

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

Management Letter
For the Fiscal Year Ended June 30, 2009

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

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

October 9, 2009

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, 2009, 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 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, 2009. 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 9, 2009, 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, Vice. Ltd.

KERN, DEWENTER, VIERE, LTD.
St. Cloud, Minnesota

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

**FINANCIAL ANALYSIS
June 30, 2009**

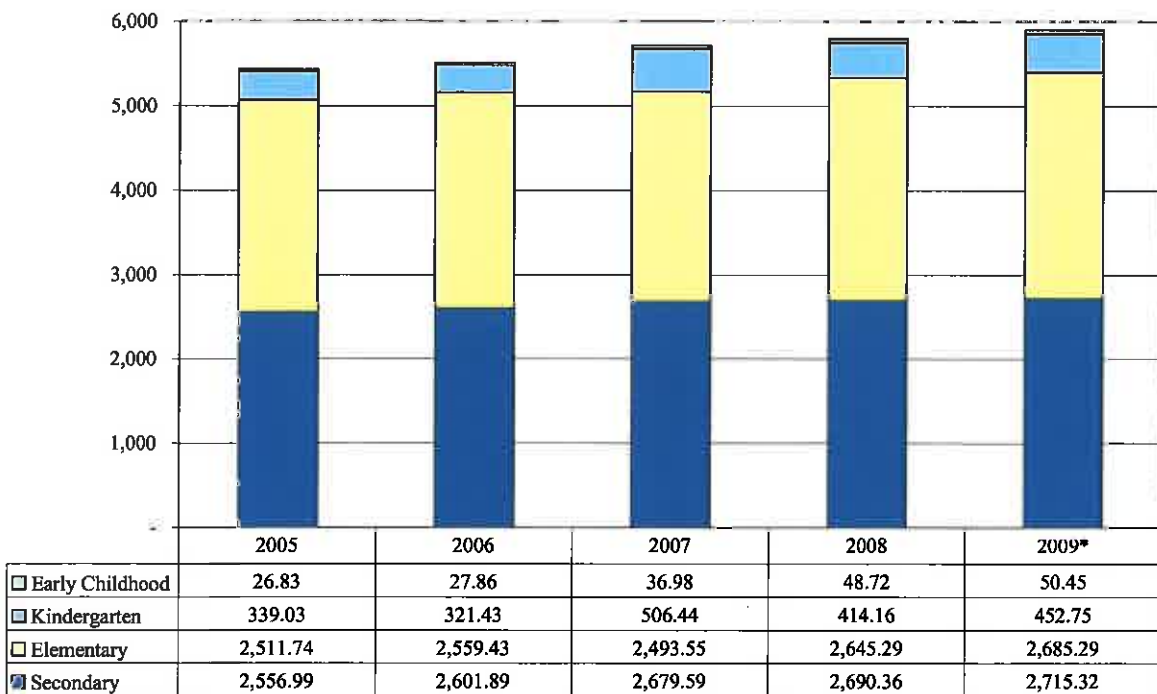
The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance 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 81% 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	2005	2006	2007	2008	2009*
Early Childhood	26.83	27.86	36.98	48.72	50.45
Kindergarten	339.03	321.43	506.44	414.16	452.75
Elementary	2,511.74	2,559.43	2,493.55	2,645.29	2,685.29
Secondary	2,556.99	2,601.89	2,679.59	2,690.36	2,715.32
Total Resident ADMs	5,434.59	5,510.61	5,716.56	5,798.53	5,903.81

Resident ADM



* Estimate as of August 18, 2009

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June 30, 2009**

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 8.6% since 2005 and 1.8% between 2008 and 2009.

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 2005 - 2007	1.250/1.000	0.557	1.115/1.060	1.300
Fiscal 2008-2009	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.

