

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

Management Letter
For the Fiscal Year Ended June 30, 2008

PRELIMINARY

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

TABLE OF CONTENTS

REPORT ON MATTERS IDENTIFIED AS A RESULT OF THE AUDIT OF THE FINANCIAL STATEMENTS	1
FINANCIAL ANALYSIS.....	3
MATERIAL WEAKNESS.....	15
CONTROL DEFICIENCIES	16
LEGAL COMPLIANCE FINDING.....	17
REQUIRED COMMUNICATION	18



Expert advice. When you need it.SM

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

October 13, 2008

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

In planning and performing our audit of the financial statements of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2008, in accordance with U.S. generally accepted auditing standards, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. The deficiencies in internal control we identified, if any, are stated within this letter.

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. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.



The accompanying memorandum includes financial analysis and 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 District for the year ended June 30, 2008. 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 13, 2008, on such statements.

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, VIERE, LTD.
St. Cloud, Minnesota

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

**FINANCIAL ANALYSIS
June 30, 2008**

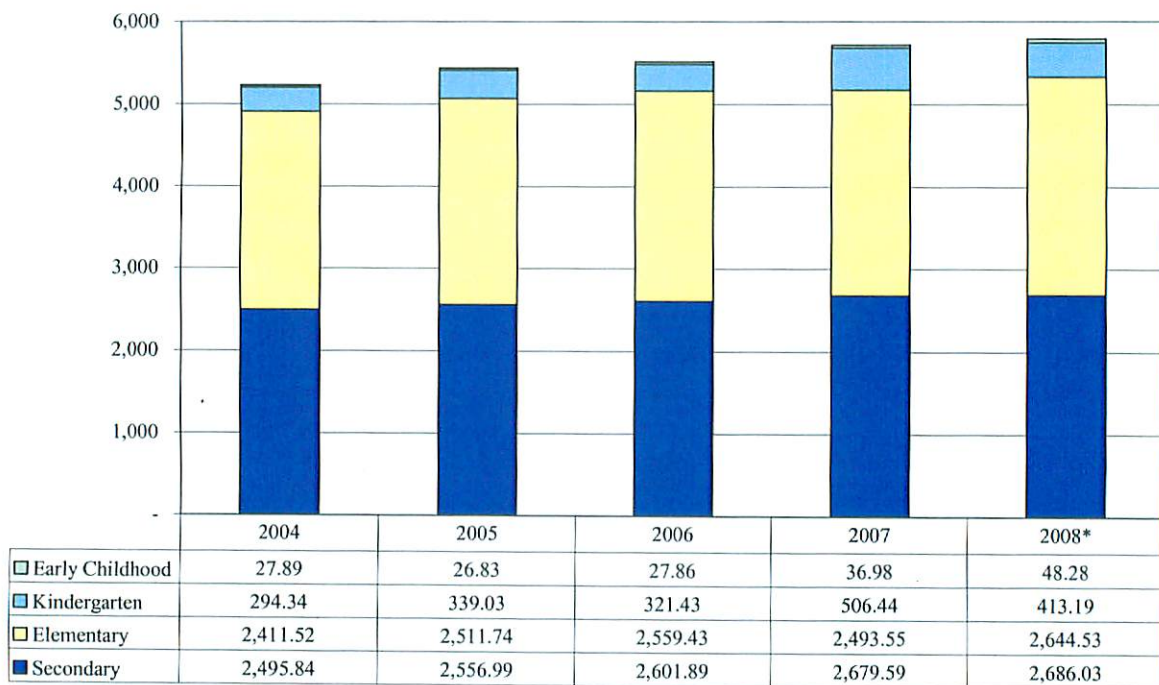
The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

Approximately 83% of the District's General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District's population trends is critical to overall budgeting plans. The following table and graph summarizes resident Average Daily Membership (ADM) of the District for the past five years ended June 30.

ADMs	2004	2005	2006	2007	2008*
Early Childhood	27.89	26.83	27.86	36.98	48.28
Kindergarten	294.34	339.03	321.43	506.44	413.19
Elementary	2,411.52	2,511.74	2,559.43	2,493.55	2,644.53
Secondary	2,495.84	2,556.99	2,601.89	2,679.59	2,686.03
Total Resident ADMs	5,229.59	5,434.59	5,510.61	5,716.56	5,792.03

Resident ADM



* Estimate as of August 15, 2008

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

**FINANCIAL ANALYSIS
June 30, 2008**

RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The chart and graph on the previous page illustrate the steady increase in resident ADMs encountered by the District over the past five years. Total resident ADMs increased 10.8% since 2004 and 1.3% between 2007 and 2008.

To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting, based on the student's grade level. These weighting factors are presented in the table below.

Pupil Units Weighting				
	Prekindergarten and Handicapped Kindergarten	Kindergarten	Elementary Grades 1-3/4-6	Secondary
Fiscal 2004 - 2007	1.250/1.000	0.557	1.115/1.060	1.300
Fiscal 2008	1.250/1.000	0.612	1.115/1.060	1.300

The total pupil units are converted to adjusted pupil units, which also may be used to calculate the District's education aids. Adjusted pupil units are calculated by multiplying 77% of current year pupil units and 23% of prior year, or 100% of current year, whichever is greater. The adjusted pupil unit data is used for districts with declining enrollment to lessen the negative impact.

