

INDEPENDENT SCHOOL DISTRICT #347
WILLMAR PUBLIC SCHOOLS

MANAGEMENT LETTER

JUNE 30, 2008

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

INDEPENDENT SCHOOL DISTRICT #347
YEAR ENDED JUNE 30, 2008
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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, 2008. 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 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, Death & Schmiesing, PLLP

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

October 27, 2008



October 27, 2008

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, 2008, and have issued our report thereon dated October 27, 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 OMB Circular A-133

As stated in our engagement letter dated July 21, 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.

In planning and performing our audit, we considered Independent School District #347's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the "*U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*" applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

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 or CAFR, should be done only with our prior approval and review of the document. Our responsibility for other information in documents containing the District'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 engagement letter dated July 21, 2008, and in various planning meetings held via email and phone conversation.

Significant Accounting Policies

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 District 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 fiscal year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. A prior period adjustment was made as discussed in Note 13 of the Notes to the Financial Statements.

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 the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets

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 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 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 2008 is not finalized until well into fiscal year 2009. 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 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 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 has corrected all such misstatements. Material misstatements detected as a result of audit procedures were corrected by management.

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 October 27, 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 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

October 27, 2008

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 control deficiencies under standards established by the American Institute of Certified Public Accountants. A control deficiency 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 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 items are informational or areas of concern, which need to be addressed:

FISCAL POLICIES AND/OR PROCEDURES DOCUMENTATION

We suggest you continue your endeavor in updating your policies and procedures. As most school districts do not have formal written policies and procedures, or at best outdated ones only documented in the board minutes, we see this as the most opportune time to update and document the flow of transactions and controls in fiscal areas to your policy manual. This will allow for better communication of responsibilities and internal controls over transactions at all District locations.

CAPITAL ASSETS

We suggest that a formal written capitalization procedure be adopted. This procedure should include such items as the capitalization threshold, a 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; 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; and thresholds should not be less than \$5,000 for any type of capital asset.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS ON ACCOUNTING ISSUES AND INTERNAL CONTROLS

OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Governmental Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what GASB Statements 25 and 27 did for government employee pension benefits and plans, provides the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

If retirees are included in an insurance plan and pay a rate similar to that paid for younger active employees, this implicit subsidy is considered OPEB. In fact, local governments may be required to continue medical insurance coverage pursuant to Minn. Stat. § 471.61, subd. 2b. This benefit is common when accumulated sick leave is used to pay for retiree medical insurance. Under the new GASB statements, accounting for OPEB is now similar to the accounting used by governments for pension plans.

This year, the legislature enacted a new law, Minn. Stat. § 471.6175, intended to help local governments address their OPEB liability in at least three important ways:

- it allows local governments to create both irrevocable and revocable OPEB trusts;
- it authorizes the use of a different list of permissible investments for both irrevocable and revocable OPEB trusts; and
- it also permits local governments to invest OPEB trust assets with the State Board of Investment, bank trust departments, and certain insurance companies.

Some of the issues that the District will need to address in order to comply with the statements are:

- determine if employees are provided OPEB;
- if OPEB are being provided, the District will have to determine whether it will advance fund the benefits or pay for them on a pay-as-you-go basis;
- if OPEB are being provided, and the District determines that the establishment of a trust is desirable in order to fund the OPEB, the District will have to comply with the new legislation enacted authorizing the creation of an OPEB trust and establishing an applicable investment standard;
- if an OPEB trust will be established, the District will have to decide whether to establish an irrevocable or a revocable trust, and report that trust appropriately in the financial statements; and

Recognizing the complexity of the new requirement, the GASB allowed for a phased-in implementation depending on the employers' size. Based on this schedule, implementation for the District would be required for the year ended June 30, 2009.

We understand the District has taken the first steps necessary to move toward implementation of GASB 45, including obtaining an understanding of your substantive plan and obtaining an actuarial study of the liability from an independent actuary.