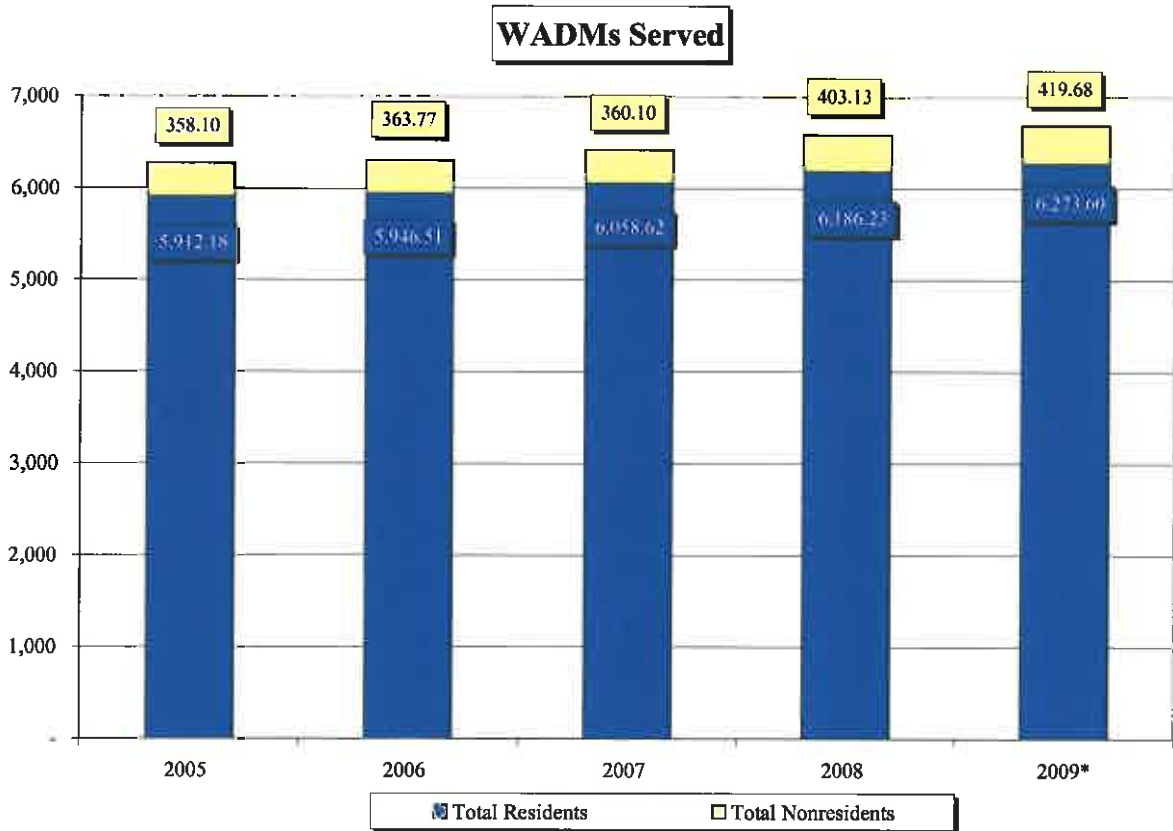
WADMs	2005	2006	2007	2008	2009*
Residents	6,289.73	6,389.52	6,537.12	6,702.95	6,801.75
Resident WADM Loss	(377.55)	(443.01)	(478.50)	(516.72)	(528.15)
Nonresident WADM Gain	358.10	363.77	360.10	403.13	419.68
Total WADMs Served	6,270.28	6,310.28	6,418.72	6,589.36	6,693.28

* Estimate as of August 18, 2009

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WEIGHTED AVERAGE DAILY MEMBERSHIP SERVED



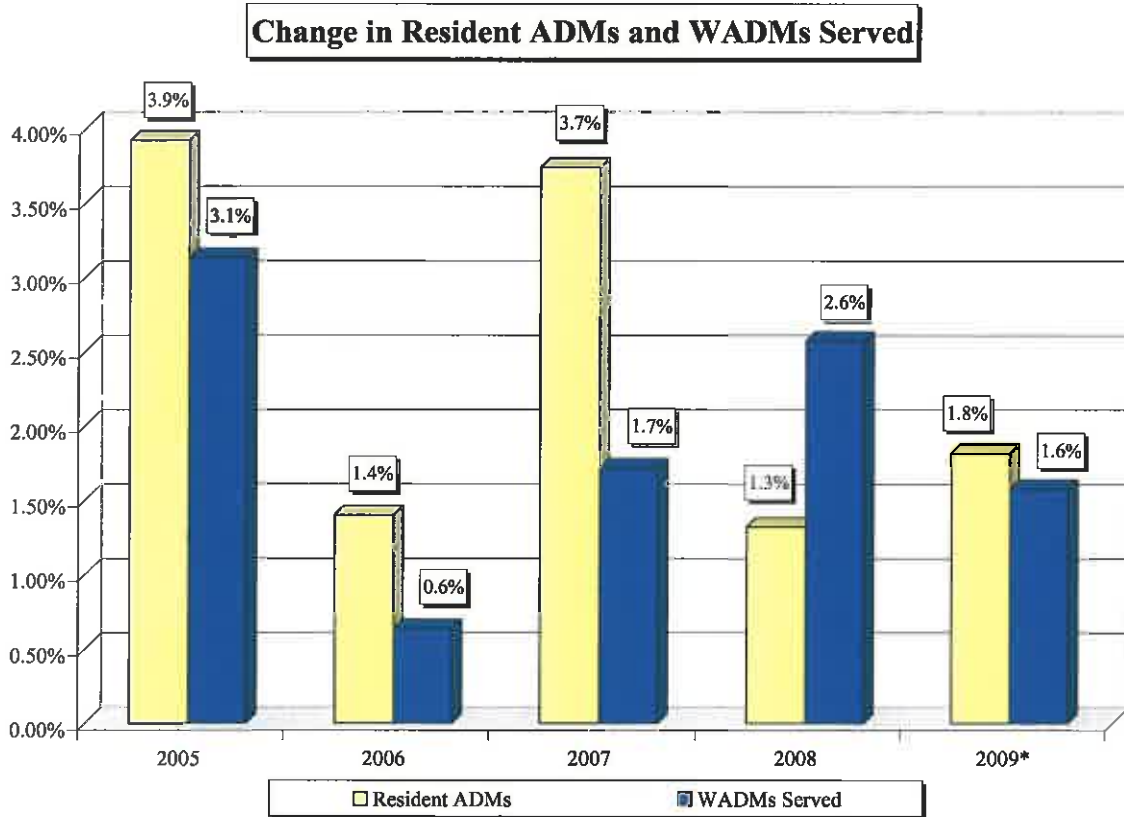
* Estimate as of August 18, 2009.

