



TRIO WOLF CREEK
DISTANCE LEARNING CHARTER SCHOOL NO. 4095
CHISAGO CITY, MINNESOTA

MANAGEMENT LETTER

YEAR ENDED
JUNE 30, 2008

Grandview Square
5201 Eden Avenue
Suite 370
Edina, MN 55436

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

We have audited the financial statements of TRIO Wolf Creek Distance Learning Charter School (Charter School No. 4095) (the Charter School), Chisago City, Minnesota for the year ended June 30, 2008, and have issued our report thereon dated November 5, 2008. Professional standards require that we provide you with 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 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 over financial reporting. 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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charter School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Charter School's financial statements that is more than inconsequential will not be prevented or detected by the Charter School's internal control. We consider the deficiency on the following page to be a significant deficiency in internal control over financial reporting.



2008-1: Preparation of Financial Statements

<i>Condition:</i>	We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. It is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.
<i>Criteria:</i>	Internal controls should be in place to provide reasonable assurance over financial reporting.
<i>Cause:</i>	From a practical standpoint, we both prepare the statements and determine the fairness of the presentation at the same time in connection with our audit. This is not unusual for us to do with organizations of your size.
<i>Effect:</i>	The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for accuracy; we have answered any questions that management might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosures in your statements. We are satisfied that the appropriate steps have been taken provide you with the completed financial statements.
<i>Recommendation:</i>	Under these circumstances, the most effective controls lie in management's knowledge of the Organization's financial operations. Regarding the specific situations listed above, we would offer the following specific recommendation: 1) Utilize a disclosure checklist to ensure all required disclosures are present and agree to work papers, and 2) Agree your Smart Finance reports to the amounts reported in the financial statements.
<i>Management Response:</i>	Considering the size of our district and knowing the sizable task it is to complete the financial statements we are willing to accept the degree of risk associated with this condition. The District will continue to strive toward segregation of duties and proper internal controls. We feel we have a system in place to minimize undetected errors.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter School's internal control. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.



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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions. We noted no instances of noncompliance with Minnesota statutes.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. 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. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

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 significant estimate affecting the financial statements was depreciation on capital assets. Management's estimate of depreciation is based on estimated useful lives of the assets. We evaluated the key factors and assumptions used to develop depreciation in determining that it is 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.



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 total we prepared 4 journal entries (1 audit, 3 accounting). These entries are necessary to adjust balances to the proper year end amount.

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. 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 5, 2008.



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 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.

Other Matters

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, 2008.

Financial Position and Results of Operations

General fund

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

	Final Budgeted Amount	Actual Amount	Variance with Final Budget - Positive (Negative)
Revenues	\$ 1,130,362	\$ 1,086,398	\$ (43,964)
Expenditures	922,257	958,576	(36,319)
Net change in fund balances	208,105	127,822	(80,283)
Fund balances, July 1, 2007	440,059	440,059	-
Fund balances, June 30, 2008	<u>\$ 648,164</u>	<u>\$ 567,881</u>	<u>\$ (80,283)</u>

The largest budget variance for revenues was \$71,737 received less than anticipated for State sources.

The largest variance for expenditures was in special education instruction, which was \$30,878 more than budgeted.

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. We recommend a fund balance of around 7 to 10 percent of planned expenditures.

