

**INDEPENDENT SCHOOL DISTRICT NO. 877  
Buffalo-Hanover-Montrose, Minnesota**

**COMMUNICATIONS LETTER  
OF THE STUDENT ACTIVITY ACCOUNTS**

**For the Year Ended June 30, 2013**

**INDEPENDENT SCHOOL DISTRICT NO. 877**

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*Expert advice. When you need it.<sup>SM</sup>*

**REPORT ON MATTERS IDENTIFIED AS A RESULT OF  
THE AUDIT OF THE FINANCIAL STATEMENTS**

To the School Board,  
Advisors and Students  
Independent School District No. 877  
Buffalo-Hanover-Montrose, Minnesota

In planning and performing our audit of the Statement of Receipts and Disbursements of the student activity accounts of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's student activity accounts internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the student activity accounts internal control. Accordingly, we do not express an opinion on the effectiveness of the student activity accounts internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. A material weakness identified is stated within this letter.

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. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the student activity accounts financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The accompanying memorandum also includes recommendations for improvement of accounting procedures and internal control measures that came to our attention as a result of our audit of the financial statements of the student activity accounts for the year ended June 30, 2013. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated October 15, 2013, on such statements.



The *Manual for Student Activity Accounting*, issued by the Minnesota Department of Education (MDE), provides uniform financial accounting and reporting standards for student activities. We performed auditing procedures to test compliance with the provisions of this Manual.

This communication is intended solely for the information and use of the School Board, management, others within the District and state oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Kern DeWenter, Viero Ltd*

KERN, DEWENTER, VIERE, LTD.  
Bloomington, Minnesota  
October 15, 2013

**INDEPENDENT SCHOOL DISTRICT NO. 877**

**MATERIAL WEAKNESS**

**June 30, 2013**

**INADEQUATE DESIGN OF INTERNAL CONTROL**

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. In addition, the District does not have adequate segregation of accounting duties due to a limited number of office employees. Administration is aware of this condition and will take certain steps to compensate for the lack of segregation, but due to the large accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties exceeds the benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to achieve. Administration and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

## **INDEPENDENT SCHOOL DISTRICT NO. 877**

### **REQUIRED COMMUNICATION**

**June 30, 2013**

We have audited the financial statements of the student activity accounts of the District for the year ended June 30, 2013, and have issued our report dated October 15, 2013. Professional standards require that we provide you with the following information related to our audit.

#### **OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. 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 student activity accounts of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning internal control.

#### **PLANNED SCOPE AND TIMING OF THE AUDIT**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the student activity accounts of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the student activity accounts of the District or to acts by management or employees acting on behalf of the student activity accounts of the District.

#### **QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the student activity accounts of 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 year ended June 30, 2013. We noted no transactions entered into by the student activity accounts of the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

The financial statement disclosures are neutral, consistent and clear.

#### **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 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.

**INDEPENDENT SCHOOL DISTRICT NO. 877**

**REQUIRED COMMUNICATION**

**June 30, 2013**

**DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, 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 requested certain representations from management which were provided to us in the management representation letter.

**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 student activity account'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 principals and auditing standards, with management each year prior to retention as the District's student activity account auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**OTHER MATTERS**

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.