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 1.8%, has led to an increase in WADMs served from 2008 to 2009 of 1.6%, or 104 WADMs.

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RESIDENT AVERAGE DAILY MEMBERSHIP AND WEIGHTED AVERAGE DAILY MEMBERSHIP SERVED



* Estimate as of August 18, 2009.

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**FINANCIAL ANALYSIS
June 30, 2009**

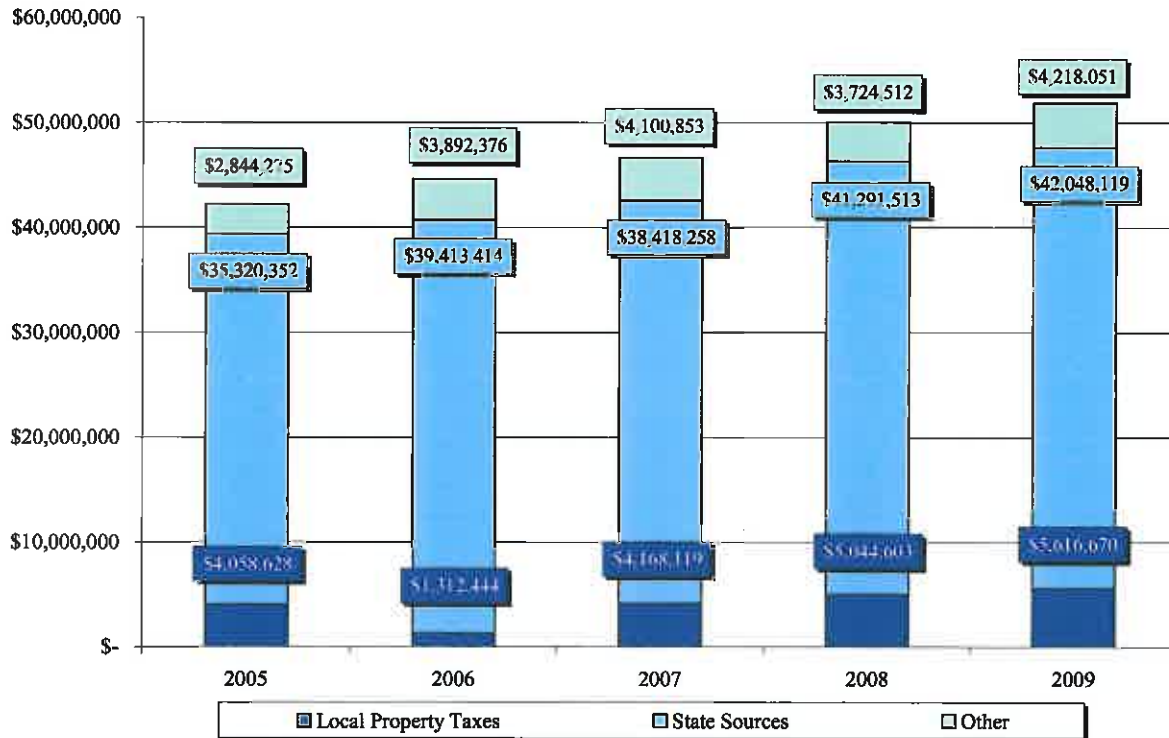
GENERAL FUND SOURCES OF REVENUE

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

	2005	2006	2007	2008	2009
Local Property Taxes	\$ 4,058,628	\$ 1,312,444	\$ 4,168,119	\$ 5,044,603	\$ 5,616,670
State Sources	35,320,352	39,413,414	38,418,258	41,291,513	42,048,119
Other	2,844,275	3,892,376	4,100,853	3,724,512	4,218,051
Total	\$ 42,223,255	\$ 44,618,234	\$ 46,687,230	\$ 50,060,628	\$ 51,882,840

State revenue sources, which make up approximately 81.0% of total revenues, increased by \$ 756,606 for the fiscal year ended June 30, 2009. 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 2009 by \$ 572,067 as a result of an increased levy. Other sources increased by \$ 493,539 due to increased monies from third-party medical assistance billings and the Microsoft® money as well as an increase in federal special education revenues. Included in other revenues are local, county and federal revenues. Total General Fund revenue increased 3.6% from 2008 to 2009.

