Management Letter

TRIO Wolf Creek Distance Learning Charter School No. 4095

Chisago City, Minnesota

For the Year Ended
June 30, 2015

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

People + Process®
Going Beyond the Numbers

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

November 2, 2015

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, 2015. 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 July 9, 2015. 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.

5201 Eden Avenue, Suite 250
Edina, MN 55436
952.835.9090 | Fax 952.835.3261

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or Minnesota statutes.

Summary of Prior Year Findings

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.

Current status: There were no similar issues with late payments during the current fiscal year.

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. The requirements of GASB statements No. 68 and No. 71 were adopted for the year ended June 30, 2015. 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 except for the prior period restatement in Note 6 related to the implantation of GASB statements No. 68 and No. 71.

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.

- Management's estimate of its pension liability is based on several factors including, but not limited to, anticipated investment return rate, retirement age for active employees, life expectancy, salary increases, and form of annuity payment upon retirement. The allocation of the pension liability is based on the Charter School's proportionate share of employer contributions to the pension plans.

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.

People + Process. Going Beyond the Numbers

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 November 2, 2015.

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.

People + Process®
Going Beyond the Numbers

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, 2015.

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

	Final Budgeted Amount	Actual Amount	Variance with Final Budget
Revenues	$ 1,666,563	$ 1,669,752	$ 3,189
Expenditures	1,606,528	1,591,828	14,700
Net change in fund balance	60,035	77,924	17,889
Fund balance, July 1	904,160	904,160	-
Fund balance, June 30	$ 964,195	$ 982,084	$ 17,889

The Charter School did amend the budget during the year, increasing revenues by $50,090 and decreasing expenditures by $89,555. Some of the line items with significant variances from the final budget are highlighted below:

- The largest expenditure variance was within elementary and secondary regular instruction ($13,935) which was 1.7 percent less than what was anticipated budgeted.

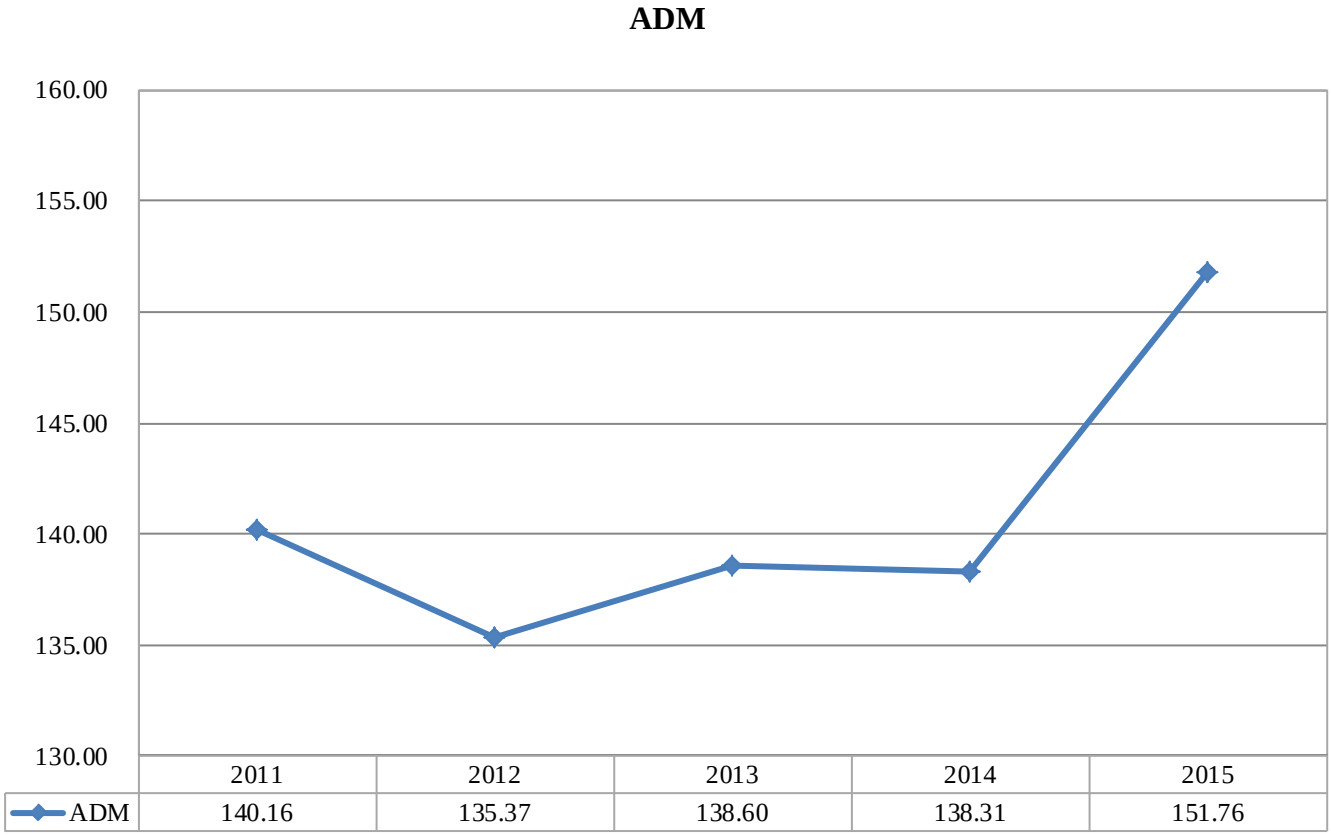
People + Process. Going Beyond the Numbers

