



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

MANAGEMENT LETTER

YEAR ENDED
JUNE 30, 2009

 **ABDO
EICK &
MEYERS** LLP
Certified Public Accountants & Consultants

5201 Eden Avenue
Suite 370
Edina, MN 55436

Management and 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, 2009, and have issued our report thereon dated December 4, 2009. 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.

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.



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 estimates affecting the financial statements were amounts due from the State of Minnesota and 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. Management's estimate of the amounts due from the State of Minnesota are based on currently known amounts as calculated by the State.

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. The one audit entry we proposed was to record an additional capital asset not identified by management.

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 December 4, 2009.

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, 2009.



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	\$ 1,553,563	\$ 1,714,699	\$ 161,136
Expenditures	<u>1,662,351</u>	<u>1,636,179</u>	<u>26,172</u>
Net change in fund balances	(108,788)	78,520	187,308
Fund balances, July 1	<u>567,881</u>	<u>567,881</u>	-
Fund balances, June 30	<u>\$ 459,093</u>	<u>\$ 646,401</u>	<u>\$ 187,308</u>

The largest revenue variance was \$152,475 over budget, which was from State sources. General education aid was the primary reason for the State source revenue exceeding budget.

The largest expenditure variance was in elementary and secondary regular instruction, which was \$32,505 under budget. Salary expenditures were the primary reason for the positive variance.

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 10 - 15 percent of planned expenditures. As shown in the chart below, the Charter School is above the recommended fund balance.

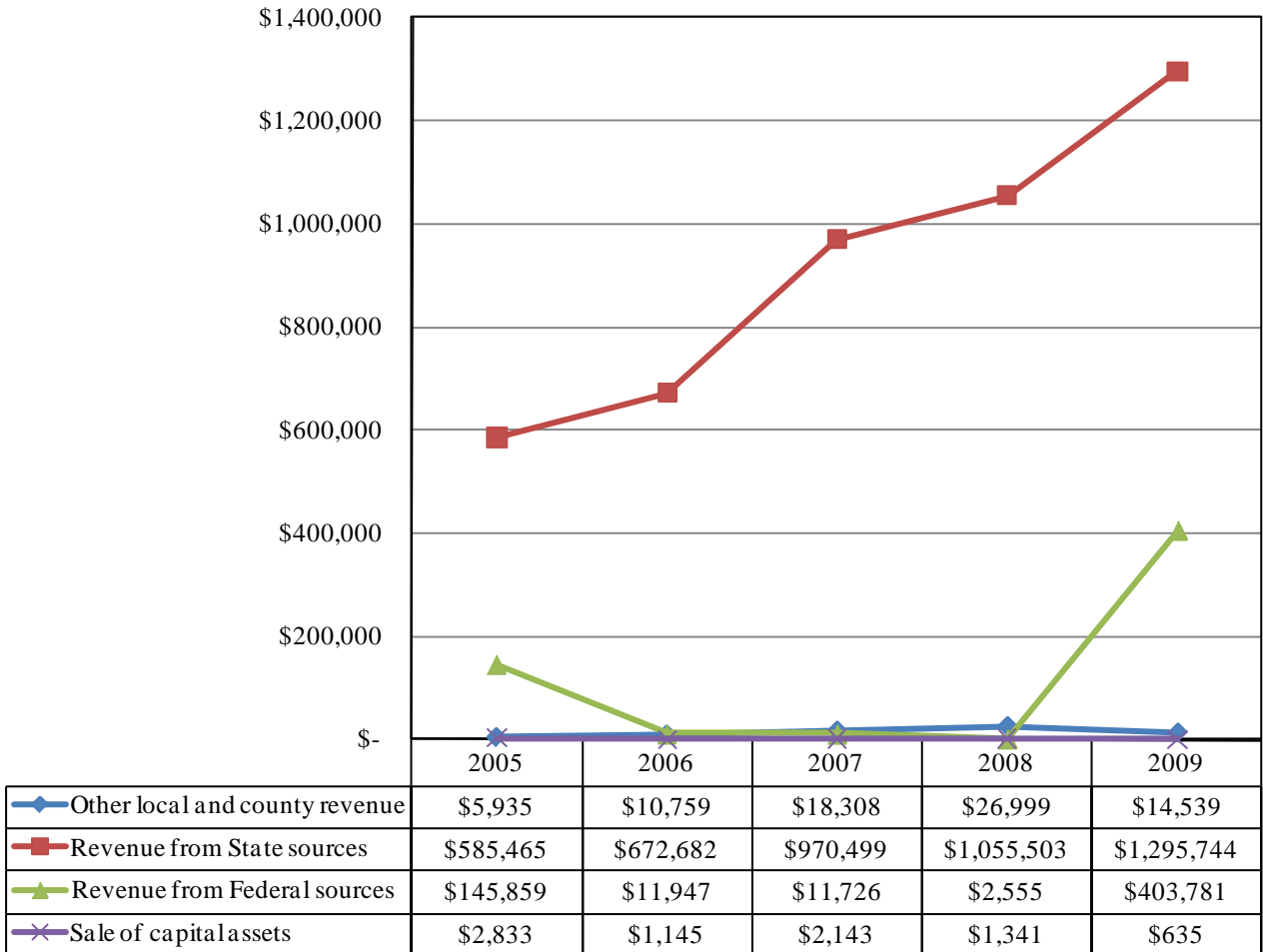


Listed below is an analysis of fund balance for the past five years:

<u>General Fund</u>	<u>Total Fund Balance</u>	<u>Total Expenditures</u>	<u>Fund Balance as a Percent of Expenditures</u>
2009	\$ 646,401	\$ 1,636,179	39.51 %
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