General Fund Sources of Revenue



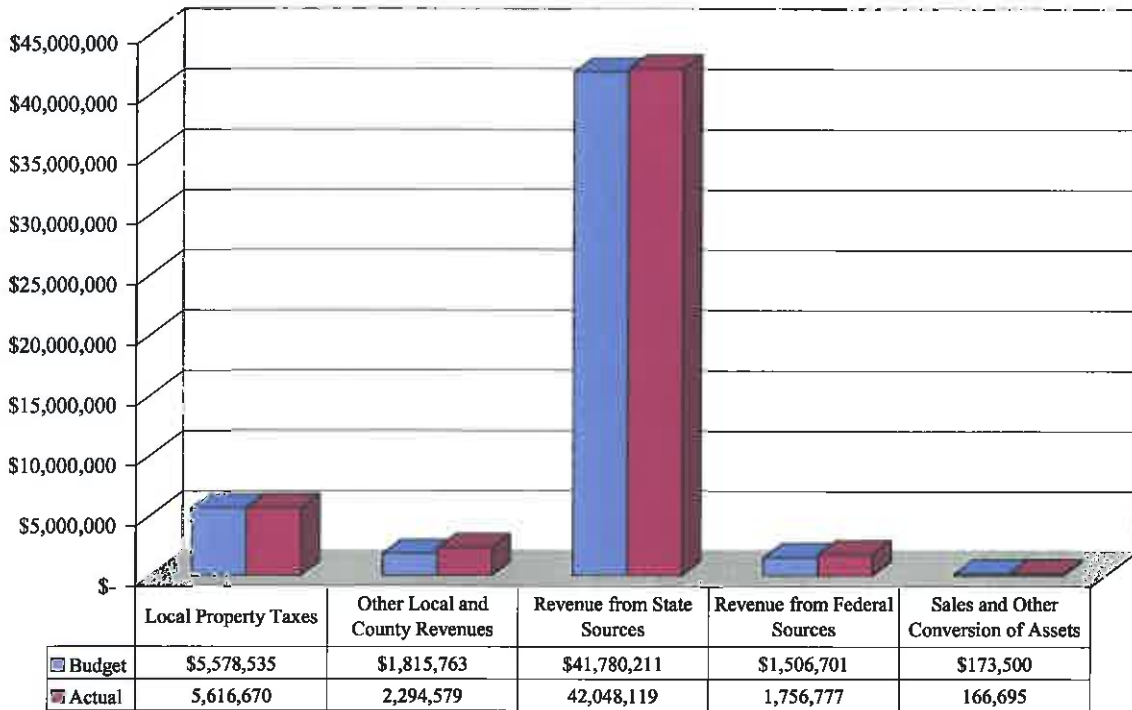
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Buffalo-Hanover-Montrose, Minnesota**

**FINANCIAL ANALYSIS
June 30, 2009**

GENERAL FUND REVENUES BUDGET AND ACTUAL

Overall, total revenue exceeded the budget by \$ 1,028,130, or 2.0%. All revenue categories were close to their budgets; however, the largest variance was in other local and county revenues, which was over budget by \$ 478,816. This budget variance was the result of settlement revenue from Microsoft money and third-party reimbursed medical assistance for special education. Revenue from federal sources was over budget by \$ 250,076, much of this related to special education. Revenue from state sources also saw a large variance of \$ 267,908, due to an increase in general education aid from higher than expected enrollment.

**2009 General Fund Revenues
Budget and Actual**



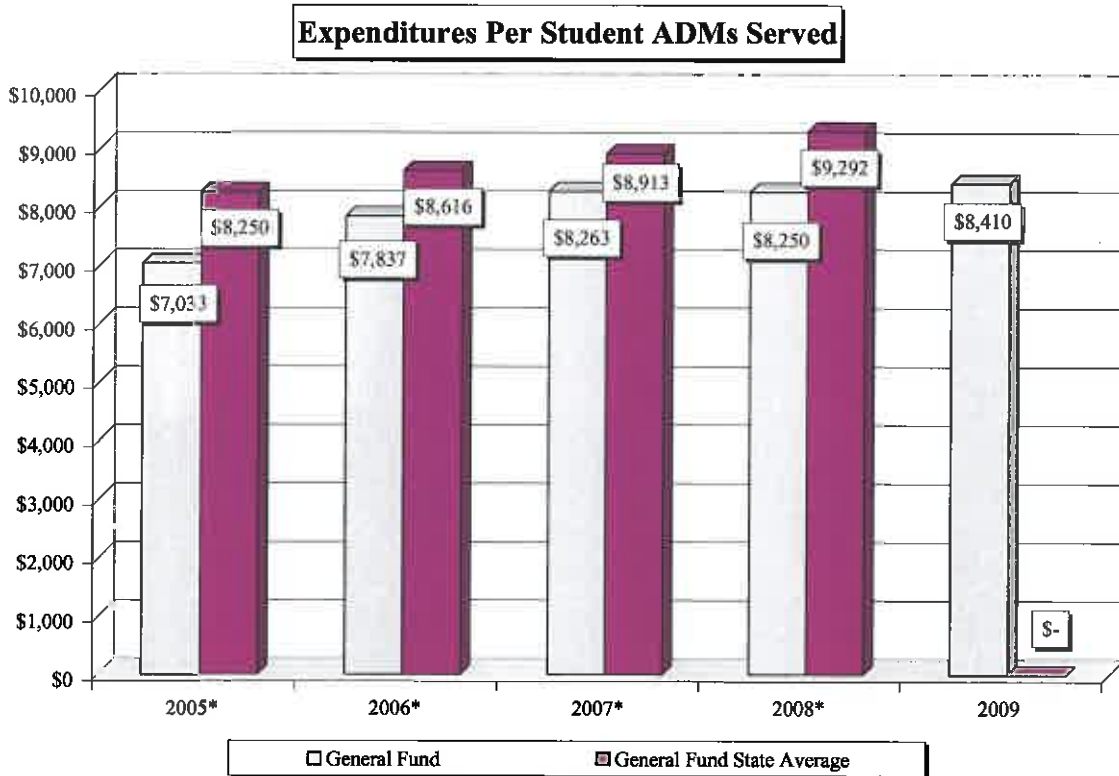
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FINANCIAL ANALYSIS
June 30, 2009

