



MILLER McDONALD, INC.  
Certified Public Accountants  
513 Beltrami Avenue  
P.O. Box 486  
Bemidji, MN 56619  
(218) 751 - 6300  
Fax (218) 751 - 0782  
www.millermcdonald.com

December 2, 2015

To Board of Education  
Independent School District No. 31  
Bemidji, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31, Bemidji, Minnesota, as of and for the year ended June 30, 2015. 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 June 15, 2015. Professional standards 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 Independent School District No. 31, Bemidji, Minnesota are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, Independent School District No. 435 changed accounting policies relating to financial statement presentation by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68 *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* during the year. We noted no transactions entered into by the Independent School District No. 31, Bemidji, Minnesota 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 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 estimate(s) affecting the financial statements were:

- Management's estimate of the amounts due (receivables) from the Minnesota Department of Education that are based on the enrollment data available at September 14, 2015. We evaluated the key factors and assumptions used to develop these receivables in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of amounts due (payable) to employees for severance pay is based upon an actuarial valuation dated July 1, 2013. We evaluated the key factors and assumptions used to develop this payable in determining that they are reasonable in relation to the financial statements taken as a whole. The actuarial evaluation, as adjusted for current year amounts, is the basis for the estimated severance payable at June 30, 2015.

- Management's estimate of amounts due retirees for Other Post-Employment Benefits was provided by an actuarial valuation dated July 1, 2013. We evaluated the key factors and assumptions used to develop this payable in determining that they are reasonable in relation to the financial statements taken as a whole. The actuarial evaluation, as adjusted for current year amounts, is the basis for the estimated OPEB at June 30, 2015.
- Management's estimate of amounts related to deferred inflows and outflows of resources related to pensions and the net pension liability was provided by actuarial valuations dated July 1, 2014. The actuarial valuations were performed in order for the District to implement GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*. We evaluated the key factors and assumptions used to develop these deferrals and liabilities in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statements disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosures pertaining to pensions and post-employment healthcare benefits in Notes 7 and 8 to the financial statements involve actuarial valuations which are based on significant assumptions and estimates which are used to come up with the associated deferred inflows and outflows of resources and liabilities that are reported in the government-wide financial statements.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected 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. A summary of the misstatements detected as a result of audit and non-audit procedures are attached as Appendix A.

#### *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 have requested certain representations from management that are included in the management representation letter dated December 2, 2015.

#### *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 Independent School District No. 31, Bemidji, Minnesota'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 Independent School District No. 31, Bemidji, Minnesota's 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

We applied certain limited procedures to the management's discussion and analysis, the General Fund budgetary comparison schedule, the Schedule of Funding Progress for Other Post-Employment Benefit Plan, the Schedule of the District's and Non-Employer Proportionate Share of the Net Pension Liability and the Schedule of District's Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the nonmajor governmental fund financial statements, agency fiduciary funds financial statements, Fiscal Compliance Report and the Schedule of Expenditures of Federal Awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, 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.

We were not engaged to report on the Official Directory and the statistical section, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Restriction on Use

This information is intended solely for the use of Board of Education and management of Independent School District No. 31, Bemidji, Minnesota, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very Truly Yours,

*Miller McDonald, Inc.*

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