within 35 days from receipt. If the invoice is not paid within 35 days, interest at 1.50 percent per month is to be added to the amount due.

Cause: The property tax statement identifies the amount due in two installments. Although the first installment was paid within the timeframe identified, the second installment was not.

Effect: In addition to noncompliance with the statute noted above, a penalty was charged for the late payment.

Recommendation: We recommend that the Charter School continue to follow its procedures related to disbursements and consider adding a procedure to ensure payment of multiple installments.

Management response:

There is no disagreement with this finding. The Charter School will take action to avoid similar occurrences in the future.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Charter School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Charter School during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of depreciation is based on estimated useful lives of the assets. Depreciation is calculated using the straight-line method.

- Management estimates a portion of the receivable from the Department of Education based on student numbers and past expenditures.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole. The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representations letter dated October 29, 2014.

Management Consultations with Other Independent Accountants

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Other Audit Findings or Issues

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

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Financial Position and Results of Operations

Our principal observations and recommendations are summarized on the following pages. These recommendations resulted from our observations made in connection with our audit of the Charter School's financial statements for the year ended June 30, 2014.

A summary of current year budgeted and actual revenue and expenditures is as follows:

	Final Budgeted Amount	Actual Amount	Variance with Final Budget
Revenues	$ 1,475,256	$ 1,438,147	$ (37,109)
Expenditures	1,470,660	1,495,150	(24,490)
Net change in fund balance	4,596	(57,003)	(61,599)
Fund balance, July 1	961,163	961,163	-
Fund balance, June 30	$ 965,759	$ 904,160	$ (61,599)

The Charter School did amend the budget during the year, increasing both revenues and expenditures by $93,374 and $55,781, respectively. Some of the line items with significant variances from the final budget are highlighted below:

- The largest revenue variance was from State sources which were $39,482 less than anticipated.
    - The actual amount from state sources includes revenue remitted to the Charter School related to extended time for summer school of $38,423.
- The largest expenditure variance was within elementary and secondary regular instruction ($19,690) which was 2.7 percent more than budgeted. This variance was primarily a result of salary and benefit expenditures of $40,681 and $22,214 more than anticipated within the budget, which was partially offset by $33,078 spent less than budgeted for supplies and materials.

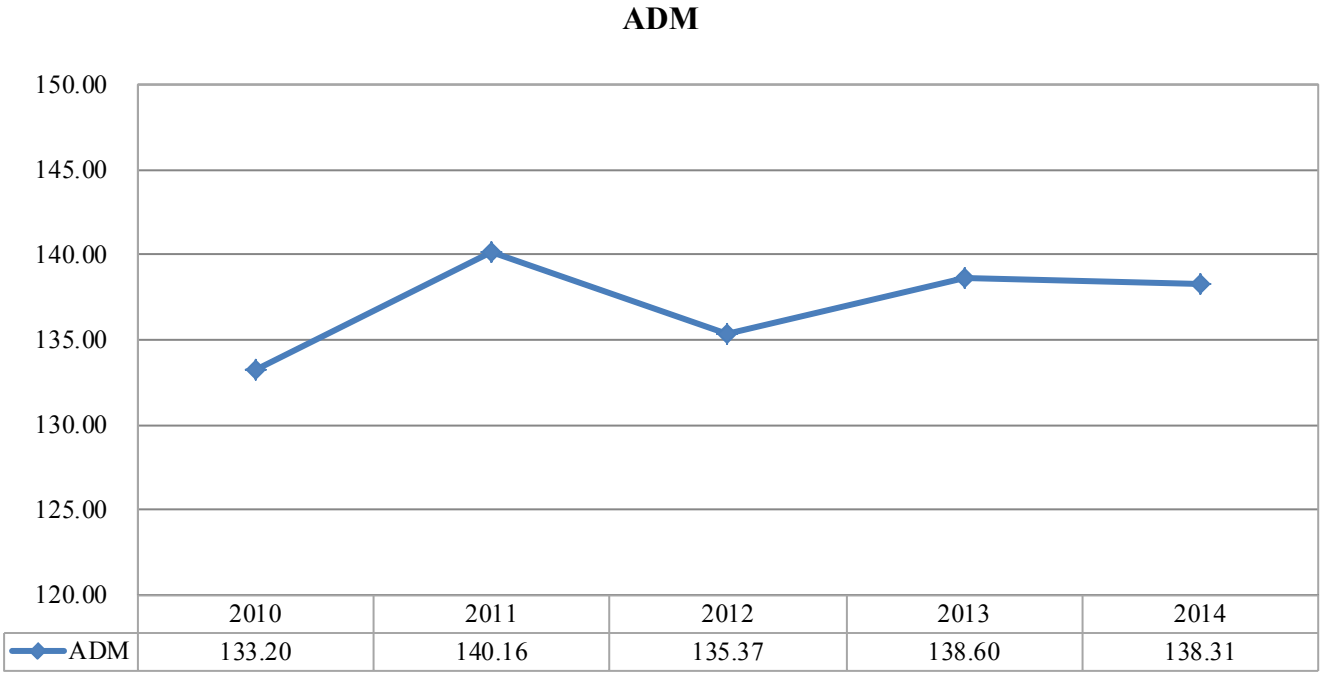
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It is important for the Charter School to maintain a fund balance at a level sufficient to fund working capital needs and to provide some cushion for unforeseen expenditures. A useful guide to an appropriate level is the percent of fund balance to expenditures. The Charter School's fund balance policy identifies a minimum unassigned fund balance of three months (25 percent) of operating expense. As shown in the chart below, the Charter School's unassigned fund balance is above this target level from the policy.

