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December 4, 2008

Members of the Board of Education
Charter School No. 4159
Seven Hills Classical Academy
Bloomington, Minnesota

This Executive Audit Summary and Management Report presents information which we believe is important to you as members of the school board. We encourage you to review the sections of this report, the audited financial statements and the auditors' reports.

We would be pleased to furnish additional information with respect to these suggestions and discuss this memorandum with you at your convenience. We wish to express our appreciation to the School for the courtesies, cooperation and assistance extended to us during the course of our work.

LarsonAllen LLP



Dennis Hoogeveen, CPA
Principal



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**SEVEN HILLS CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4159**

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2008

**SEVEN HILLS CLASSICAL ACADEMY
CHARTER SCHOOL NO. 4159
EXECUTIVE AUDIT SUMMARY (EAS)
TABLE OF CONTENTS
JUNE 30, 2008**

EXECUTIVE AUDIT SUMMARY

AUDIT FINDINGS AND RESULTS 1

APPENDIX A

STATEMENT ON AUDITING STANDARDS NO. 114 LETTER 3

**EXECUTIVE AUDIT SUMMARY (EAS)
FOR
SEVEN HILLS CLASSICAL ACADEMY
YEAR ENDED JUNE 30, 2008**

AUDIT FINDINGS AND RESULTS

We prepared this Executive Audit Summary and Management Report in conjunction with our audit of the School's financial records for the year ended June 30, 2008. We appreciated the time that staff took to work with us to complete the engagement.

Audit Opinion – The financial statements are fairly stated. We issued what is known as a “clean” audit report.

Yellow Book Opinion – No compliance issues were noted in our review of laws, regulations, contracts and grants that could have significant financial implications to the School.

Internal Controls – No “material weakness” in internal controls was noted.

Legal Compliance – No significant compliance issues were reported with respect to Minnesota Statutes related to charter schools and UFARS accounting.

Fund Balance – The School's General Fund experienced an increase fund balance during fiscal 2007-08 by \$114,996 ending at \$121,139 as of June 30, 2008. We recommend that a charter school develop a long-range plan which develops and maintains a target fund balance that is 20% to 25% of annual expenditures. The ending fund balance at June 30, 2008 for Seven Hills Classical Academy represents 5.22% of expenditures incurred for the year and is an important aspect in the School's financial well being since a healthy fund balance represents things such as cashflow, as a cushion against unanticipated expenditures, enrollment declines, state aid metering changes, funding deficiencies and aid prorations at the state level and similar problems. It is our understanding that the school board has adopted a fund balance policy that eventually calls for a 25% ending fund balance with an additional 3% being available for specific purposes such as capital items.

Budget – Total revenues on a net basis were \$78,277 (or 3.3%) higher than the final amended budget amount while total expenditures were \$47,608 (or 2.1%) higher than had been budgeted. As part of any budget update initiated for fiscal 2008-09, the Board will want to take these variances into consideration in order to limit budget differences to every extent possible. We recommend that budget variances in a charter school environment (which is more volatile than in a traditional school environment but on a much smaller scale) be limited to 1% to 2% on either side of zero once the School's program has matured and stabilized. We encourage you to continue the practice of undertaking mid-year budget reviews resulting in the adoption of a revised General Fund budget when updated information becomes available.

Food Service Fund – The School’s food service program operated at a deficit of \$11,633 for fiscal year 2008. Under UFARS (Uniform Financial Accounting Reporting Standards) the School is required to eliminate the deficit either through operations during the next fiscal year or through an operating transfer from the General Fund. The School approved the transfer of \$11,633 from the General Fund to the Food Service Fund to eliminate the year-end deficit. It is not uncommon for charter schools to operate a subsidized food service program in which a portion of general education funds are utilized (via an annual operating transfer from the General Fund to the Food Service Fund) to ensure that all students have access to a nutritious meal as part of a healthy learning environment. It is basically a board-level decision as to whether or not the intent of the School is to run a food service program on a break-even basis (which may necessitate higher meal prices for students that pay for full-price meals) or on a subsidized basis (where the conclusion is that it is not practical to operate the type of program you want to have without a subsidy). We recommend that the Board indicate in the budget the extent to which it is willing to subsidize the food service program.

Community Service Fund – The School’s community service program operated at a deficit of \$17,475 for fiscal year 2008. The School approved the transfer of \$17,475 from the General Fund to the Community Service Fund to eliminate the year-end deficit. We recommend that the Board develop a plan to minimize the likelihood of future deficits in the Community Service Fund to avoid using General Fund resources to subsidize this program, which should operate on a self-sustaining basis.

Audit Scheduling – During the course of the audit we discussed the audit timing with the School’s service provider. We suggest that consideration be given to whether a later start date would allow for a reduction in the number of open items at the end of audit fieldwork.

APPENDIX A

STATEMENT ON AUDITING STANDARDS NO. 114 LETTER

Board of Education
Charter School No. 4159
Seven Hills Classical Academy
Bloomington, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Seven Hills Classical Academy (the School) for the year ended June 30, 2008, and have issued our report thereon dated December 4, 2008. 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 dated April 7, 2008, 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 U.S. generally accepted accounting principles. 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 School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

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

1. 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.
2. 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.
3. We are also responsible for communicating Minnesota legal compliance issues.

Other Information in Documents Containing Audited Financial Statements

Our audit opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a client prepared document, such as an annual report, should be done only with our prior approval and review of the document. Our responsibility for other information in documents containing the School's financial statements and report does not extend beyond the financial information identified in the report. We do not have an obligation to perform any procedures to corroborate other information contained in such documents.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our email about planning matters on June 18, 2008.

Significant Audit Findings

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 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 ended June 30, 2008.

We noted no transactions entered into by the 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 statements 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 sensitive estimates affecting the financial statements were:

- Due from Minnesota Department of Education
- Due from Federal through the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets

Management's estimate of Due from Minnesota Department of Education (MDE) is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2007-08. The most significant of these is the aid portion of General education revenue. General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the School. Student attendance is accumulated in a statewide database – MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2008 is not finalized until well into fiscal year 2009. Beginning in fiscal 2008, MDE began calculating amounts owed to the School for special education excess cost tuition billing and adding the amount to the School's special education aid. In prior years, individual charter schools handled the tuition billing calculation and process. Because the tuition amounts are based on estimated information, final entitlements are not expected to be known until well into the following fiscal year. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from Federal through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2007-08. Many federal entitlements require that supporting financial reporting information be provided both in the UFARS accounting system and also the EDRS reporting system. To the extent that these two separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of the useful lives for depreciable assets is based on guidance recommended by the Minnesota Department of Education and other sources. The useful life of a depreciable asset determines the amount of depreciation that will be recorded in any given reporting period as well as the amount of accumulated depreciation that is reported at the end of a reporting period.

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

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 did not identify and we did not notify them of any uncorrected financial statement misstatements. We recognize that for management purposes, the School maintains its accounting records primarily using the cash basis during the year. We may propose certain entries while assisting your finance staff in the closing of the year-end accounting records. These types of adjustments are not considered "misstatements" for purposes of this communication.

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 auditors' 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 representation letter dated December 4, 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 School's financial statements or a determination of the type of auditors' 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 School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our audit.

Board of Education
Charter School No. 4159
Seven Hills Classical Academy

This information is intended solely for the use of the Board of Education and management of the School and is not intended to be and should not be used by anyone other than these specified parties.

Larson Allen LLP

LarsonAllen LLP

Minneapolis, Minnesota
December 4, 2008