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
2015	$ 982,084	$ 650,635	$ 1,591,828	61.70 %	40.87 %
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

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

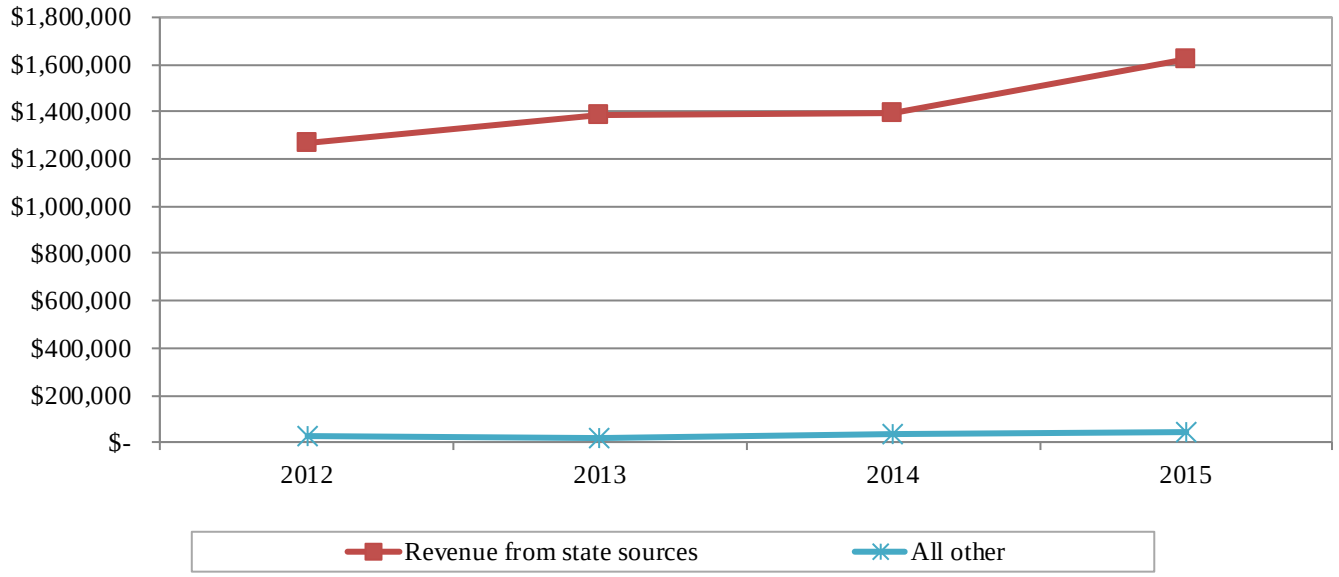


People + Process. Going Beyond the Numbers

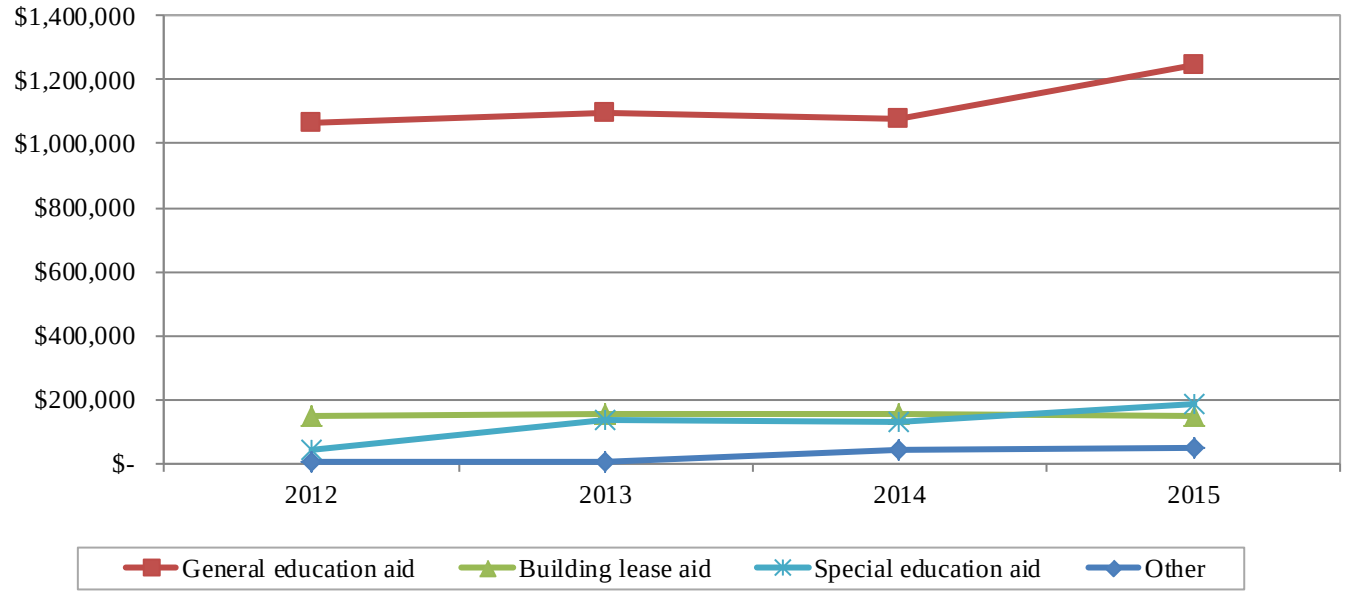
A further breakdown of revenues by source is as follows:

Revenue Source	2012	2013	2014	2015	Per ADM
Other local and county revenue	$ 4,914	$ 5,682	$ 4,500	$ 7,520	$ 50
Revenue from state sources	1,264,313	1,385,200	1,396,729	1,624,168	10,702
Revenue from federal sources	16,849	15,684	36,545	37,714	249
Sales and other conversion of assets	3,005	378	373	350	2
Total revenues	$ 1,289,081	$ 1,406,944	$ 1,438,147	$ 1,669,752	$ 11,003