Listed below is an analysis of fund balance compared to expenditures for the past five years:

Fiscal Year	Total Fund Balance	Unassigned Fund Balance	Total Expenditures	Total Fund Balance as a Percentage of Expenditures	Unassigned Fund Balance as a Percentage of Expenditures
2014	$ 904,160	$ 659,018	$ 1,495,150	60.47 %	44.08 %
2013	961,163	756,192	1,334,195	72.04	56.68
2012	888,414	724,752	1,340,465	66.28	54.07
2011	939,798	806,408	1,238,838	75.86	65.09
2010	798,223	690,519	1,172,097	68.10	58.91

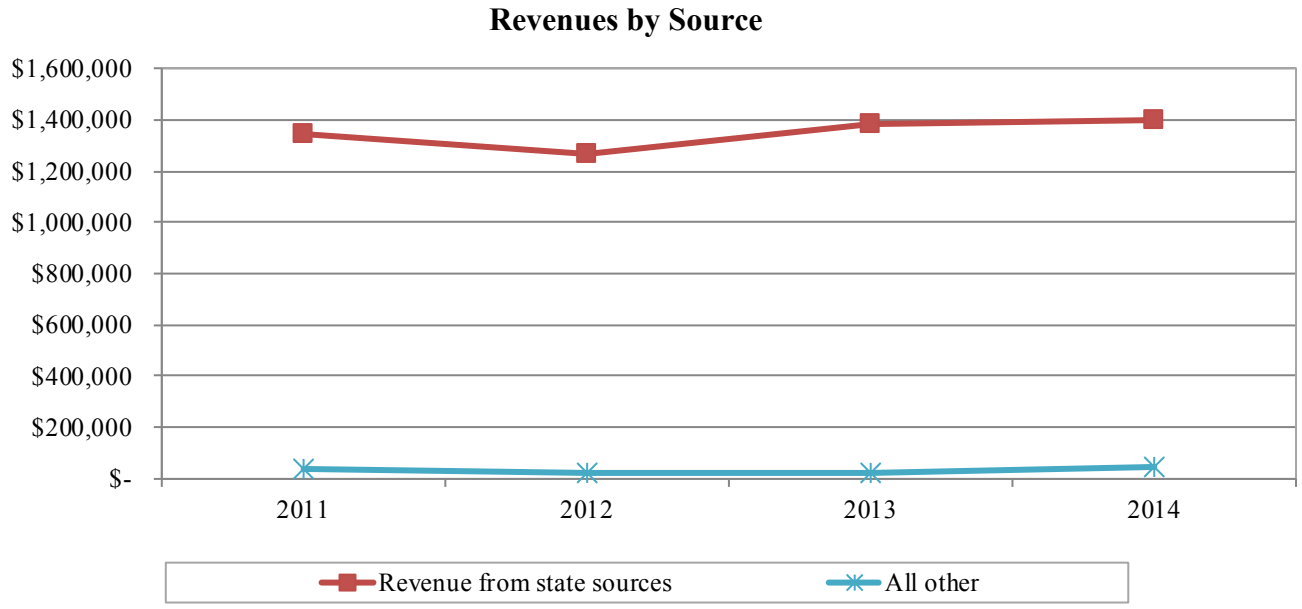
The average daily membership (ADM) for the last five years of the Charter School is outlined in the chart below:

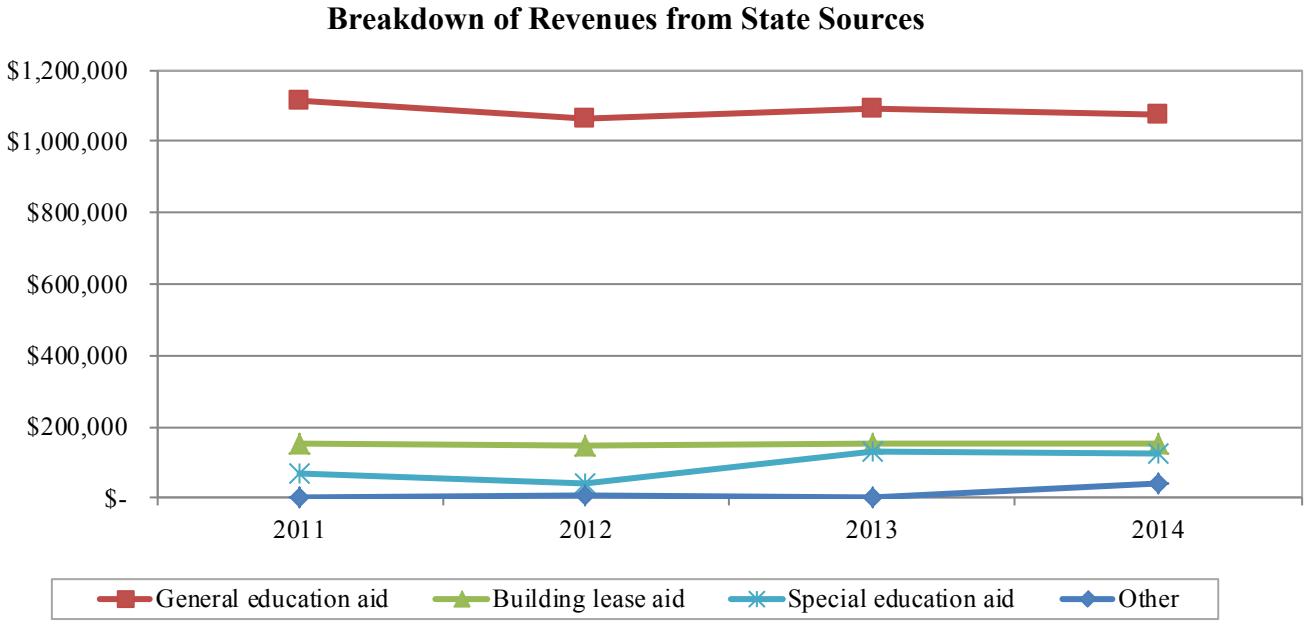


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A further breakdown of revenues by source is as follows:

Revenue Source	2011	2012	2013	2014	Per ADM
Other local and county revenue	$ 6,053	$ 4,914	$ 5,682	$ 4,500	$ 33
Revenue from state sources	1,341,108	1,264,313	1,385,200	1,396,729	10,099
Revenue from federal sources	32,307	16,849	15,684	36,545	264
Sales and other conversion of assets	945	3,005	378	373	3
Total revenues	$ 1,380,413	$ 1,289,081	$ 1,406,944	$ 1,438,147	$ 10,399