EXPENDITURES PER ADM SERVED

General Fund expenditures per students (ADM) served, not including capital outlay, are summarized in the following table:

	2005*	2006*	2007*	2008*	2009
General Fund	\$ 7,033	\$ 7,837	\$ 8,263	\$ 8,250	\$ 8,410
General Fund State Average	8,250	8,616	8,913	9,292	N/A



* Source: *School District Profiles*

The District has seen an increase in expenditures per student ADM served from 2005 to 2009. Operating General Fund expenditures per student increased 1.9% from 2008 to 2009, mainly due to a budgeted increase in transportation costs offset by the District's initiative to cut other costs in correlation with decreased funding.

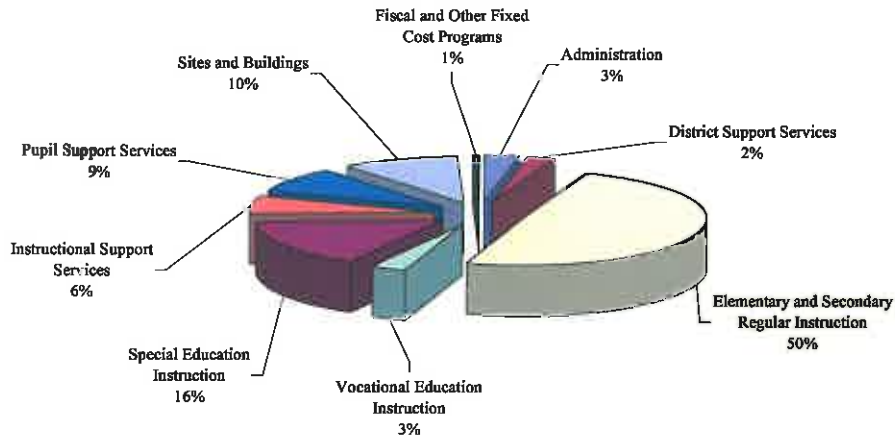
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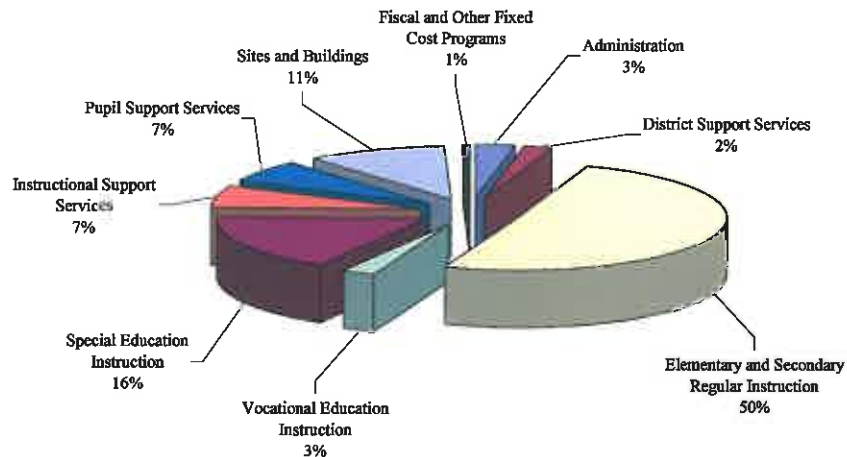
GENERAL FUND EXPENDITURES

The graphs below depict the percentage of expenditures by function in the General Fund for fiscal years 2008 and 2009. Expenditures increased by \$ 648,377, or 1.3%, from 2008 to 2009, and the allocation of expenditures remained very consistent. Education programs made up 69% of the District's expenditures and only 5% was attributable to administration and District support services.

