

GERVAIS SCHOOL DISTRICT NO. 1
MARION COUNTY, OREGON

COMMUNICATION TO THE GOVERNING BODY
(SAS 114 LETTER)

FOR THE YEAR ENDED JUNE 30, 2012



12700 SW 72nd Ave.
Tigard, OR 97223



PAULY, ROGERS AND CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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November 4, 2012

To the Board of Directors
Gervais School District

We have audited the financial statements of the governmental activities, each major fund and the fiduciary fund information of Gervais School District for the year ended June 30, 2012, and have issued our report thereon dated November 4, 2012. Professional standards require that we provide you with the following information related to our audit.

Purpose of the Audit

Our audit was conducted using sampling, inquiries and analytical work to opine on the fair presentation of the financial statements and compliance with:

- generally accepted accounting principles and auditing standards
- the Oregon Municipal Audit Law and the related administrative rules
- federal, state and other agency rules and regulations related to expenditures of federal awards

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, 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 the 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 financial statements are free of material misstatement, we performed tests of 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 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 the major federal programs for the purpose of expressing an opinion on compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on compliance with those requirements.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal controls. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters.

Results of Audit

1. Audit opinion letter - an unqualified opinion on the financial statements has been issued. This means we have given a "clean" opinion with no reservations.
2. State minimum standards – We found no exceptions or issues requiring comment except as noted on page 40 of the financial report.
3. Federal Awards - We found no issues of non-compliance and no questioned costs. We have the responsibility to review these programs and give our opinion on the schedule of expenditures of federal awards, the internal control system, compliance with laws and regulations, and general and specific requirements mandated by the various grants.
4. No separate management letter was issued.

Audit Findings

There was a very proactive relationship between management and the auditors which ensured that accounting issues were reviewed as they arose during the audit.

Significant Audit Findings

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 are described in Note 1 to the financial statements. No new accounting policies were adopted during the year. The applications of existing policies were not changed during the year. We noted no transactions entered into during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

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 or determined that their effects are immaterial. There were immaterial uncorrected misstatements noted during the audit, which were discussed with 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 auditors' 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.

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 financial statements or a determination of the type of auditors' 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 our retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information within Documents Containing Audited Financial Statements

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 the 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.

Other Information in Documents Containing Audited Financial Statements

With respect to the other information accompanying the financial statements, we read the information to identify if any material inconsistencies or misstatement of facts existed with the audited financial statements. Our results noted no material inconsistencies or misstatement of facts.

Future Accounting and Auditing Issues

In order to keep you aware of new auditing standards issued by the American Institute of Certified Public Accountants (AICPA) and accounting statements issued by the Governmental Accounting Standards Board (GASB), we have prepared the following summary of the more significant upcoming issues:

GASB 60

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements*, improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership.

GASB 60 (Continued)

As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation date for this statement is fiscal year 2012-13. The provisions of this Statement generally are required to be applied retroactively for all periods presented. Additional footnote disclosures of these arrangements will be required.

GASB 61

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus*, changes the requirements for inclusion of component units in the primary government’s financial report, and is intended to reduce the number of entities included as component units. The implementation date for this statement is fiscal year 2012-13. There are specific requirements for inclusion. All component units need to be compared to those requirements.

GASB 62

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which do not conflict or contradict with certain GASB pronouncements, collectively referred to as the “FASB and AICPA pronouncements.” The implementation date for this statement is fiscal year 2012-13.

GASB 63

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The implementation date for this statement is fiscal year 2012-13. This statement will lead to the renaming of the “statement of net assets” to the “statement of financial position”, and the caption for the equity section changing from “net assets” to “net position.”

AUDITING STANDARDS

The Accounting Standards Board (ASB) has taken on the “Clarity Project”, which involves converging U.S. Generally Accepted Auditing Standards (GAAS) with International Standards on Auditing (ISA). The ASB has reissued all previously issued statements on auditing standards (SAS) in a new format. Changes under the Clarity Project include a revision to the auditors’ report language, new engagement letter language, new language for communicating internal control deficiencies, and additional new audit documentation requirements in areas such as the audit strategy and related parties. The implementation date for this statement is fiscal year 2012-13.

Other Matters – Not Significant Deficiencies

1. Board Monitoring

An integral part of internal controls is the monitoring of financial activities by those charged with governance. This can be accomplished by asking specifically designed questions to accounting staff, by reviewing financial statements and projections and by comparing financial results to pre-established benchmarks. While school board members participate in the budget adoption process and receive staff prepared financial statements, these only partially fulfill the monitoring function.

We recommend that the Board articulate their monitoring practices and record in the minutes when those activities occur.

Since monitoring activities, including benchmarking, are unique to each entity, we are available to assist you in establishing checklists, questions and benchmarks' that are customized for your use.

2. Fidelity Insurance

In reviewing fidelity insurance coverage we noticed that the District carries cash and investment balances in excess of the insurance coverage amount. We recommend that the Board examine this exposure risk and make a determination as to the amount of insurance coverage they feel is prudent in regard to their oversight.

3. ESD - Service Organization

The District has contracted with an Education Service District (ESD) as a service organization for information technology services. The ESD does not have a SAS 70 (service provider) report or internal control report covering their operations and information technology controls. The possibility exists that errors or irregularities, including the improper use of student or staff personal information, could exist and not be detected. While nothing came to our attention during our testing, we recommend the Board review the risks regarding this matter and consider getting assurance from the ESD that will reduce the District's risks, including being named as an additional insured on their insurance policies.

4. 403(b) plan

The Internal Revenue Service (IRS) has published 403(b) regulations providing guidance on several administrative compliance requirements. The District has contracted with a third party to outsource compliance with these requirements. Non compliance subjects the District to potential penalties and fines. Since the third party provider does not provide the District with a SAS 70 service provider report or internal control report covering their operations, we recommend that the District monitor current practices to determine compliance with accountability requirements for Section 403(b) plans and consider the sufficiency of documentation received from the third party vendor to reduce the District's risks in this area. The District may also want to be named as an additional insured on the vendors insurance policies

5. Segregation of Duties

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. We recommend that the Board continually monitor the financial activities to mitigate this risk and consider obtaining additional fidelity insurance coverage to compensate for this risk.

Pauly, Rogers and Co., P.C.
November 4, 2012

We recommend that the Board continually monitor the financial activities to mitigate this risk and consider obtaining additional fidelity insurance coverage to compensate for this risk.

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

Pauly, Rogers and Co. P.C.
PAULY, ROGERS AND CO., P.C.