The Weighted Average Daily Membership (WADM) served table below and graph on the following page converts the resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

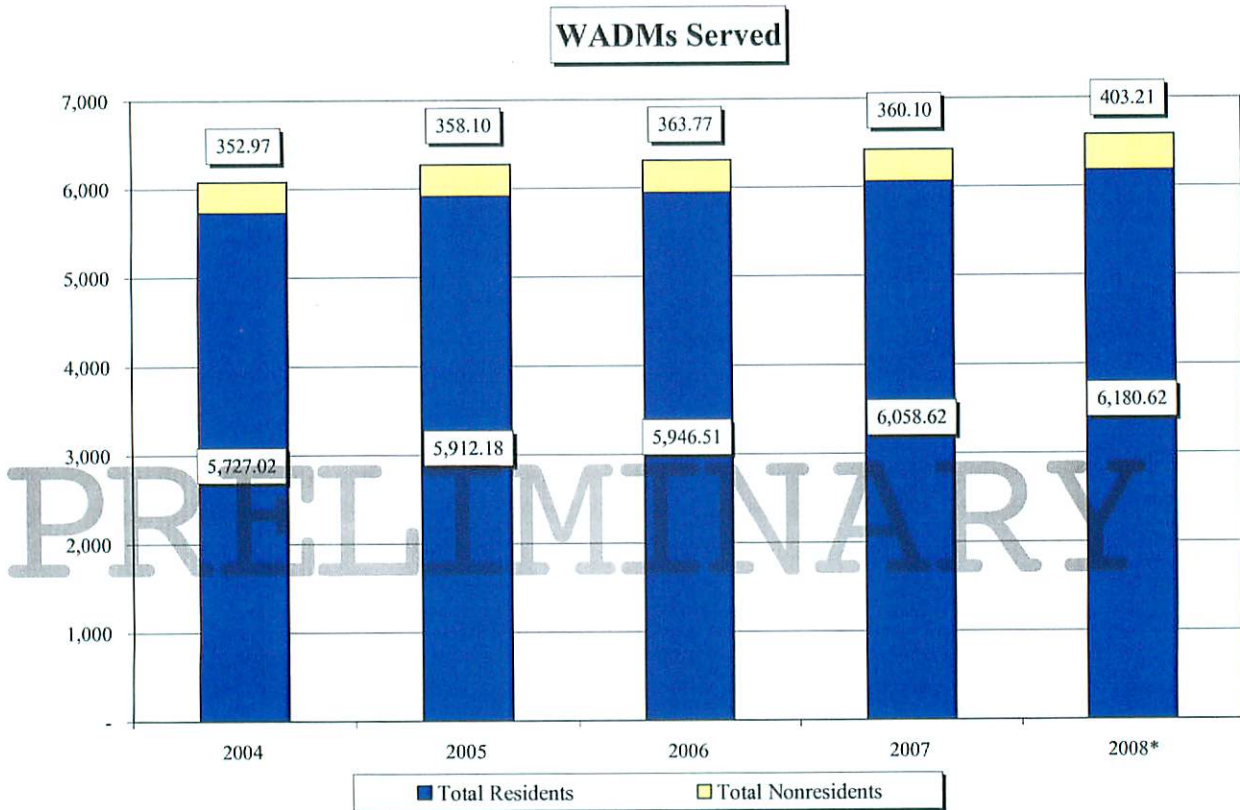
WADMs	2004	2005	2006	2007	2008*
Residents	6,073.04	6,289.73	6,389.52	6,537.12	6,695.34
Resident WADM Loss	(346.02)	(377.55)	(443.01)	(478.50)	(514.72)
Nonresident WADM Gain	352.97	358.10	363.77	360.10	403.21
Total WADMs Served	6,079.99	6,270.28	6,310.28	6,418.72	6,583.83

* Estimate as of August 15, 2008

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

**FINANCIAL ANALYSIS
June 30, 2008**

WEIGHTED AVERAGE DAILY MEMBERSHIP SERVED



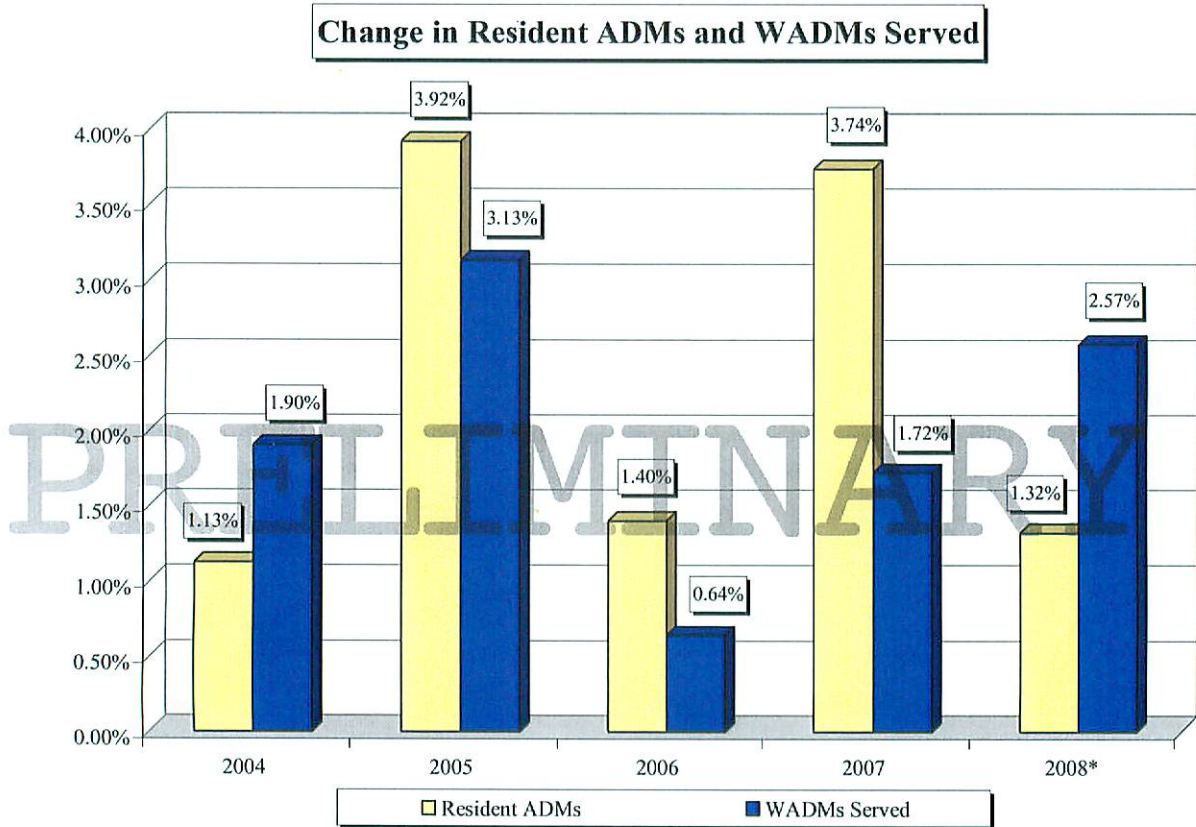
* Estimate as of August 15, 2008.