General Fund Expenditures 2009



General Fund Expenditures 2008



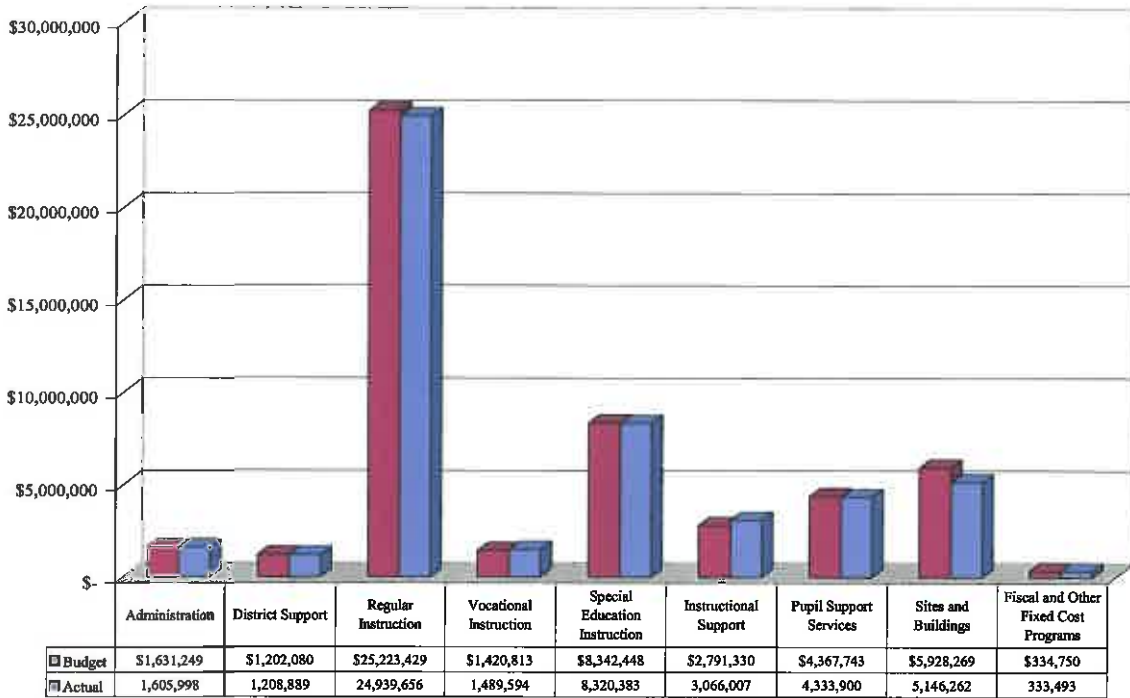
**INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota**

**FINANCIAL ANALYSIS
June 30, 2009**

GENERAL FUND BUDGET AND ACTUAL

In total, General Fund expenditures were \$ 797,929 under budget. As noted in the graph below, sites and buildings, regular instruction and instructional support were the categories with the largest variances. Sites and buildings expenditures were \$ 782,007 under budget as a result of less utility related expenditures which are driven by fuel costs. Regular instruction expenditures were under budget by \$ 283,773 due to a reallocation of salary expenditures and an effort to carry over budget amounts for supplies and materials to fiscal year 2010. Instructional support services expenditures exceeded the budget by \$ 274,677 due to the reallocation of salary expenditures discussed above.

**2009 General Fund Expenditures
Budget and Actual**



INDEPENDENT SCHOOL DISTRICT NO. 877
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FINANCIAL ANALYSIS
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GENERAL FUND OPERATIONS

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

	2005	2006	2007	2008	2009
Revenues	\$ 42,223,255	\$ 44,618,234	\$ 46,687,230	\$ 50,060,628	\$ 51,882,840
Expenditures	41,014,924	45,836,400	49,571,249	49,795,805	50,444,182
Excess of Revenues Over (Under) Expenditures	1,208,331	(1,218,166)	(2,884,019)	264,823	1,438,658
Transfers/Other Financing Sources	-	200	1,200,220	-	1,473
Fund Balance, July 1	8,924,881	10,133,212	8,915,246	7,231,447	7,496,270
Fund Balance, June 30	\$ 10,133,212	\$ 8,915,246	\$ 7,231,447	\$ 7,496,270	\$ 8,936,401
Components:					
Unreserved, Undesignated	\$ 4,289,050	\$ 3,733,679	\$ 3,432,201	\$ 4,233,226	\$ 4,255,850
Designated for:					
New Facilities	2,000,000	1,780,841	980,841	-	-
Student Activities	160,581	342,202	276,081	278,113	278,117
Severance Pay	1,622,400	1,638,868	1,459,200	1,430,324	1,834,523
3rd Party Special Education	-	-	-	-	260,000
Capital	-	-	-	-	327,355
Carryover	328,156	348,749	318,253	269,847	469,191
Dental Insurance	61,808	111,326	187,041	227,390	259,291
Reserved for:					
Reemployment Insurance	1,317	-	-	-	-
Staff Development	-	-	-	-	74,801
Severance Pay	201,176	346,271	581,908	669,869	658,484
Operating Capital	648,442	20,825	40	412,851	390,331
Gifted and Talented	-	25,258	-	-	-
Health and Safety	820,282	567,227	(4,118)	(25,350)	128,458
Total	\$ 10,133,212	\$ 8,915,246	\$ 7,231,447	\$ 7,496,270	\$ 8,936,401

