

INDEPENDENT SCHOOL DISTRICT #347
WILLMAR PUBLIC SCHOOLS

MANAGEMENT LETTER

JUNE 30, 2011

Conway, Deuth & Schmiesing, PLLP
Certified Public Accountants
Willmar, Minnesota

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INDEPENDENT SCHOOL DISTRICT #347

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INDEPENDENT AUDITOR'S MEMORANDUM

Board of Education
Independent School District #347
Willmar, Minnesota

We have completed an audit of the financial statements of Independent School District #347, Willmar, Minnesota, for the year ended June 30, 2011. As a result of this audit, we have issued the following reports: Required Communications and Schedule of Findings on Accounting Issues and Internal Controls.

Our comments and recommendations related to observations made during our visit are communicated in the following pages for the administration's consideration. Although these comments are not based on an in-depth study of a particular subject area or potential problem, the administration is often able to utilize this information in future decisions or actions.

We would like to acknowledge the assistance and courtesies extended to us by the personnel of Independent School District #347 during our audit. We look forward to discussing with you the matters presented herein.

The information presented on the following pages is intended solely for the information and use of the Board and management and is not intended to be and should not be used by anyone other than those specified parties.

Conway, Deuth & Schmiessing, PLLP

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Certified Public Accountants
Willmar, Minnesota

November 14, 2011

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November 14, 2011

To the Board of Education
Independent School District #347
Willmar, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #347 for the year ended June 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 17, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. As described in Note 1, the District implemented Governmental Accounting Standards Board Statement No. 54. Adoption of the provisions of this statement results in significant changes to the classifications of the components of fund balance. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements 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:

- Due from Minnesota Department of Education
- Due from Other Minnesota School Districts
- Due from Federal through Minnesota Department of Education
- Estimated useful lives of depreciable capital assets

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Management's estimate of the Due from Minnesota Department of Education is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2010-11. 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 District. 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 2011 is not finalized until well into fiscal year 2012. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of Due from Other Minnesota School Districts is based on amounts that have been billed to other school districts under the excess special education cost tuition billing system. The District has made a good faith effort to accurately calculate such amounts billed but until the resident school district has an opportunity to review such underlying details as membership days, disability codes, and rates it will not be known whether such amounts will be collected or not. Management expects any difference between amounts billed and amounts ultimately collected will be insignificant.

Management's estimate of Due from Federal through Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2010-11. Many federal entitlements require that supporting financial reporting information be provided by the UFARS accounting system, SERVS and the EDRS reporting system. To the extent that these three 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 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 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.

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 addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's 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 have requested certain representations from management that are included in the management representation letter dated November 14, 2011.

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 District'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 District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Independent School District #347 and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants
Willmar, Minnesota

November 14, 2011

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INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS ON ACCOUNTING ISSUES AND INTERNAL CONTROLS

We noted certain matters involving the internal control structure and its operation that we consider being deficiencies in internal control under standards established by the American Institute of Certified Public Accountants. 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.

INTERNAL CONTROL

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the valuation of these factors necessarily requires estimates and judgments by management.

It should be recognized that within the District, an inherent risk is present with certain positions. It is very common for districts such as Independent School District #347, Willmar, Minnesota, to assign many major responsibilities to a few key individuals in an attempt to operate within limited budgets. The inherent risk is again addressed only to maintain the awareness of the internal control structure and to encourage the Board's continual review of financial information at monthly meetings.

GENERAL RECOMMENDATIONS

The following items are informational or areas of concern, which should be addressed:

CAPITAL ASSETS

As recommended in prior years, the District developed and implemented Fixed Asset Procedures this year. Upon review of these procedures, physical inventory counts were not addressed. These counts should be taken periodically, preferably once a year, in order to identify which assets are still in use and which assets are impaired or no longer in service. We recommend the District update the Fixed Asset Procedures to address periodic physical counts and to conduct the counts.

CONTRACT WITH BOARD MEMBER

As noted in the Financial Statements, the District did not comply with the requirements of Minnesota Statute §471.89 subd. 2. when contracting for services from a Board member. These are the actions required when contracting with a Board member:

- Adopt a resolution setting forth the essential facts and determine that the contract price was as low or lower than the price at which the commodity or service could be obtained elsewhere; and
- Prior to payment of the contract, the Board member must file with the Clerk of the Board of Education an affidavit stating:
 - the name of the officer and office held
 - an itemization of the commodity or services furnished
 - the contract price
 - the reasonable value
 - the interest of the officer in the contract
 - that to the best of his/her knowledge and belief the contract price was as low or lower than the price at which the commodities or services could have been obtained from other sources.

We recommend the District follow the above requirements when contracting with Board members.