A further breakdown of revenues by source is as follows:

Revenues by Source

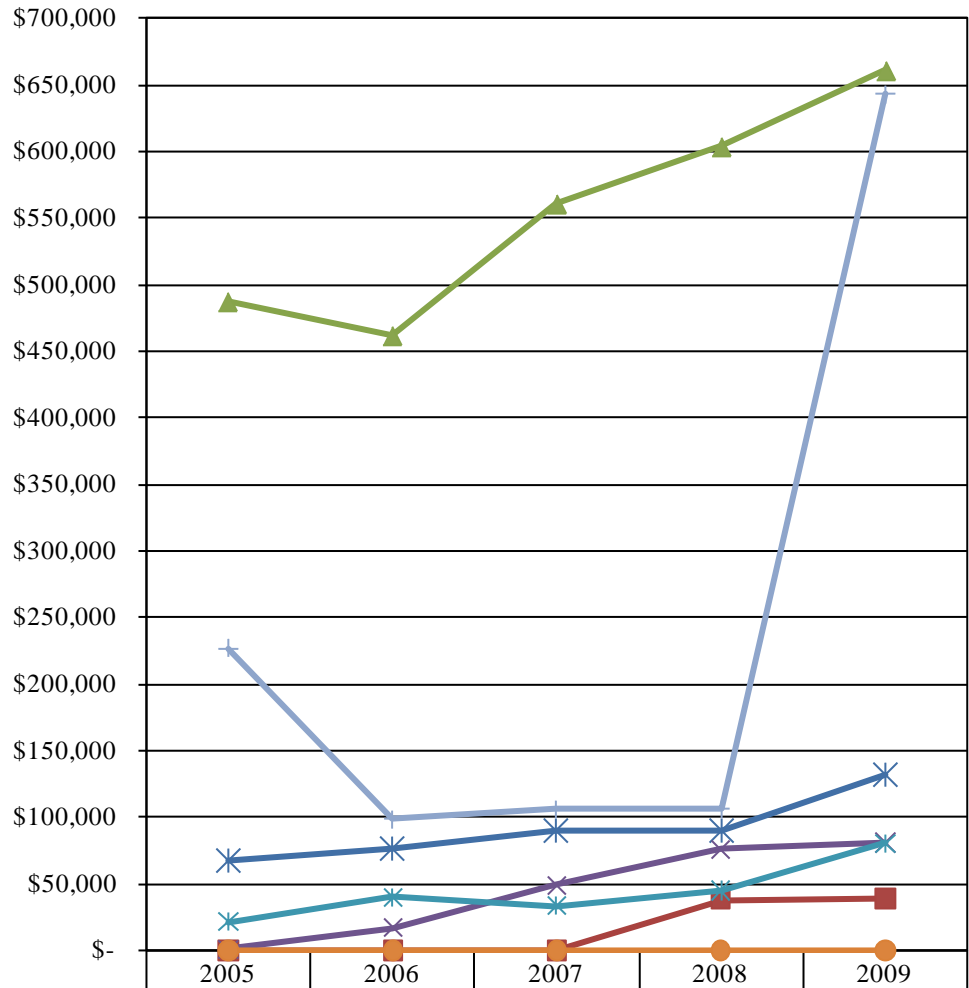


The increase in Federal revenue was a result of the funding for the building project during the year.



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

Expenditures by Program



Administration	\$67,152	\$76,446	\$90,355	\$89,731	\$131,845
District support services	\$-	\$-	\$-	\$38,131	\$39,028
Elementary and secondary regular instruction	\$487,401	\$461,869	\$560,824	\$603,845	\$661,008
Special education instruction	\$1,129	\$16,869	\$48,845	\$76,023	\$80,796
Instructional support services	\$21,613	\$39,953	\$33,168	\$44,842	\$80,586
Pupil support services	\$84	\$60	\$-	\$20	\$-
Sites, buildings and equipment	\$226,985	\$98,233	\$106,131	\$105,984	\$642,916

Sites, buildings and equipment program increase was a result of the building project completed during the year.



Other Items

During review of the Charter School's procedures, we noted there is a lack of controls over the petty cash that is at the Charter School. Maintaining a petty cash fund at the school is an appropriate activity, however the access to the petty cash should be limited to a couple individuals. Currently, all staff have access to the cash. The cash is used for making change for students and other minor expenses. Though the balance of the petty cash is minimal, allowing more than a couple access to the fund, increases the risk of theft. Under the current system where all employees have access, this theft would most likely not be able to be traced to a specific individual. We recommend access be limited to the Director (Tracy) and the support staff (Sheryl). In addition, the monthly reconciliation of the cash should be done by one of these two individuals, with the other reviewing the reconciliation and the support.

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. 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. 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.

GASB Statement No. 54 - Fund Balance

This statement was issued in March of 2009 and is effective for periods beginning after June 15, 2010.

This new standard is intended to improve the usefulness of information provided to financial report uses about fund balance by providing clearer, more structured fund balance classifications, and clarifying the definitions of existing governmental fund types.

GASB No. 54 distinguishes fund balance between amounts that are considered non-spendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. The following classifications and definitions will be used:

- *Restricted* - amounts constrained by external parties, constitutional provision, or enabling legislation
- *Committed* - amounts constrained by a government using its highest level of decision-making authority
- *Assigned* - amounts a government *intends* to use for a particular purpose
- *Unassigned* - amounts that are not constrained at all will be reported in the general fund.

In addition to the classifications of fund balance, the standard clarified the definitions of individual governmental fund types, for example, special revenue funds, debt service funds, and capital project funds.



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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.

December 4, 2009
Minneapolis, Minnesota

ABDO, EICK & MEYERS, LLP
Certified Public Accountants