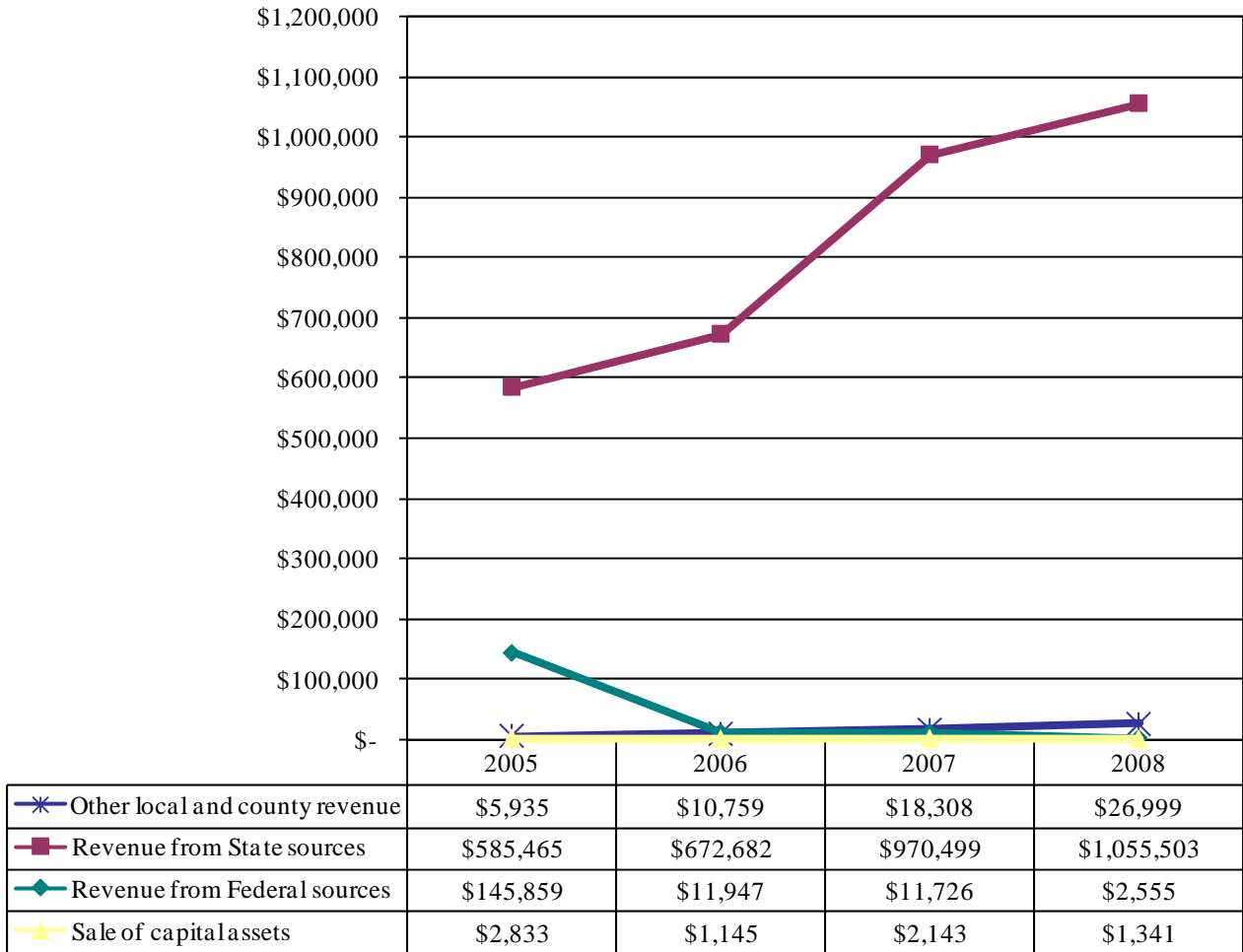


Listed below is an analysis of fund balance for the past five years:

<u>General Fund</u>	<u>Total Fund Balance</u>	<u>Total Expenditures</u>	<u>Fund Balance as a Percent of Expenditures</u>
2008	\$ 567,881	\$ 958,576	59.24 %
2007	440,059	839,323	52.43
2006	276,706	693,430	39.90
2005	273,603	804,364	34.01
2004	337,875	461,362	73.23

A further breakdown of revenues by source is as follows:

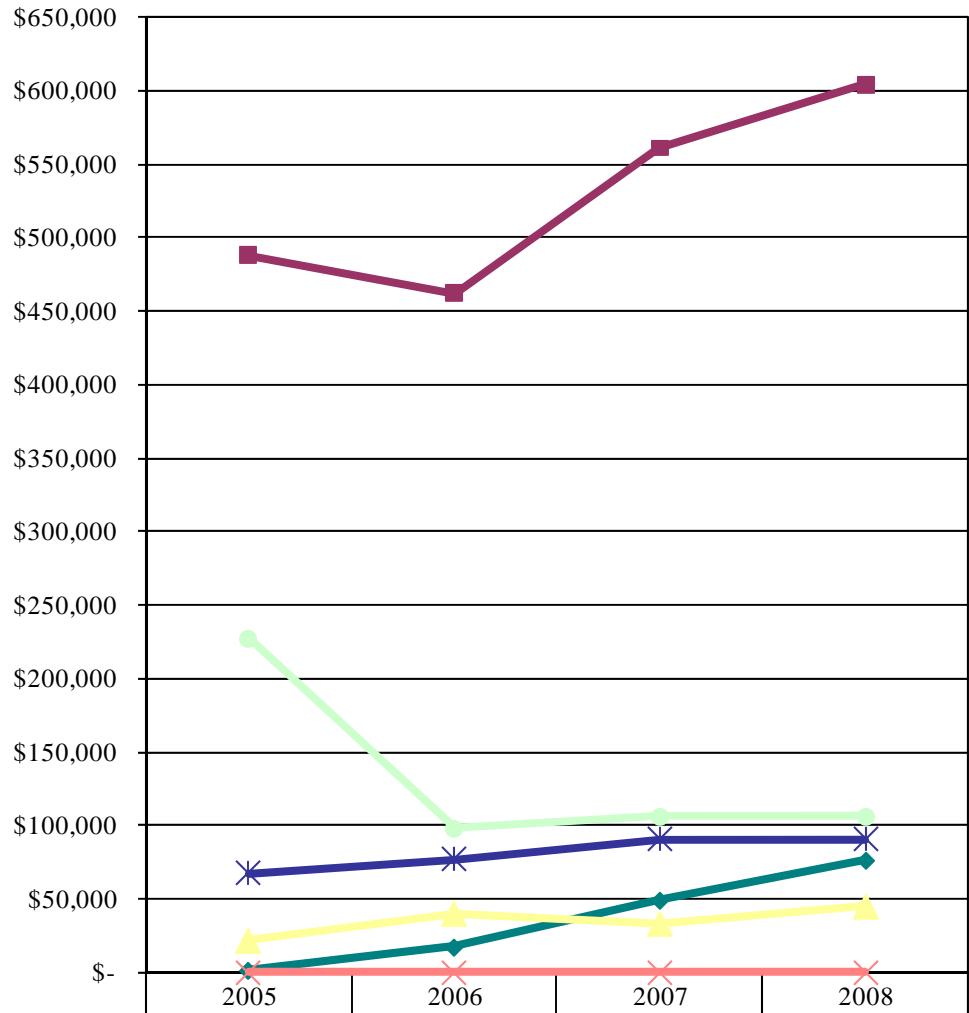
Revenues by Source





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

Expenditures by Program



—*— Administration	\$67,152	\$76,446	\$90,355	\$89,731
—■— Elementary and secondary regular instruction	\$487,401	\$461,869	\$560,824	\$603,845
—◆— Special education instruction	\$1,129	\$16,869	\$48,845	\$76,023
—▲— Instructional support services	\$21,613	\$39,953	\$33,168	\$44,842
—×— Pupil support services	\$84	\$60	\$-	\$20
—●— Sites, buildings and equipment	\$226,985	\$98,233	\$106,131	\$105,984



Other items

IRS Form 990 Revisions

To keep you abreast of changes that may affect the Charter School, we have summarized the following modifications to your IRS Form 990 filings:

The IRS has issued an updated version of Form 990, the return that charities and other tax-exempt organizations are required to file annually, and provided transition relief so that small exempt organizations will have time to adjust to the new form.

The final form allows an organization to describe its exempt accomplishments and mission up-front and provides more opportunities throughout the form for the organization to explain its activities. Other major changes were made to the form's summary page, governance section, and various schedules, including those relating to executive compensation, related organizations, foreign activities, hospitals, non-cash contributions and tax exempt bonds. A checklist of schedules was also added.

The new form will be used for the 2008 tax year (returns filed in 2009). The IRS released the related instructions in 2008. The IRS also announced a graduated transition period for smaller organizations. These organizations will be allowed to file the Form 990-EZ instead of the Form 990. For the 2008 tax year (returns filed in 2009), organizations with gross receipts over \$1.0 million or total assets over \$2.5 million will be required to file the Form 990. For the 2009 tax year (returns filed in 2010), organizations with gross receipts over \$500,000 or total assets over \$1.25 million will be required to file the Form 990. The filing thresholds will be set permanently at \$200,000 gross receipts and \$500,000 total assets beginning with the 2010 tax year. Also, starting with the 2010 tax year, the IRS will increase the filing threshold for organizations required to file Form 990-N (the e-postcard) from \$25,000 to \$50,000.

The final Form 990 and background material explaining the changes from the current form are available on the Exempt Organizations portion of the IRS Web site, www.IRS.gov/charities.

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:

GASB Statement No. 43 - *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*

This statement is effective one year prior to the effective date of Statement No. 45 for the employer or largest participating employer in the benefit plan for multiple-employer plans. According to Statement No. 43, "The objective of this Statement is to establish uniform standards of financial reporting by State and local governmental entities for other postemployment benefit plans (OPEB plans). The term other postemployment benefits (OPEB) refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and (b) other types of postemployment benefits (for example, life insurance) if provided separately from a pension plan. The term plans, in this context, refers to trust or other funds through which assets are accumulated to finance OPEB, and benefits are paid as they come due. This Statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The requirements of this Statement apply whether an OPEB plan is reported as a trust or agency fund or a fiduciary component unit of a participating employer or plan sponsor, or the plan is separately reported by a public employee retirement system (PERS) or other entity that administers the plan."



