FRASER ACADEMY
Charter School No. 4113
Minneapolis, Minnesota

MANAGEMENT LETTER

For the Fiscal Year Ended June 30, 2012

FRASER ACADEMY
Charter School No. 4113

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REPORT ON MATTERS IDENTIFIED AS A RESULT OF THE AUDIT OF THE FINANCIAL STATEMENTS

Members of the Board
Fraser Academy
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of Fraser Academy, Minneapolis, Minnesota, as of and for the fiscal year ended June 30, 2012, in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. Material weaknesses and significant deficiencies identified, if any, are stated within this letter.

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 Academy's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

The accompanying memorandum includes a recommendation for improvement of accounting procedures and internal control measures that came to our attention as a result of our audit of financial statements of the Academy for the fiscal year ended June 30, 2012. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated November 20, 2012, on such statements.

This communication is intended solely for the information and use of the Board of Directors, management, others within the Academy and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

Kern, DeWenter, Viere Ltd

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 20, 2012

FRASER ACADEMY
Charter School No. 4113

REQUIRED COMMUNICATION
June 30, 2012

We have audited the basic financial statements of the Academy for the fiscal year ended June 30, 2012, and have issued our report dated November 20, 2012. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING STANDARDS AND *GOVERNMENT AUDITING STANDARDS*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform our 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 of the Academy. 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.

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

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. 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 Academy are described in Note 1 to the financial statements. We noted no transactions entered into 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 statements in a different period than when the transaction occurred.

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REQUIRED COMMUNICATION
June 30, 2012

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

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

> Depreciation – The Academy is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.
>
> General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is also dependent upon ADM value; however, in addition to those, this Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

We evaluated the key factors and assumptions used to develop the above estimates in determining they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no 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. 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 requested certain representations from management which were provided to us in the management representation letter.

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June 30, 2012

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 Academy'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. We are not aware of any consultations by the Academy's management with other accountants during the course of our audit.

OTHER ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Academy'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 INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

We have not reviewed, and it is our understanding, that no other published documents exist that contain audited financial statement information, for which we are currently auditing. As stated in our engagement letter, if you publish or reproduce the financial statements or make reference to our Firm name in relation to such documents, you agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

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LEGISLATIVE SUMMARY
June 30, 2012

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

STATE AID APPROPRIATIONS

The formula allowance for fiscal year 2013 General Education Aid was increased to $ 5,224. Linkages remain intact for compensatory, sparsity, transportation sparsity, nonpublic pupil/nonpublic transportation and tribal contract revenues.

Given the February 2012 budget forecast for the state, education appropriations have been changed from 60% current funding to 64.3% current funding.

Small schools revenue, new for fiscal year 2013, will be included in General Education Aid. Districts, not including charter schools, with fewer than 1,000 students are eligible to receive small school revenue on a sliding scale. This revenue is equal to the 2013 formula allowance, divided by the district's adjusted marginal cost pupil units, times the greater of zero or the ratio of 1,000 less the district's adjusted marginal cost pupil units for that year divided by 1,000. Fiscal year 2013 appropriation for this program is $ 9,617,000.

Beginning fiscal year 2013, districts are required to pay teachers who are on military leave their full salary. Current law allows districts to reduce the teacher's leave pay by the direct costs of substitute teachers.

EDUCATION EXCELLENCE

New Literacy Incentive Aid, beginning in fiscal year 2013, includes the new Proficiency Aid and Growth Aid. Proficiency Aid is the district's 3rd grade enrollment on October 1 of the previous year times $ 530, times its proficiency index (percent of 3rd graders meeting or exceeding proficiency.) Growth Aid is the product of a district's 4th grade enrollment on October 1 of the previous year, times $ 530 times the percent of 4th graders making medium or high growth on the reading MCA. Funding in 2013 is capped at $ 45,585,000 and the estimated aid proration factor is 97.8%.

SPECIAL EDUCATION

Regular and excess cost and growth factors remained as in current law (4.6% for regular and 2.0% for excess cost).

PERSONNEL AND ACCOUNTING

Beginning fiscal year 2013, districts are required to give written notice by July 1, instead of June 1, to probationary teachers whose contract it declines to renew for the following school year.

For fiscal year 2014, all districts are required to adopt and maintain an annual principal evaluation process consistent with provisions in state statutes. Principal evaluations will be a required duty of the superintendent. The MDE developed a model for this evaluation which will be piloted in certain districts for the 2013 school year.

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June 30, 2012

PERSONNEL AND ACCOUNTING

For fiscal year 2015, all districts are required to adopt and maintain a teacher evaluation process consistent with provisions in state statutes. The MDE is in the process of developing a model for this evaluation, which will be piloted in certain districts for the 2014 school year.

The authority for districts to make unlimited fund transfers that do not increase state aid or levy obligations is extended to fiscal years 2014 and 2015. Districts will follow the same procedures outlined for fiscal years 2012 and 2013:

- Transfers are not allowed from the food service or community service funds. The school board must adopt a resolution stating the transfer will not diminish instructional opportunities for students and the district must apply to the Commissioner to make the transfer. The application must include the amount to be transferred and the funds/accounts involved. It must also be signed by the superintendent and approved by the school board.

CHARTER SCHOOLS

Beginning fiscal year 2013, charter schools are eligible for Shared Time Aid, including Shared Time Aid for home-schooled students. The resident district must grant permission to the charter school or another district to claim the shared time aid for students if requested by the nonresident district or charter school.

Districts and charter schools are allowed to enter into a collaborative agreement, given the charter school is in the geographic boundaries of the district. These agreements can include, but are not limited to; facilities, transportation and student achievement assessments.

Charter schools are required to publish and maintain on their web site, the meeting minutes of the board, directory of information and delegated committees and contact information for a school's authorizer. Board training must also be included in the annual report, although the MDE does not have to approve the training.

The initial approval of a charter contract can be extended to five years instead of three years. In addition, the length of time a charter school seeking to build or expand needs to have a net positive general fund balance has been shortened from eight years to five years.