

**FRASER ACADEMY
Charter School No. 4113
Minneapolis, Minnesota**

COMMUNICATIONS LETTER

For the Year Ended June 30, 2013

**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 and Management
Fraser Academy
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of Fraser Academy, Minneapolis, Minnesota, as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 a 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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.

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, Vice Ltd

KERN, DEWENTER, VIERE, LTD.
Bloomington, Minnesota
November 21, 2013

FRASER ACADEMY
Charter School No. 4113

REQUIRED COMMUNICATION
June 30, 2013

We have audited the basic financial statements of Fraser Academy for the year ended June 30, 2013, and have issued our report dated November 21, 2013. 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 an opinion 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.

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 internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Academy's compliance with certain provisions of laws, regulations, contracts and grant agreements. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the Academy and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the Academy or to acts by management or employees acting on behalf of the Academy.

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**REQUIRED COMMUNICATION
June 30, 2013**

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Academy 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 ended June 30, 2013. We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized 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 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 dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

The financial statement disclosures 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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is 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 that are included in the management representation letter.

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June 30, 2013**

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. 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 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 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 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.

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LEGISLATIVE SUMMARY
June 30, 2013

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

Total appropriations from the state general fund for E-12 education, are \$7.6 billion for 2014 and \$ 8.0 billion for 2015, or a total of \$15.6 billion for the biennium. This includes the addition of funding for all-day kindergarten, beginning in 2015.

The formula allowance for 2013 General Education Aid was increased \$ 50 to \$ 5,224. For 2014, the formula allowance will increase \$ 78 (1.5%) to \$ 5,302. For 2015 and later, the formula allowance is set at \$ 5,806, which is an increase of \$ 80 (1.5%) over 2014 after adjusting for the change in pupil unit weights and the elimination of the aid subtraction for pension rate changes. Beginning in 2015, basic revenue is calculated using adjusted pupil units with the new pupil weights rather than adjusted marginal cost pupil units.

Given the February 2013 budget forecast for the state, education appropriations have been changed from 64.3% current funding at the beginning of 2013 to 86.4% current funding at the end of 2013.

The ability of school districts and charter schools to generate extended time revenue for programs designed to accelerate grade level advancement so that students graduate before their peers is eliminated.

In 2015 the extended time revenue allowance increases from \$ 4,601 to \$ 5,017 to adjust for the change in pupil weights. Also in 2015, the gifted and talented revenue increases from \$ 12 to \$ 13 to adjust for the change in pupil weights.

For 2015 and later, alternative teacher compensation revenue (Q Comp) will be changed from a component of general education revenue to a separate categorical revenue, and adds declining enrollment revenue, pension adjustment revenue and location equity revenue as new components of general education revenue. The funding amount did not change.

Beginning in 2015, school districts are allowed to use general education revenue generated for all-day kindergarten to meet the needs of three and four year olds in the district. This does not apply to a district with a fee-based all-day kindergarten.

PUPIL ACCOUNTING REFORM

Beginning in 2015, pupil accounting reform will occur and pupil unit weights will change as follows:

Prekindergarten and Disabled	From 1.25	To 1.0
Part-time Kindergarten	From .612	To .55
All-Day Kindergarten	From .612	To 1.0
Grades 1-3	From 1.115	To 1.0
Grades 4-6	From 1.06	To 1.0
Grades 7-12	From 1.3	To 1.2

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June 30, 2013**

PUPIL ACCOUNTING REFORM

To qualify for all-day kindergarten weight, a pupil must be enrolled in a free all-day every day kindergarten program that is available to all kindergarten students at the pupil's school and must include at least 850 hours of instruction.

EDUCATION EXCELLENCE

A new formula for achievement and integration is established for 2014. An eligible district's achievement and integration revenue equals the sum of the district's initial integration revenue and incentive revenue. At least 80% of a district's revenue is required to be used for innovative and integrated learning environments. Up to 20% is allowed to be used for professional and staff development. Administration expenditures can be no more than 10%.

SPECIAL EDUCATION

A new special education formula is enacted beginning in 2016. To provide for a transition to the new formula, the current special education regular formula remains in place for 2014 and 2015, but a new cross subsidy reduction aid is added for 2014 and 2015. The cross subsidy reduction aid entitlement is \$ 13 million for 2014 and \$ 30 million for 2015.

For 2014 and 2015, special education aid equals the sum of the capped regular special education aid under the old law formula, plus the cross subsidy reduction aid, plus the capped excess cost aid. Beginning in 2016, special education aid equals the sum of the new formula aid plus the new formula excess cost aid.

State total special education aid is increased by \$ 39 million for 2016 and by \$ 41 million for 2017.

Beginning in 2015, tuition billing is changed so that the resident district is responsible for 90% of unfunded costs (vs. 100% currently) and the serving district/charter school is responsible for 10% of unfunded costs for open-enrolled students. Intermediate districts, cooperatives and charter schools where at least 70% of students are eligible for special education are exempt from this provision and continue to be able to recover 100% of unfunded special education costs from the resident district. This also does not apply to students placed by the resident district (e.g. at an intermediate district), or served at a charter school with very high special education concentration.

Beginning in 2016, special education aid will be paid directly to cooperatives and intermediate districts, rather than having those aids flow through the resident district. Tuition bills will be reduced to offset the aid paid to the cooperative and intermediaries.

Special education excess cost aid will be calculated using prior year data beginning in 2014. Special education tuition receipts and expenditures will not be taken into account in excess cost aid calculations to expedite the excess cost aid calculations and eliminate circularity between tuition billing and excess cost aid.

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PERSONNEL AND ACCOUNTING

For 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 is piloted in certain districts for the 2013 school year.

For 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 2014 and 2015. Districts will follow the same procedures outlined for years 2012 and 2013, with one change:

- 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. The application must also be signed by the superintendent and approved by the school board. The change in requirements for 2014 and 2015 is that a transfer cannot be made from the reserved account for staff development revenue as the 2% set aside requirement has been reinstated for those years.

SCHOOL NUTRITION

The rate for each school lunch served increased from 12 to 12.5 cents beginning July 1, 2013.

CHARTER SCHOOLS

Charter school board member are required to attend annual training. A new board member who does not receive initial board training within six months of being seated on the board and does not complete the initial training within twelve months of being seated is automatically ineligible to continue board service.

An individual is prohibited from serving as a board member if an immediate family member is a school employee or is an individual with whom the school contracts. A teacher teaching at a school and serving as a member of the charter school board of directors is exempt from the conflict of interest provisions related to teacher compensation.

Charter contracts are required to include specific conditions for contract renewal that identify performance under the primary purpose charter schools of improving learning and student achievement as the most important factor in determining contract renewal. Closure plans in a charter contract are required to include a provision regarding information and assistance that will be provided to enable students to re-enroll in another school.

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CHARTER SCHOOLS

Audit reports are required to include supplemental information and an independent audit should include audited financial data of an affiliated building corporation.

Charter schools are required to implement a teacher evaluation and peer review process.

Charter schools are required to publish its lottery admissions process on its web site. Kindergarten and first grade enrollment is also limited to students who are eligible under the compulsory instruction statute, same as traditional school districts. Charter schools are allowed to enroll students earlier according to prescribed enrollment procedures if notice is published on the charter school web site and the enrollment policy conforms with kindergarten early admissions policies applicable to school boards generally.

Charter schools are required to post its annual report on the school's official web site.