

**PAIDEIA ACADEMY
CHARTER SCHOOL NO. 4141**

EXECUTIVE AUDIT SUMMARY (EAS)

YEAR ENDED JUNE 30, 2008

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**EXECUTIVE AUDIT SUMMARY (EAS)
FOR
PAIDEIA ACADEMY
YEAR ENDED JUNE 30, 2008**

AUDIT FINDINGS AND RESULTS

The Audit Process – We found the School's records to be in good order (organized, available, and complete). 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 "control deficiencies" in internal control were noted.

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

Other Issues - We found the School was not in compliance with certain insurance requirements required by their sponsor. Subsequent to year-end, the School obtained the necessary insurance coverages.

Fund Balance – The fund balance of the School's General Fund ended at a surplus of \$749,066 at June 30, 2008, which is 28.1% of annual expenditures of the General Fund. The School's ending balance is \$19,920 more than had been anticipated in the budget and represents a very positive result for the School's third year of operations. We recommend that a charter school develop a plan that will eventually result in a target fund balance that is 20% to 25% of annual expenditures. The School is already above the recommended general guideline. Fund balance is an important aspect in the School's financial well being since a healthy fund balance represents financial flexibility in terms of positive cash flow, as a cushion against unanticipated expenditures, enrollment declines, funding deficiencies, state aid metering changes, and aid prorations at the state level and similar problems.

Budget to Actual– Total revenues of the School's General Fund on a net basis were \$20,319 (or 0.7%) higher than the budgeted amount while total expenditures were just \$399 (or 0.0%) higher than had been budgeted. 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 to the extent practical. The School is already well within the recommended guideline.

Food Service Fund –The School's food service program operated at a surplus of \$1,244 for fiscal year 2007-08.

Total revenues on a net basis for the Food Service Fund were \$62,180 which was \$2,820 (or 4.3%) lower than the budgeted amount and total expenditures were \$60,936 which was \$4,064 (or 6.3%) less than budgeted.

Extended Day Programs – The School's extended day programs (required under UFARS to be accounted for in a Community Service Special Revenue Fund) ended the fiscal year with a positive fund balance of \$75,457 at June 30, 2008.

APPENDIX A

FORMAL REQUIRED COMMUNICATIONS

Board of Education
Charter School No. 4141
Paideia Academy
Apple Valley, Minnesota

We have audited the financial statements of the governmental activities and each major fund of Paideia Academy (the School) for the year ended June 30, 2008, and have issued our report thereon dated October 6, 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 17, 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 13, 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 2007, 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 school districts 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.

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 October 6, 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. 4141
Paideia 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
October 6, 2008