GASB Statement No. 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

This statement is effective in three phases based on a government's total annual revenues in the first fiscal year ending after June 15, 1999:

- Governments that were phase 1 governments for the purpose of implementation of Statement No. 34 - those with annual revenues of \$100 million or more - are required to implement this Statement in financial statements for periods beginning after December 15, 2006.
- Governments that were phase 2 governments for the purpose of implementation of Statement No. 34 - those with total annual revenues of \$10 million or more but less than \$100 million - are required to implement this Statement in financial statements for periods beginning after December 15, 2007.
- Governments that were phase 3 governments for the purpose of implementation of Statement No. 34 - those with total annual revenues of less than \$10 million - are required to implement this Statement in financial statements for periods beginning after December 15, 2008.

Statement No. 45 gives the following summary, "In addition to pensions, many state and local governmental employers provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers."

GASB Statement No. 47 - Accounting for Termination Benefits

In general, Statement No. 47 is effective for financial statements for periods beginning after June 15, 2005. However, for termination benefits that affect defined benefit post-employment benefits other than pensions, governments should implement Statement 47 simultaneously with Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements.



GASB Statement No. 49 - Accounting and Financial Reporting for Pollution Remediation Obligations

This statement was issued November 2007 and is effective for periods beginning after December 15, 2007, but liabilities should be measured at the beginning of that period so that beginning net assets can be restated.

This standard is intended to ensure that certain cost and long-term obligations related to pollution clean up not specifically addressed by current governmental accounting standards will be included in financial reports. The standards set forth the key circumstances under which a government would be required to report a liability related to pollution remediation. A government would have to determine whether one or more components of a pollution remediation liability are recognizable if any of the following five obligating events or triggers occurs:

- A government is compelled to take remediation action because pollution creates an imminent endangerment to the public health or welfare or environment, leaving it little or no discretion to avoid remediation action.
- A government is in violation of a pollution prevention-related permit or license.
- The government is named, or evidence indicates it will be named, by a regulator that has identified the government as a responsible party or potentially responsible party for remediation, or as a government responsible for sharing costs.
- A government is named, or evidence indicates that it will be named, in a lawsuit to compel the government to participate in remediation.
- A government commences or legally obligates itself to commence cleanup activities or monitoring or operation and maintenance of the remediation effort.

If any of the above bullets are met, the pollution remediation liabilities should be measured at their current value using the expected cash flow technique, which measures the liability as a sum of probability-weighted amounts in a range of possible estimated amounts. Expected recoveries from other responsible parties and from insurers reduce the amount of remediation expense. Statement No. 49 also specifies criteria for capitalization of some pollution remediation outlays.



GASB Statement No. 50 – Pension Disclosures

This statement was issued May 2007 and is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007 or later.

This statement more closely aligns the financial reporting requirements for pensions with those for OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this statement amend applicable note disclosure and RSI requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with requirements of Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This statement requires defined benefit pension plans and sole and agent employers present the following information related to note disclosures:

- Notes to financial statements should disclose the funded status of the plan as of the most recent actuarial valuation date. Defined benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to RSI.
- If the aggregate actuarial cost method is used to determine the annual required contribution of the employer (ARC), notes to financial statements should disclose the funded status of the plan, and a schedule of funding progress should be presented as RSI, using the entry age actuarial cost method. Plans and employers also should disclose that the purpose of doing so is to provide information that serves as a surrogate for the funded status and funding progress of the plan.
- Notes to financial statements should include a reference linking the funded status disclosure in the notes to financial statements to the required schedule of funding progress in RSI.
- If applicable, notes to financial statements should disclose legal or contractual maximum contribution rates. In addition, if relevant, they should disclose that the maximum contribution rates have not been explicitly taken into consideration in the projection of pension benefits for financial accounting measurement purposes.
- If an actuarial assumption is different for successive years, notes to financial statements should disclose the initial and ultimate rates.



GASB Statement No. 51 - Accounting and Financial Reporting for Intangible Assets

This statement was issued in June 2007 and is effective for periods beginning after June 15, 2009.

The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks.

This statement requires that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets. The statement provides additional guidance that specifically addresses the unique nature of intangible assets, including:

- Requiring that an intangible asset be recognized in the statement of net assets only if it is considered identifiable
- Establishing a specified-conditions approach to recognizing intangible assets that are internally generated (for example, patents and copyrights)
- Providing guidance on recognizing internally generated computer software
- Establishing specific guidance for the amortization of intangible assets.

* * * * *

This report is intended solely for the information and use of the Members of the Board of Education, management, the Minnesota Department of Education and Federal awarding agencies, and is not intended and should not be used by anyone other than these specified parties. The comments and recommendations in the report are purely constructive in nature, and should be read in this context.

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.

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 opportunity to be of service and for the courtesy and cooperation extended to us by your staff.

November 5, 2008
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants