

INDEPENDENT SCHOOL DISTRICT #466
DASSEL-COKATO PUBLIC SCHOOLS

MANAGEMENT LETTER

YEAR ENDED JUNE 30, 2011

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

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INDEPENDENT SCHOOL DISTRICT #466

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INDEPENDENT AUDITOR'S MEMORANDUM

Board of Education
Independent School District #466
Cokato, Minnesota

We have completed an audit of the financial statements of Independent School District #466, Cokato, 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 #466 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.

Handwritten signature: Conway, Deuth & Schmiesing, PLLP

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

November 21, 2011

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November 21, 2011

To the Board of Education
Independent School District #466
Cokato, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #466, 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 September 8, 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 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 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 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 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. The following material misstatements detected as a result of audit procedures were corrected by management: cash with escrow agent was not recorded in the Debt Service Fund and accrued interest receivable related to the investments in the cash with escrow agent was not recorded.

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 21, 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 governmental unit'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 Independent School District #466'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 #466, Cokato, Minnesota, and is not intended to be and should not be used by anyone other than these specified parties.

Conway, Deuth & Schmiesing, PLLP

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

November 21, 2011

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INDEPENDENT SCHOOL DISTRICT #466

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 #466, Cokato, Minnesota, to assign many major responsibilities to a few key individuals in an attempt to operate within limited budgets. The audit did not raise any specific concerns with any position. 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 need to be addressed:

SYSTEM REVIEW

In connection with our audit and federal compliance requirements, as issued in OMB Circular A-133, we obtained an understanding of the internal control systems over the District's major federal award programs. The major programs included the Title I, Part A and Special Education Clusters. For the programs, we reviewed the policies and procedures, which are in place to ensure that compliance with requirements, are met. The compliance requirements include, but are not limited to: activities allowed or unallowed, eligibility, reporting, and special tests and provisions. There were no deficiencies from compliance with the federal requirements found during our tests with these policies and procedures. In addition, management and other employees are aware of the compliance requirements applicable to these programs and reflect an appropriate attitude toward following them.

FOOD SERVICE FUND BALANCE

As of June 30, 2011, the Food Service fund balance was in excess of state statute requirements by \$67,342. The excess fund balance may be reduced by approved capital improvements, reduced lunch prices, and/or improvement of food quality and portions served. In addition, after three successive years of excess fund balance, the district may recode for that fiscal year the costs of lunchroom supervision, lunchroom custodial services, lunchroom utilities, and other administrative costs of the food service program charged to the general fund and charge those costs to the food service fund in a total amount not to exceed the amount of the surplus in the food service fund.