Resident ADM and WADM served have both increased in all five years presented as illustrated on the previous pages and above. Fluctuations in open enrollment loss along with resident ADM growth of approximately 1.3%, has led to an increase in WADMs served from 2007 to 2008 of 2.6%, or 165 WADMs.

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

FINANCIAL ANALYSIS
June 30, 2008

RESIDENT AVERAGE DAILY MEMBERSHIP AND WEIGHTED AVERAGE DAILY MEMBERSHIP SERVED



* Estimate as of August 15, 2008.

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

**FINANCIAL ANALYSIS
June 30, 2008**

GENERAL FUND SOURCES OF REVENUE

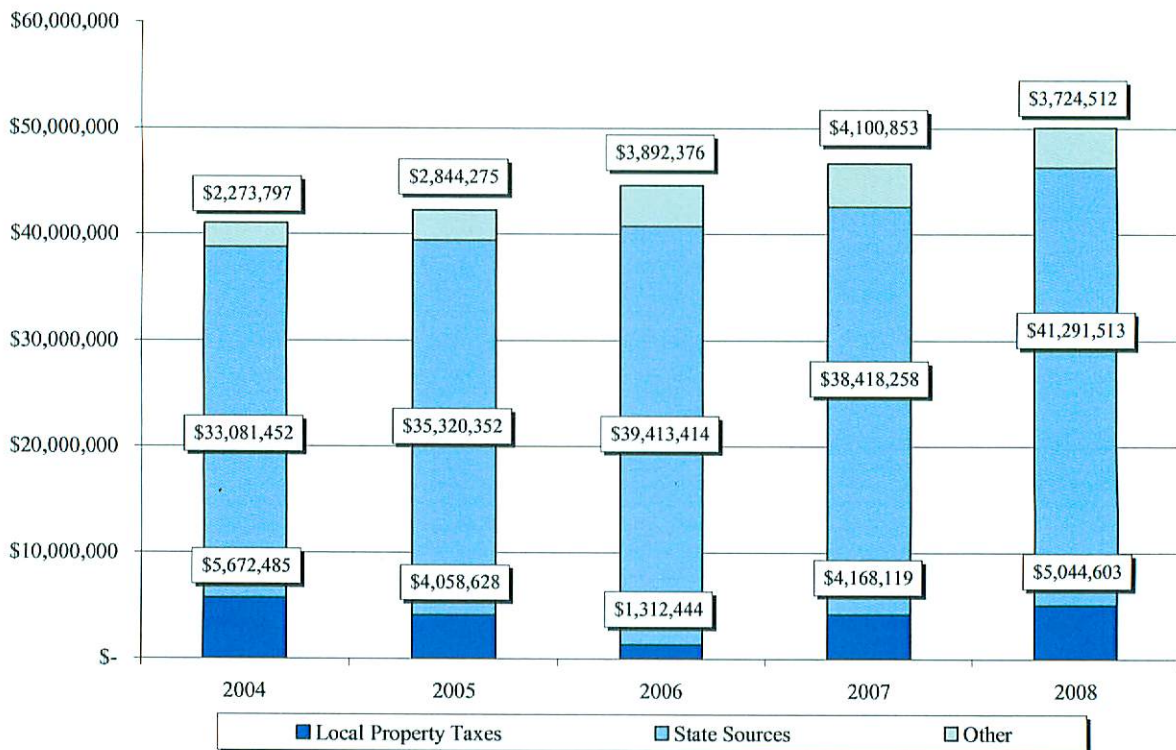
General Fund sources of revenue are summarized as follows for the last five years:

	2004	2005	2006	2007	2008
Local Property Taxes	\$ 5,672,485	\$ 4,058,628	\$ 1,312,444	\$ 4,168,119	\$ 5,044,603
State Sources	33,081,452	35,320,352	39,413,414	38,418,258	41,291,513
Other	2,273,797	2,844,275	3,892,376	4,100,853	3,724,512
Total	\$ 41,027,734	\$ 42,223,255	\$ 44,618,234	\$ 46,687,230	\$ 50,060,628

State revenue sources, which make up approximately 83% of total revenues, increased by \$2,873,255 for the fiscal year ended June 30, 2008. Factors contributing to this increase include an increase in state funding per pupil unit and an increase in ADMs served, as discussed earlier. Local property taxes increased during fiscal year 2008 by \$ 876,484 and other sources decreased by \$ 376,341. Included in other revenues are local, county and federal revenues. The decrease in these revenues is due to a decrease in federal revenues, which in the prior year included a one time Art Magnet Grant. Total General Fund revenue increased 7.2% from 2007 to 2008.

PRELIMINARY

General Fund Sources of Revenue

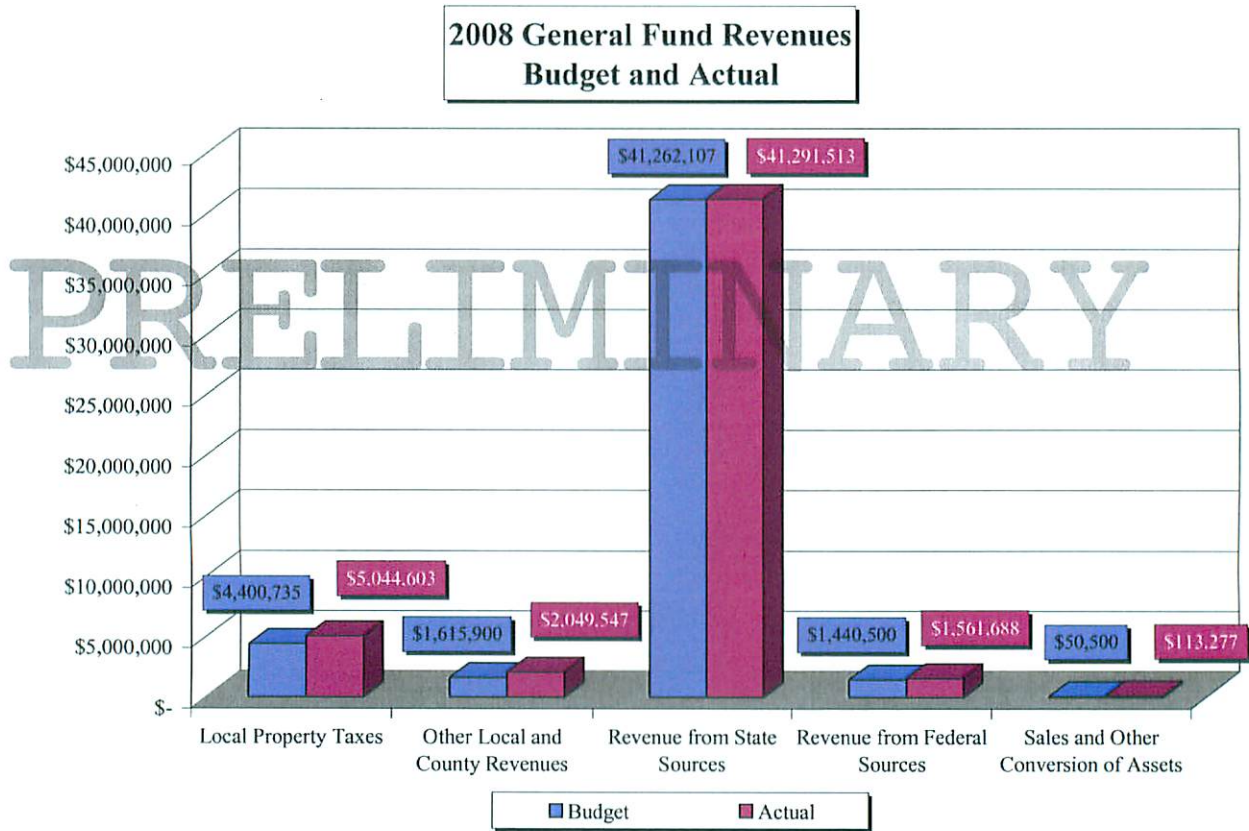


INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

FINANCIAL ANALYSIS
June 30, 2008

GENERAL FUND REVENUES BUDGET AND ACTUAL

Overall, total revenue exceeded the budget by \$ 1,290,886, or 2.6%. All revenue categories exceeded their budgets; however, the largest variance is in the category local property taxes, which was over budget by \$ 643,868. This budget variance is the result of higher levies in 2007, which were paid in 2008. Other local and county revenues also saw a large variance of \$ 433,647, due to conservative budgeting for interest revenue and tuition fees.



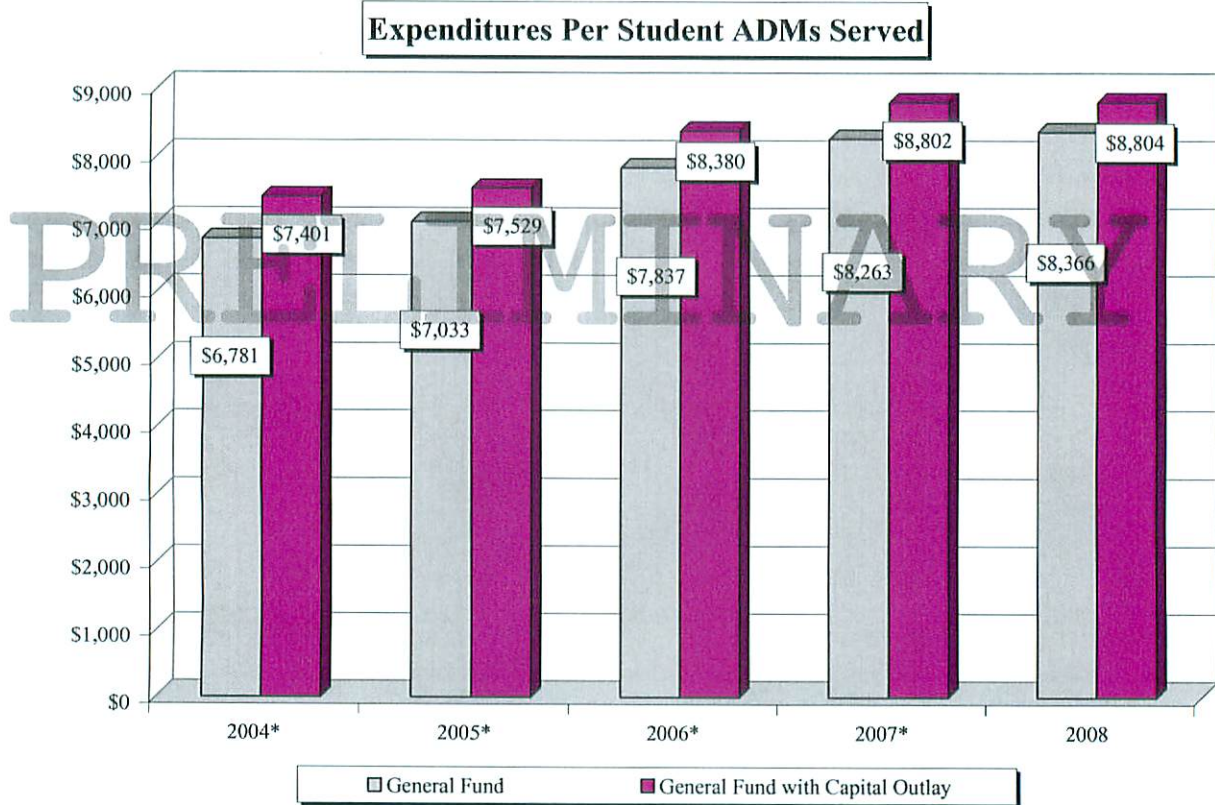
**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**FINANCIAL ANALYSIS
June 30, 2008**

EXPENDITURES PER ADM SERVED

Expenditures per students (ADM served) are summarized in the following table:

	2004*	2005*	2006*	2007*	2008
General Fund	\$ 6,781	\$ 7,033	\$ 7,837	\$ 8,263	\$ 8,366
General Fund with Capital Outlay	7,401	7,529	8,380	8,802	8,804



* Source: *School District Profiles*

The District has seen an increase in expenditures per student ADM served from 2004 to 2008. Total General Fund expenditures per student remained steady from 2007 to 2008; however, analyzing just the operating expenditures of the fund, there was an increase of \$ 103, or 1.2%, in expenditures per ADM served.

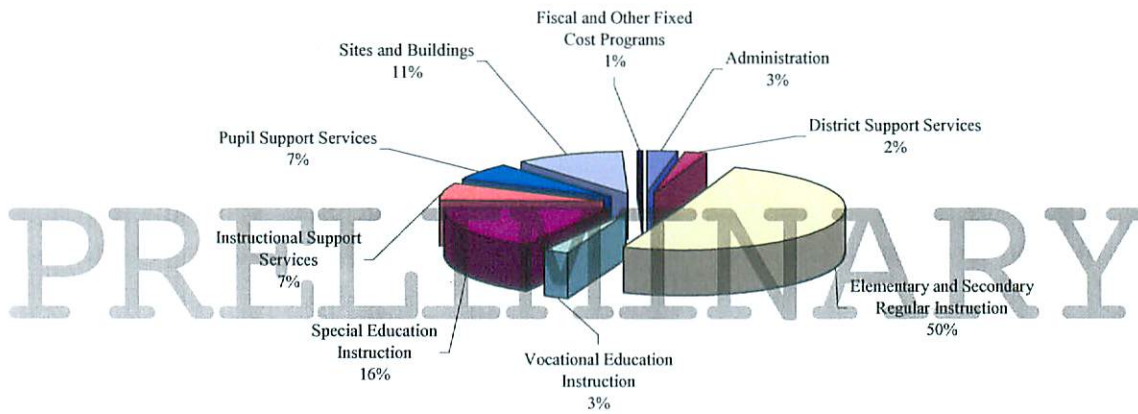
**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**FINANCIAL ANALYSIS
June 30, 2008**

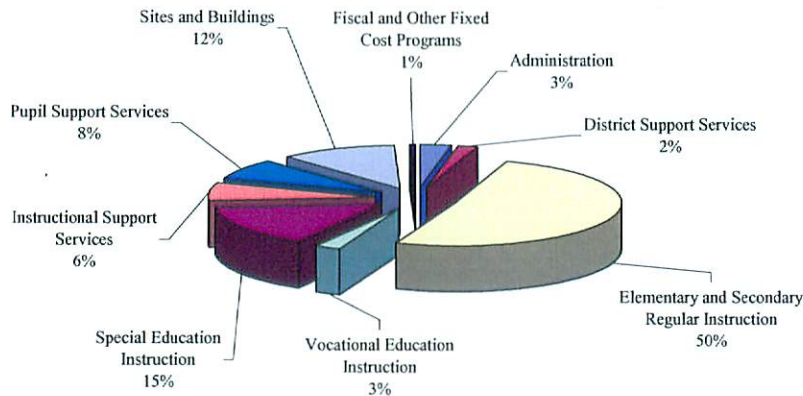
GENERAL FUND EXPENDITURES

The graphs below depict the percentage of expenditures by function in the General Fund for fiscal years 2007 and 2008. Expenditures increased by \$ 224,556, or 0.5%, from 2007 to 2008, and the allocation of expenditures remained very consistent.

General Fund Expenditures 2008



General Fund Expenditures 2007



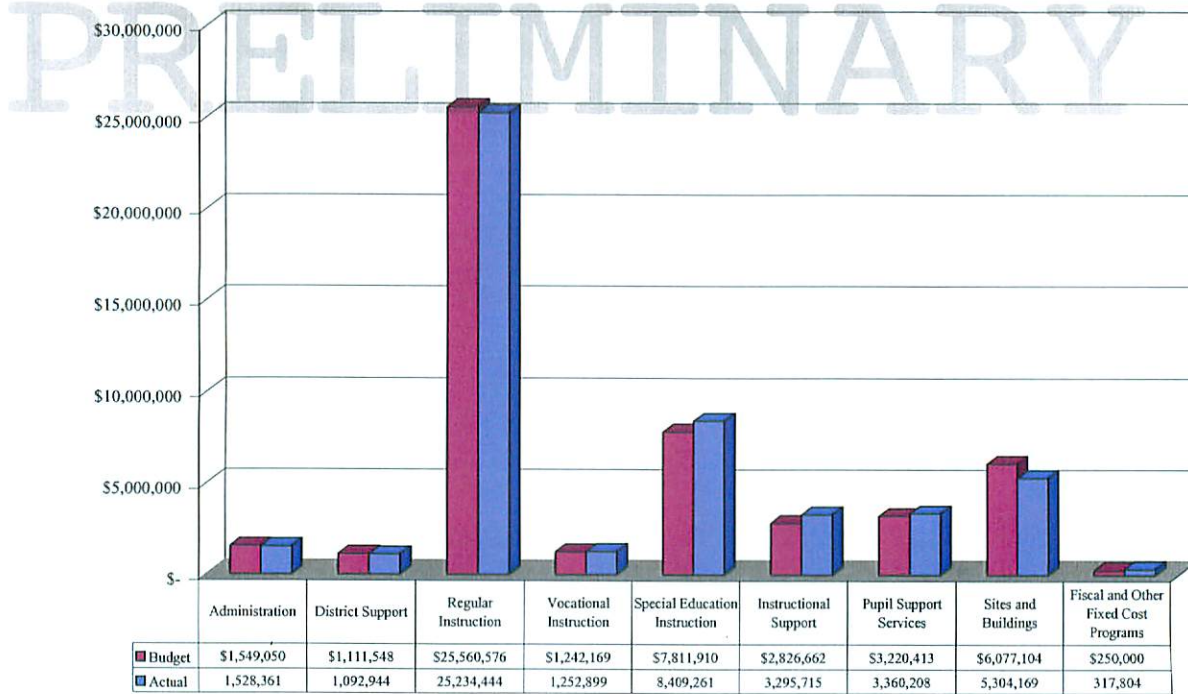
**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**FINANCIAL ANALYSIS
June 30, 2008**

GENERAL FUND BUDGET AND ACTUAL

In total, General Fund expenditures were \$ 146,373 over budget. As noted in the graph below, regular instruction, special education instruction, instructional support services and sites and buildings were the categories with the largest variances. Regular instruction expenditures were \$ 326,552 under budget as a result of allocating salaries to various other programs. Special education instruction expenditures were over budget by \$ 597,771 due to an increase in federal flow through dollars used to pay tuition expenditures. Instructional support services expenditures exceeded the budget by \$ 469,053 due to a reallocation of salary expenditures. Sites and buildings expenditures were approximately \$ 772,935 under budget due to the District incurring fewer costs than expected for building improvements.

**2008 General Fund Expenditures
Budget and Actual**



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

FINANCIAL ANALYSIS
June 30, 2008

GENERAL FUND OPERATIONS

The following table presents five years of comparative operating results for the District's General Fund:

	2004	2005	2006	2007	2008
Revenues	\$ 41,027,734	\$ 42,223,255	\$ 44,618,234	\$ 46,687,230	\$ 50,060,628
Expenditures	38,981,931	41,014,924	45,836,400	49,571,249	49,795,805
Excess of Revenues Over (Under) Expenditures	2,045,803	1,208,331	(1,218,166)	(2,884,019)	264,823
Transfers/Other Financing Sources	89,375	-	200	1,200,220	-
Fund Balance, July 1	6,789,703	8,924,881	10,133,212	8,915,246	7,231,447
Fund Balance, June 30	\$ 8,924,881	\$ 10,133,212	\$ 8,915,246	\$ 7,231,447	\$ 7,496,270
Components:					
Unreserved, Undesignated	\$ 3,942,345	\$ 4,289,050	\$ 3,733,679	\$ 3,432,201	\$ 4,233,226
Designated for:					
New Facilities	1,500,000	2,000,000	1,780,841	980,841	-
Student Activities	153,966	160,581	342,202	276,081	278,113
Severance Pay	1,433,624	1,622,400	1,638,868	1,459,200	1,430,324
Carryover	338,405	328,156	348,749	318,253	269,847
Dental Insurance	23,132	61,808	111,326	187,041	227,390
Reserved for:					
Reemployment Insurance	1,317	1,317	-	-	-
Severance Pay	233,272	201,176	346,271	581,908	669,869
Operating Capital	752,024	648,442	20,825	40	412,851
Gifted and Talented	-	-	25,258	-	-
Health and Safety	546,796	820,282	567,227	(4,118)	(25,350)
Total	\$ 8,924,881	\$ 10,133,212	\$ 8,915,246	\$ 7,231,447	\$ 7,496,270

food service

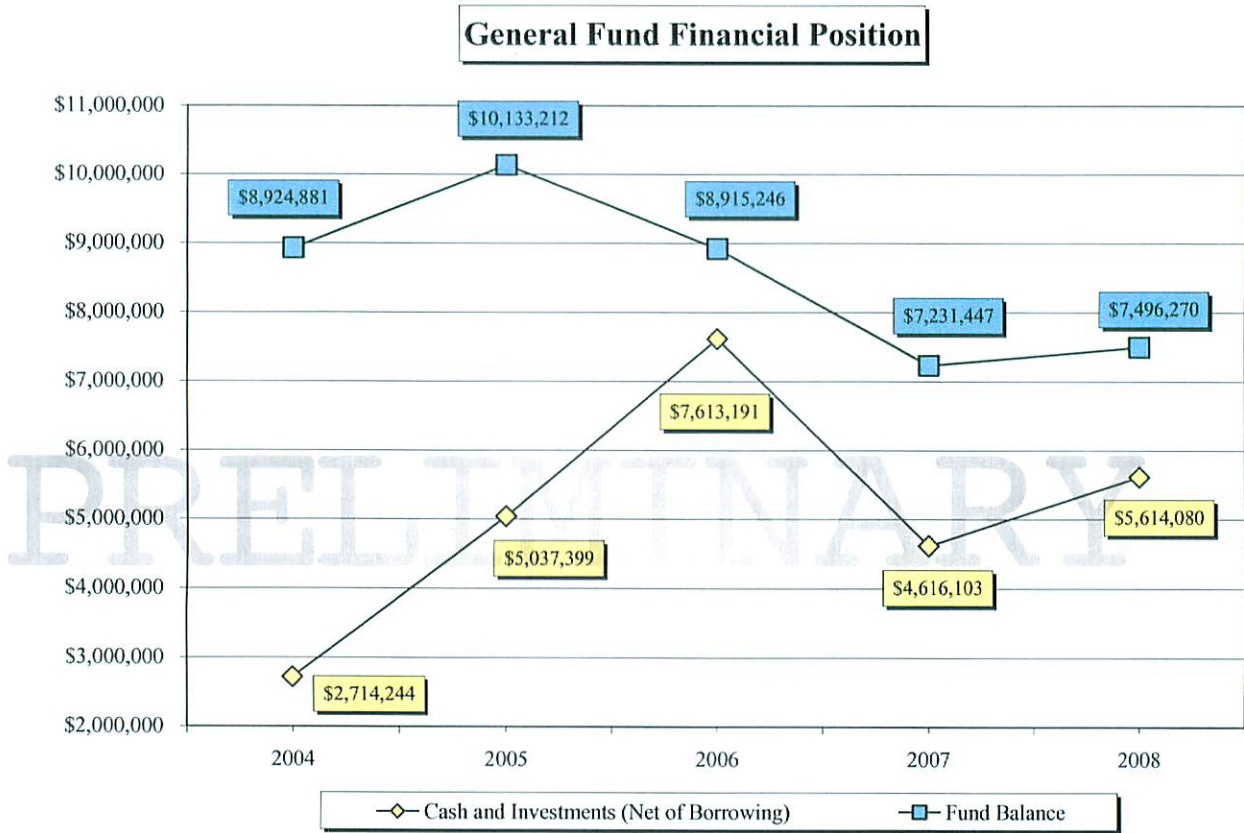
As previously stated, total General Fund revenue increased 7.2% from 2007 to 2008 as a result of increased state funding per pupil unit and an increase in ADMs served, an increase in the local property tax levy, and decreases in other sources due to a decrease in federal revenues, which included the last year the district received a one-time 3 year Art Magnet Grant.

Total General Fund expenditures increased 0.5% from 2007 to 2008 as a result of increased purchased services relating to special education and decreases in pupil support services and sites and building as a result of a newly negotiated transportation contract and fewer capital improvements in 2008 than in 2007.

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

FINANCIAL ANALYSIS
June 30, 2008

GENERAL FUND OPERATIONS



The increase in cash and investments balance from 2007 to 2008 is due to the District paying bills later than the previous year, thus an increase in accounts payable as well. The increase in fund balance also contributed to the increase.

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

FINANCIAL ANALYSIS
June 30, 2008

FOOD SERVICE FUND

The following table presents five years of comparative operating results for the District's Food Service Fund:

For the Year Ended June 30,	2004	2005	2006	2007	2008
Revenues	\$ 2,127,002	\$ 2,284,957	\$ 2,355,108	\$ 2,425,265	\$ 2,553,237
Expenditures	2,317,484	2,488,298	2,325,805	2,282,633	2,770,468
Excess of Revenues Over (Under) Expenditures	(190,482)	(203,341)	29,303	142,632	(217,231)
Transfers/Other Financing Sources	4,241	2,425	35,169	-	-
Fund Balance, July 1	515,252	329,011	128,095	192,567	335,199
Fund Balance, June 30	\$ 329,011	\$ 128,095	\$ 192,567	\$ 335,199	\$ 117,968

community service

After two years of positive operations, expenditures once again exceeded revenues in the Food Service Fund. Food service revenues increased 5.3% due to increased federal aids, while expenditures increased 21.4% due to increased costs of food supplies and fuel, as well as increased costs from the allocation of salary expenditures and capital outlay. The District should continue to monitor this Fund to ensure revenues are covering the cost of operations.

COMMUNITY SERVICE FUND

The following table presents five years of comparative operating results for the District's Community Service Fund:

For the Year Ended June 30,	2004	2005	2006	2007	2008
Revenues	\$ 2,077,822	\$ 2,207,446	\$ 2,249,176	\$ 2,498,143	\$ 2,787,017
Expenditures	2,137,924	2,203,311	2,312,985	2,457,020	2,697,060
Excess of Revenues Over (Under) Expenditures	(60,102)	4,135	(63,809)	41,123	89,957
Transfers/Other Financing Sources	33,525	-	-	-	-
Fund Balance, July 1	227,580	201,003	205,138	141,329	182,452
Fund Balance, June 30	\$ 201,003	\$ 205,138	\$ 141,329	\$ 182,452	\$ 272,409

Components:

Unreserved, Undesignated	\$ 8,922	\$ (3,876)	\$ (12,131)	\$ 3,467	\$ 11,914
Reserved for:					
ECFE	70,046	46,603	33,415	50,984	81,676
Community Education	117,081	155,728	94,803	107,270	136,853
School Readiness	4,954	6,683	11,705	11,425	20,553
Adult Basic Education	-	-	13,537	9,306	21,413
Total	\$ 201,003	\$ 205,138	\$ 141,329	\$ 182,452	\$ 272,409

The community service revenues exceeded expenditures again in fiscal year 2008. During the year ended June 30, 2008, revenues increased 11.6% due to the addition of new programs, which also contributed to the increase in expenditures of 9.8%. This activity increased the fund balance to \$ 272,409 at the end of the year. Of this amount, \$ 11,914 represents unreserved, undesignated fund balance at June 30, 2008.

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

**MATERIAL WEAKNESS
June 30, 2008**

PRIOR PERIOD ADJUSTMENT

Internal control over financial reporting that supports the District's ability to initiate, record, process and report financial data consistent with assertions of management requires adequate procedures and records to account for employee benefits.

A prior period adjustment of \$ 3,715,448 was required to correctly record the liabilities relating to employee benefits for health care and years of service. These liabilities were included with severance payable recorded on the Statement of Net Assets; however, they should have been omitted and instead disclosed as other post employment benefits.

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

**CONTROL DEFICIENCIES
June 30, 2008**

RETAIN SUPPORTING DOCUMENTATION FOR RECEIPTS

During our audit, we noted some of the receipts tested did not have adequate backup to allow for the reconciling of total cash received to the amount that should have been received.

In order to help strengthen internal controls over cash, we recommend the District attach adequate documentation to receipts to allow for a reconciliation of the amount of cash that should have been turned in for deposit to the amount actually turned in.

Specifically, we recommend further documentation be attached to the coding form with the receipt amounts. A receipt showing the cash collections prepared by another party might be attached to verify the amount. Additionally, the community education receipts could have prenumbered receipt stubs given to the patrons as they pay and then a copy of those receipt stubs could be included along with the coding form, giving more assurance about the amount of cash and checks received at the community education events.

IMPROVE CAPITAL ASSET TRACKING

During our audit, we noted the District does not have adequate procedures in place to ensure capital assets are being properly removed from the listing when disposed. As a result, we identified a number of assets on the District's asset listing that were previously disposed. It was also observed that several items selected for testing were not in the same classroom or building as indicated on the master list of fixed assets.

We recommend the District implement an inventory system where responsible officials are given a listing of assets in their assigned location to verify the accuracy of the listing. All persons with custody of capital assets need to be informed they are responsible for the asset(s) and need to inform the appropriate persons of the need for disposal, transfer, replacement or maintenance of the asset(s). In addition, we recommend the District enter tag numbers into the system in a timely manner in order to improve the completeness and accuracy of the asset listing.

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

**LEGAL COMPLIANCE FINDING
June 30, 2008**

COLLATERAL ASSIGNMENT

Minnesota Statutes 118A.03 states collateral assignment for deposits must be in writing and the assignment must provide that, upon default, the depository shall release the collateral pledged to the government entity on demand.

The District's collateral assignment with the depository states the collateral pledged will be released after the depository has three days to cure the event of default.

We recommend the District update the collateral assignment with the depository to ensure collateral pledged be released to the District on demand.

[Faint, illegible text]

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

**REQUIRED COMMUNICATION
June 30, 2008**

We have audited the financial statements and the student activity accounts of the District for the year ended June 30, 2008, and have issued our report dated October 13, 2008. Professional standards require that we provide you with the following information related to our audit. The remainder of this required communication is in reference to both of the audits indicated above.

**OUR RESPONSIBILITY UNDER U.S. GENERALLY ACCEPTED AUDITING
STANDARDS, *GOVERNMENT AUDITING STANDARDS* AND *OMB CIRCULAR
A-133***

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 U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform our 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 control of the District. 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.

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 grant agreements, 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.

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 U.S. Office of Management and Budget (*OMB*) *Circular A-133*.

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 its major federal program 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.

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

**REQUIRED COMMUNICATION
June 30, 2008**

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you.

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 fiscal year 2008. 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 most sensitive estimates affecting the financial statements were:

Management's estimate of the Depreciation is based on the useful life of an asset; which is determined by management and the straight-line method is used to obtain yearly depreciation.

Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

General Education and Special Education Aid – General education aid is an estimate until ADM values are final. Since this is normally not done until after the reporting deadline, this aid is an estimate. Special education aid is also dependent upon ADM value; however, in addition to those, this aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

We evaluated the key factors and assumptions used to develop the above estimates in determining they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements 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.

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

**REQUIRED COMMUNICATION
June 30, 2008**

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 determined that the effects of uncorrected misstatements of the financial statements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, a prior period adjustment was needed to remove other post employment benefit liabilities from the Statement of Net Assets.

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 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 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. We are not aware of any consultations by the District's management with other accountants during the course of our audit.

OTHER 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.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

We have not reviewed, and it is our understanding, that no other published documents exist that contain audited financial statement information, for which we are currently auditing. As stated in our engagement letter, if you publish or reproduce the financial statements or make reference to our Firm name in relation to such documents, you agree to provide us with a copy of the final reproduced material for our approval before it is distributed.