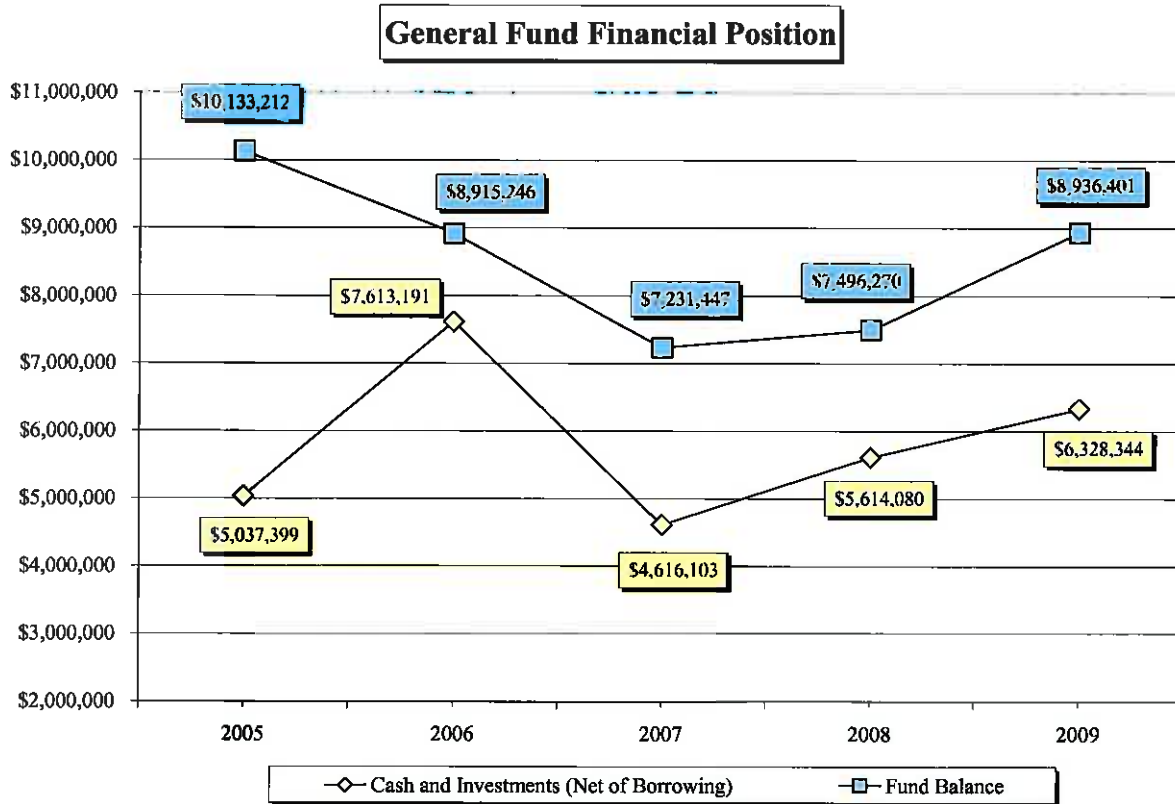
As previously stated, total General Fund revenue increased 3.6% from 2008 to 2009 as a result of increased state funding per pupil unit and an increase in ADMs served, an increase in the local property tax levy and an increase in local and county revenues.

Total General Fund expenditures increased 1.3% from 2008 to 2009 as a result of increased purchased services relating to vocational education and pupil support services. Also, a renegotiated transportation contract was signed in the prior year resulting in a minimal first year fee. The fee has increased due to the contract being back loaded for the second year.

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GENERAL FUND OPERATIONS



The increase in cash and investments balance from 2008 to 2009 is a result of the positive operations of the General Fund in fiscal year 2009.

**INDEPENDENT SCHOOL DISTRICT NO. 877
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**FINANCIAL ANALYSIS
June 30, 2009**

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,	2005	2006	2007	2008	2009
Revenues	\$ 2,284,957	\$ 2,355,108	\$ 2,425,265	\$ 2,553,237	\$ 2,701,594
Expenditures	2,488,298	2,325,805	2,282,633	2,770,468	2,788,100
Excess of Revenues Over (Under) Expenditures	(203,341)	29,303	142,632	(217,231)	(86,506)
Transfers/Other Financing Sources	2,425	35,169	-	-	6,860
Fund Balance, July 1	329,011	128,095	192,567	335,199	117,968
Fund Balance, June 30	\$ 128,095	\$ 192,567	\$ 335,199	\$ 117,968	\$ 38,322

Expenditures once again exceeded revenues in the Food Service Fund. Food service revenues increased 5.8% due to increased free and reduced applicants as well as an increase in commodities, while expenditures increased 0.6% due to increased costs of food supplies and fuel. 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,	2005	2006	2007	2008	2009
Revenues	\$ 2,207,446	\$ 2,249,176	\$ 2,498,143	\$ 2,787,017	\$ 2,826,137
Expenditures	2,203,311	2,312,985	2,457,020	2,697,060	2,857,589
Excess of Revenues Over (Under) Expenditures	4,135	(63,809)	41,123	89,957	(31,452)
Transfers/Other Financing Sources	-	-	-	-	3,743
Fund Balance, July 1	201,003	205,138	141,329	182,452	272,409
Fund Balance, June 30	\$ 205,138	\$ 141,329	\$ 182,452	\$ 272,409	\$ 244,700
Components:					
Unreserved, Undesignated	\$ (3,876)	\$ (12,131)	\$ 3,467	\$ 11,914	\$ 12,550
Reserved for:					
ECFE	46,603	33,415	50,984	81,676	69,226
Community Education	155,728	94,803	107,270	136,853	107,205
School Readiness	6,683	11,705	11,425	20,553	44,430
Adult Basic Education	-	13,537	9,306	21,413	11,289
Total	\$ 205,138	\$ 141,329	\$ 182,452	\$ 272,409	\$ 244,700

After two years of positive operations, expenditures exceeded revenues in the Community Service Fund. During the year ended June 30, 2009, revenues increased 1.4% due to increased state revenue as a result of more entitlement for ECFE. Expenditures increased 5.9% due to higher salary and benefit expenditures as a result of more time spent on the Kid Kare Program due to higher enrollment.