Revenues by Source



Breakdown of Revenues from State Sources

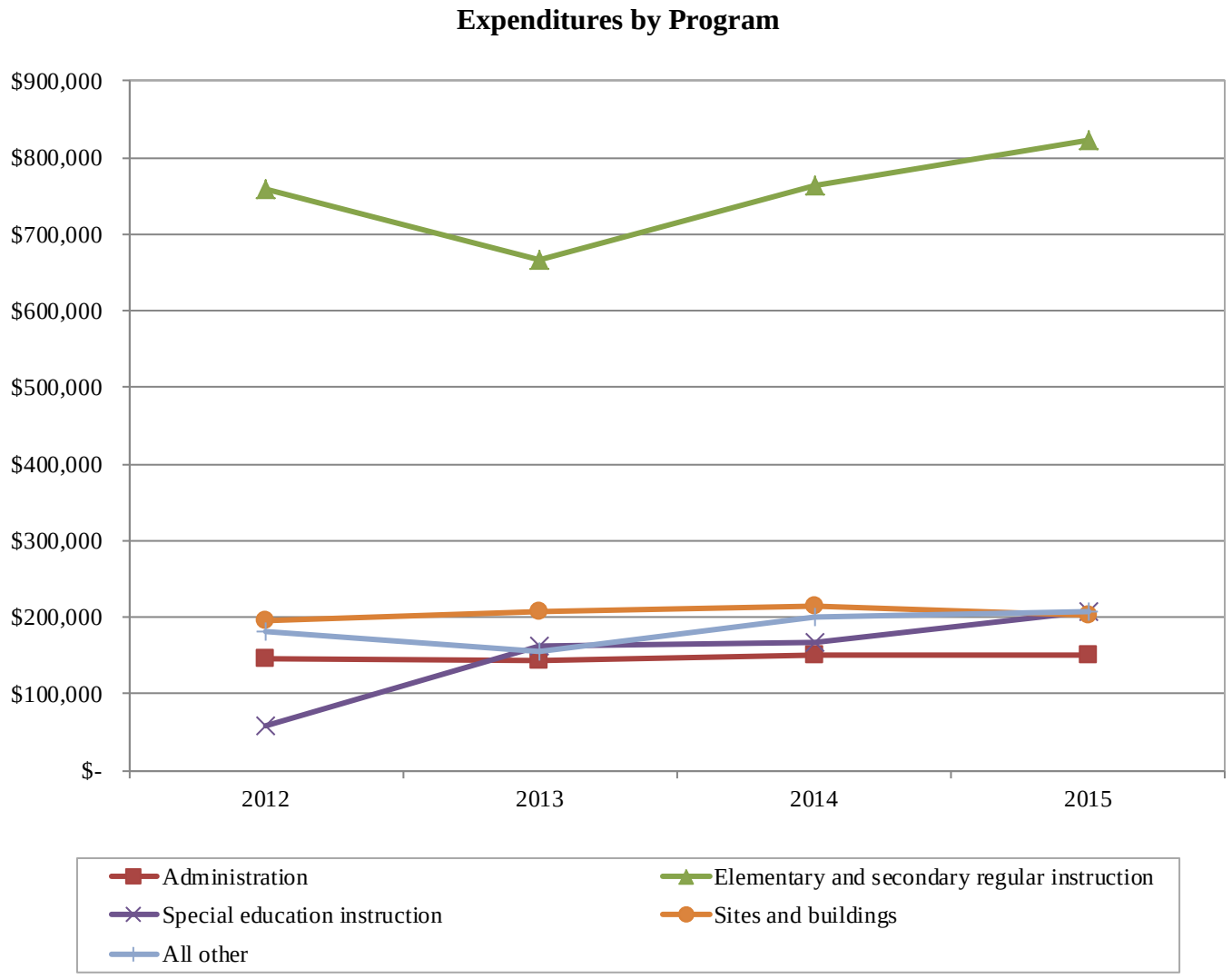


People + Process. Going Beyond the Numbers

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

Expenditures by Program	2012	2013	2014	2015	Per ADM	Peer Group Per ADM*
Administration	$ 145,437	$ 143,001	$ 149,440	$ 151,622	$ 999	$ 464
District support services	50,810	37,687	44,338	51,814	341	1,626
Elementary and secondary regular instruction	758,806	665,616	762,681	822,465	5,420	4,955
Special education instruction	57,870	161,889	168,046	206,349	1,360	1,771
Instructional support services	115,608	107,897	117,311	123,672	815	250
Pupil support services	714	172	-	-	-	629
Sites and buildings	196,415	208,504	214,092	203,604	1,342	2,060
Capital outlay	14,805	9,429	39,242	32,302	213	287
Total expenditures	$ 1,340,465	$ 1,334,195	$ 1,495,150	$ 1,591,828	$ 10,490	$ 12,042

* The peer group average is derived from information we obtained from the Minnesota Department of Education's website for other charter schools with 2014 ADM between 100 - 150.



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. 72 - *Fair Value Measurement and Application*

Summary

This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Fair Value Measurement

Fair value is described as an exit price. Fair value measurements assume a transaction takes place in a government's principal market, or a government's most advantageous market in the absence of a principal market. The fair value also should be measured assuming that general market participants would act in their economic best interest. Fair value should not be adjusted for transaction costs.

To determine a fair value measurement, a government should consider the unit of account of the asset or liability. The unit of account refers to the level at which an asset or a liability is aggregated or disaggregated for measurement, recognition, or disclosure purposes as provided by the accounting standards. For example, the unit of account for investments held in a brokerage account is each individual security, whereas the unit of account for an investment in a mutual fund is each share in the mutual fund held by a government.

This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches: the market approach, the cost approach, or the income approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts (such as cash flows or income and expenses) to a single current (discounted) amount. Valuation techniques should be applied consistently, though a change may be appropriate in certain circumstances. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

This Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

A fair value measurement takes into account the highest and best use for a nonfinancial asset. A fair value measurement of a liability assumes that the liability would be transferred to a market participant and not settled with the counterparty. In the absence of a quoted price for the transfer of an identical or similar liability and if another party holds an identical item as an asset, a government should be able to use the fair value of that asset to measure the fair value of the liability.

This Statement requires additional analysis of fair value if the volume or level of activity for an asset or liability has significantly decreased. It also requires identification of transactions that are not orderly. Quoted prices provided by third parties are permitted, as long as a government determines that those quoted prices are developed in accordance with the provisions of this Statement.

People + Process. Going Beyond the Numbers

Future Accounting Standards - Continued

Fair Value Application

This Statement generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a7-like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. A government is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share (or its equivalent) of the investment.

This Statement requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

Fair Value Disclosures

This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position.

[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.

* * * * *

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.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Minneapolis, Minnesota
November 2, 2015

People + Process. Going Beyond the Numbers