

INDEPENDENT SCHOOL DISTRICT #347  
WILLMAR PUBLIC SCHOOLS

MANAGEMENT LETTER

JUNE 30, 2010

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

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INDEPENDENT SCHOOL DISTRICT #347  
YEAR ENDED JUNE 30, 2010  
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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, 2010. 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*

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

November 8, 2010

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November 8, 2010

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, 2010. 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 the engagement letter dated September 1, 2010. 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. 51. Accordingly, the effect of implementing is reported in the financial statements. 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 2009-10. 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 2010 is not finalized until well into fiscal year 2011. 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 2009-10. 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 additions, 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 8, 2010.



*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 8, 2010

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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 purpose of financial statements is to provide the users with insight as to the financial condition and the results of operations of the organization. In order to make financial decisions on a timely basis, financial statements must be prepared timely and correctly.

The following item is informational or an area of concern, which should be addressed:

#### CAPITAL ASSETS

Last year we suggested that a formal written capitalization procedure be adopted. District staff are currently in the process of developing the procedure. We recommend that the District continue its efforts in developing, finalizing, and implementing the procedure. As a reminder, this procedure should include such items as the determination of when an asset is considered capitalizable and physical count procedures. The GFOA recommends that assets should be capitalized only if they have a useful life of at least two years and the thresholds should be applied to individual assets, not groups of similar assets, unless doing so eliminates an entire class of assets, such as library books. A physical inventory 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.

#### LABOR AGREEMENTS

During our review of payroll, it was discovered a majority of the labor agreements had not been signed by the respective groups. Certain agreements provided contract language affecting payroll for the current fiscal year including, but not limited to, lane changes and retroactive pay. The proposed agreements were used to calculate the retroactive pay and make the respective updates to payroll. In our opinion, without official signed agreements, there is the possibility of issues and disagreements developing between both parties until the final signatures take place. We recommend that all labor agreements be prepared and available to sign by all parties when the Board of Education approves such contracts. Once signed, then new payroll schedules and retroactive pay should be calculated and issued. All labor agreements were signed prior to issuance of this report.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS ON ACCOUNTING ISSUES AND INTERNAL CONTROLS

GENERAL RECOMMENDATIONS (Cont'd)

*GASB 54 FUND BALANCE REPORTING AND GOVERNMENTAL FUND TYPE DEFINITIONS*

In March 2009 the Governmental Accounting Standards Board (GASB) issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement is designed to improve financial reporting by establishing fund balance classifications that are easier to understand and apply. In essence, it establishes a hierarchy based largely on the extent to which a government is bound to observe spending constraints that govern how it can use amounts reported in the governmental funds balance sheet.

Fund Balance Reporting

The initial distinction made in reporting fund balance is identifying amounts considered nonspendable such as fund balance associated with inventories and prepaid expenses. Statement 54 also establishes fund balance classifications for spendable fund balance based on constraints imposed on how resources can be spent. The existing components of fund balance (reserved; unreserved, designated; and undesignated) are being replaced by restricted, committed, assigned, and unassigned as defined below:

- *Restricted* - amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed* - amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority.
- *Assigned* - amounts intended to be spent by the government for specific purposes. In governmental funds other than the General Fund, assigned fund balance represents the amount that is not restricted or committed.
- *Unassigned* - the residual classification for the General Fund for all amounts not contained in the other classifications.

Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

Governmental Fund Type Definitions

The definitions of the general fund, special revenue fund types, capital projects fund types, and permanent fund types are clarified in GASB Statement 54. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements of GASB Statement 54 are effective for periods beginning after June 15, 2010. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented. We recommend that management begin to study and evaluate these changes for financial statement reporting and disclosure purposes. We further recommend the Board enact policies as deemed necessary to comply with GASB Statement 54.