INDEPENDENT SCHOOL DISTRICT NO. 877
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FINANCIAL ANALYSIS
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LEGISLATIVE FACTORS BEARING ON THE DISTRICT'S FUTURE

State Aid Appropriations and Property Tax Levies

Total state aid appropriations for E-12 education are reduced by \$ 500 million for the 2010-2011 biennium, and replaced with an equal amount of federal state fiscal stabilization funds under the American Recover and Reinvestment Act of 2009 (ARRA). There is almost no change in school district property tax levies for taxes payable in 2010 or 2011. The appropriations reflect the state's 73% current, 27% final payment schedule.

Capital Account Transfer

Districts are allowed to transfer \$ 51 per adjusted marginal cost pupil unit from the operating capital account to the unreserved general fund for fiscal year 2009 and fiscal year 2010. This transfer was allowed for the first time in fiscal year 2008 and is approximately a 1% increase in the general education formula. The District transferred \$ 327,369 and \$ 327,355 in fiscal year 2008 and 2009, respectively. Currently, the 2009 transfer is designated for capital in the District's unreserved portion of fund balance.

Q Comp Aid/Levy Breakdown

This clarifies the change in the Q Comp formula enacted in 2007 which reduces the basic Q Comp aid from 73.1% to 65% of the revenue is effective for fiscal year 2010 and later. This results in a decrease in the basic aid from \$ 190 to \$ 169 per pupil, with a corresponding increase in the equalized levy revenue (from \$ 70 to \$ 91 per pupil).

Reserved for Severance Account

This reserve account is being eliminated beginning in fiscal year 2010 because it was inconsistent with relevant Governmental Accounting Standards Board (GASB) Statements, and was the only reserved fund balance account not authorized in statute. In addition, restrictions on the designated fund balance account 418 were loosened and amounts in the reserved account can be transferred to account 418. At June 30, 2009, the District reserved for severance account had a balance of \$ 658,484.

Truth in Taxation Hearing

A separate truth in taxation hearing is no longer required. Instead, the district is required to discuss the levy and budget at a regularly scheduled board meeting and allow the public to speak. This is effective for taxes payable 2010 and later.

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

**FINANCIAL ANALYSIS
June 30, 2009**

LEGISLATIVE FACTORS BEARING ON THE DISTRICT'S FUTURE

Economic Provisions

School districts are required to incorporate into its proposals and all contracts the applicable wage determinations for the contract along with the contract language provided by the Commissioner of Labor and Industry to notify the contractor and all subcontractors of the applicability of the prevailing wage law.

A new requirement provides that districts are prohibited from knowingly purchasing or acquiring, furnishing, or requiring an employee to purchase or acquire for wear or use while on duty, any of the following items if not manufactured in the United States: (1) any uniforms or other items of wearing apparel over which an employee has no discretion in selection and (2) safety equipment or protective accessories. In addition, preference must be given to purchases from manufacturers who pay an average annual income, including wages and benefits, equal to at least 150% of the federal poverty guideline adjusted for a family size of four. This is effective January 1, 2010.

State Government Finance Omnibus

For a contract estimated to exceed \$ 25,000, a municipality must consider the availability, price and quality of supplies, material or equipment available through the state's cooperative purchasing venture before purchasing from another source.

Out of State Travel Policy

Districts are no longer required to have its policy reviewed annually by the school board.

INDEPENDENT SCHOOL DISTRICT NO. 877
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CONTROL DEFICIENCIES
June 30, 2009

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 an asset on the District's asset listing that was 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. In addition, none of the assets selected for testing were tagged.

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 tag all assets to match the tag numbers in the system in order to improve the completeness and accuracy of the asset listing.

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**LEGAL COMPLIANCE FINDINGS
June 30, 2009**

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.

PROMPT PAYMENT TO SUBCONTRACTORS

Minnesota Statutes 471.425, Subd. 4a requires contracts of a government entity to have the prime contractor pay any subcontractor within 10 days of the prime contractor's receipt of payment. The contract also must require the prime contractor pay interest of 1.5% per month or any part of a month to the subcontractor for any undisputed amount not paid to the subcontractor within the 10 days.

We recommend the required verbiage be added to future contracts in order to be in compliance with state statutes.

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

REQUIRED COMMUNICATION
June 30, 2009

We have audited the financial statements of the District for the year ended June 30, 2009, and have issued our report dated October 9, 2009. Professional standards require that we provide you with the following information related to our audit.

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 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, 2009

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 2009. 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 average daily membership (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, 2009

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.

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.