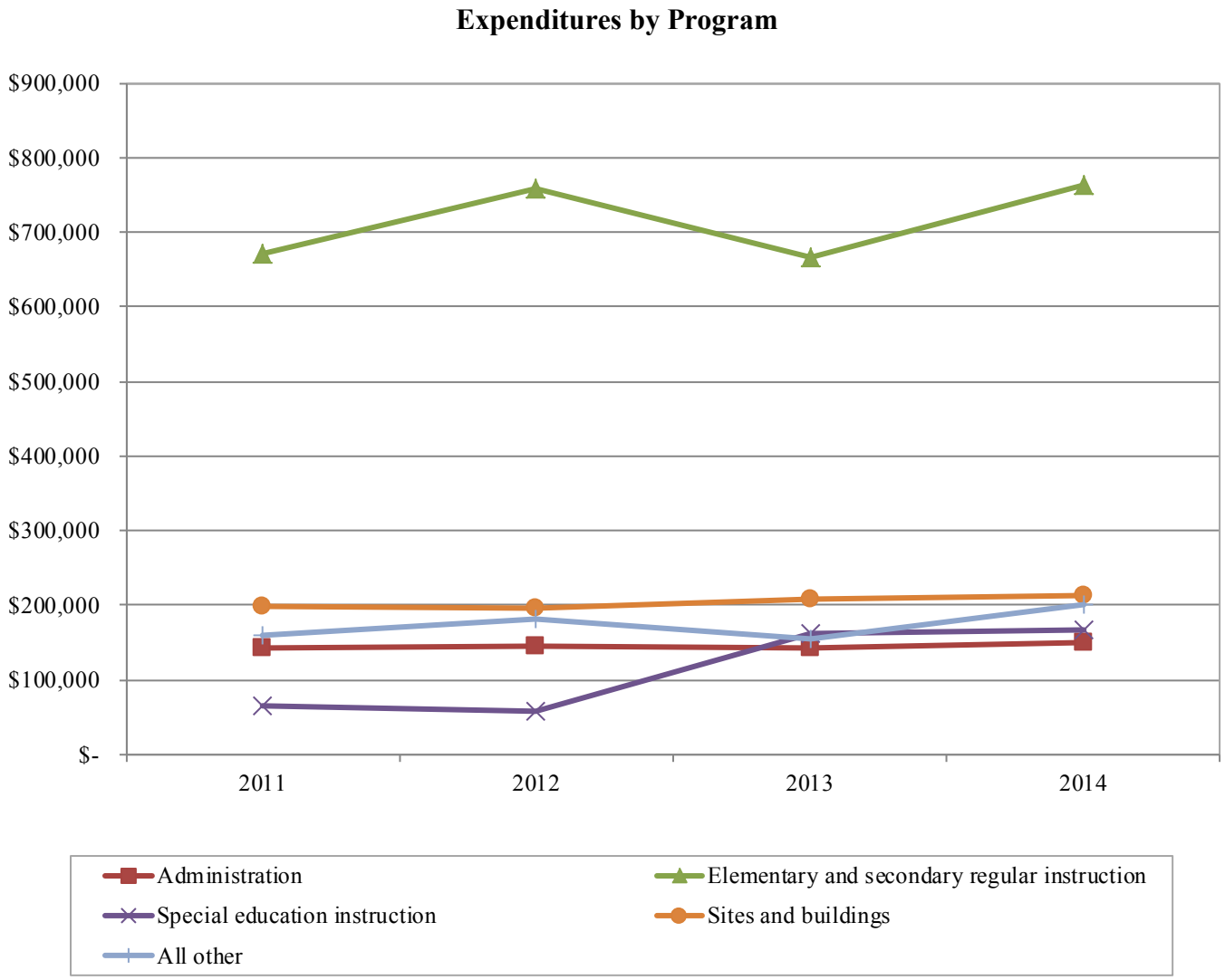


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The expenditures are reported by program and are recapped as follows:

Expenditures by Program	2011	2012	2013	2014	Per ADM	Peer Group Per ADM*
Administration	$ 141,700	$ 145,437	$ 143,001	$ 149,440	$ 1,080	$ 641
District support services	38,080	50,810	37,687	44,338	321	1,595
Elementary and secondary regular instruction	672,225	758,806	665,616	762,681	5,514	4,785
Special education instruction	65,373	57,870	161,889	168,046	1,215	1,705
Instructional support services	112,129	115,608	107,897	117,311	848	225
Pupil support services	-	714	172	-	-	669
Sites and buildings	198,717	196,415	208,504	214,092	1,548	2,053
Capital outlay	10,614	14,805	9,429	39,242	284	327
Total expenditures	$ 1,238,838	$ 1,340,465	$ 1,334,195	$ 1,495,150	$ 10,810	$ 12,000

* The peer group average is derived from information we obtained from the Minnesota Department of Education's website for other charter schools with 2013 ADM between 100 - 150.



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Future Accounting Standard Changes

The following Governmental Accounting Standards Board (GASB) Statements have been issued and may have an impact on future Charter School financial statements: [(1)]

GASB Statement No. 68 - *The Accounting and Financial Reporting of Pensions- an Amendment of GASB Statement No. 27*

Summary

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information.

GASB Statement No. 69 - *Government Combinations and Disposals of Government Operations*

Summary

This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged.

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Future Accounting Standards - Continued

How the Changes in This Statement Will Improve Financial Reporting

Until now, governments have accounted for mergers, acquisitions, and transfers of operations by analogizing to accounting and financial reporting guidance intended for the business environment, generally APB Opinion No. 16, Business Combinations. This Statement provides specific accounting and financial reporting guidance for combinations in the governmental environment. This Statement also improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations.

GASB Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measure Date - an Amendment of GASB Statement No. 68*

Summary

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement No. 68.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

[1] *Note*. From GASB Pronouncements Summaries. Copyright 2014 by the Financial Accounting Foundation, 401 Merritt 7, Norwalk, CT 06856, USA, and is reproduced with permission.

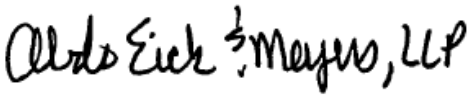
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This communication is intended solely for the information and use of the Board of Education, management and the Minnesota Department of Education and is not intended and should not be used by anyone other than these specified parties.

Our audit would not necessarily disclose all weaknesses in the system because it was based on selected tests of the accounting records and related data. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

If you have any questions or wish to discuss any of the items contained in this letter, please feel free to contact us at your convenience. We wish to thank you for the continued opportunity to be of service and for the courtesy and cooperation extended to us by your staff.



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