

February 14, 2019

To the School Board
Independent School District No. 709
215 North First Ave East
Duluth, MN 55802

We are pleased to serve as your independent auditors for Independent School District No. 709 (the "District") for the year ended June 30, 2019. The purpose of this Engagement Letter (this "Letter") is to review certain details of our engagement.

Audit Services

We will audit the financial statements and the related notes to the financial statements of the governmental activities, each major fund and aggregate remaining fund information of the District. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the District's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the District's RSI in accordance with auditing standards generally accepted in the United States. These limited procedures will consist 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 will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures but will not be audited:

1. Management's Discussion and Analysis
2. Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual General Fund
3. Information about the District's Other Postemployment Health Care Plan
4. Information about the District's Net Pension Liability

We have also been engaged to report on supplementary information other than RSI that accompanies the District's financial statements. We will subject the following supplementary

information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States and will provide an opinion on it in relation to the financial statements as a whole:

1. Schedule of Expenditures of Federal Awards
2. Combining Nonmajor Governmental Fund Financial Statements
3. Fiscal Compliance Table
4. Individual Fund Schedules

The objective of our audit is the expression of opinions as to whether your financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States (GAAP) and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on:

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of

major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our Single Audit. Our reports will be addressed to the School Board of the District. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or we may withdraw from this engagement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government. Because the determination of abuse is subjective, *Government Auditing Standards* does not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there exists an unavoidable risk that some material misstatements or noncompliance may exist and not be detected by us even though our audit is properly planned and performed in accordance with GAAS and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management and you of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We may request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about your responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

Our audit will include obtaining an understanding of the entity 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. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and you internal control related matters that are required to be communicated under professional standards.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with federal statutes, regulations, and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the District's major programs. The purpose of these procedures will be to express an opinion on the District's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

We cannot perform management functions or make management decisions on behalf of your District. However, we may provide advice and recommendations to assist management in performing its functions and fulfilling its responsibilities. We may advise management about appropriate accounting principles and their application and may assist in the preparation of the District's financial statements, but the responsibility for the financial statements remains with management.

Management Responsibilities

Management is responsible for (a) establishing and maintaining effective internal controls, including internal controls over federal awards, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (b) following laws and regulations; (c) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (d) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. You are also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Your responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. You are also responsible for providing us with (1) access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the District involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. You are also responsible for informing us of your knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, former employees, grantors, regulators, or others. In addition, management is responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a

summary schedule of prior audit findings and a separate corrective action plan. The summary schedule of prior audit findings should be available for our review on June 30, 2019.

You are responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with the Uniform Guidance. You agree to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. You also agree to make the audited financial statements readily available to intended users of the schedule of expenditures of federal awards no later than the date the schedule of expenditures of federal awards is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) you believe the schedule of expenditures of federal awards, including its form and content, is stated fairly in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

Management is responsible for the preparation of the supplementary information in conformity with accounting principles generally accepted in the United States. You agree to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. You also agree to make the audited financial statements readily available to users of the supplementary information no later than the date the supplementary information is issued with our report thereon. Your responsibilities include acknowledging to us in the written representation letter that (1) you are responsible for presentation of the supplementary information in accordance with GAAP; (2) you believe the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) you have disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

As required by GAAS, at the close of the audit we will request from management certain written confirmation concerning oral and written representations made to us in connection with the audit in order to indicate and document the continuing appropriateness of such representations and reduce the possibility of misunderstanding.

If the District intends to reproduce or publish these financial statements, or any portion thereof whether in paper or electronic form subsequent to anticipated year-end filings, and make reference to our firm name in connection therewith, management agrees to provide us with proofs in sufficient time for our review and written approval before printing. If in our professional judgment the circumstances require, we may withhold our approval. The District agrees to compensate Wipfli for the time associated with such review.

Assistance to be supplied by your personnel, including the preparation of schedules and analysis of accounts, will be discussed with Peggy Blalock. Timely completion of this work will facilitate the completion of our engagement.

Annual Information Filings

Our engagement will include the preparation of the Data collection Form. The full and timely completion of requested client assistance and provision of any adjusting entries known by you are critical in meeting the prescribed due dates for these forms. Penalties may be imposed if the filing deadlines are not met. If during the course of our engagement we become aware of additional state filing requirements, we will prepare those filings. Preparation of any additional filings and reports and accounting assistance as directed by management are not part of the fees for this engagement and will be billed at our standard hourly rates.

You are responsible for making all management decisions and performing all management functions and for designating an individual with suitable skill, knowledge, and/or experience, preferably within senior management, to oversee these services. You are responsible for evaluating the adequacy and results of the services performed and accepting responsibility for the results. You are also responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

Other

Our fees will be billed as work progresses, and progress billings may be submitted. The fee for this engagement will be \$41,000. This fee includes testing of three major federal programs. There will be an additional fee of \$3,000 for each additional major federal program. Our fee has been determined based on our understanding obtained through discussions with you regarding your preparation for the engagement and your current business operations. To the extent we encounter circumstances outside of our expectations that warrant additional procedures and time, we will communicate that fact and advise you of options and the additional fees necessary to complete the engagement. We expect payment of our billings within 30 days after submission. Interest at the lesser of 1% per month or the maximum rate permitted by law, except where prohibited by law, will be charged on the portion of your balance that is over 30 days.

This engagement includes only those services specifically described in this Letter; any additional services not specified herein will be agreed to in a separate letter. This engagement is separate and discrete from our engagement to audit any prior or future years, and any such engagements are or will be covered by a separate engagement letter. In the event you request us to, or we are required to, respond to a subpoena, court order, government regulatory inquiries, or other legal process against the District or its management for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this or any prior engagements, you agree to compensate us for all time we expend in connection with such response, at our regular rates, and to reimburse us for all related out-of-pocket costs that we incur.

Wipfli expressly reserves the right to replace, in its sole discretion upon notice to the District, any of our professional project team members, as necessary, to provide quality and timely service to the District. From time to time, and depending upon circumstances, personnel from affiliates of Wipfli and other Wipfli-related entities or any of their respective affiliates or from independent third-party service providers (including independent contractors) may participate in providing services related to our engagement hereunder. In addition, Wipfli may utilize cloud-based services in connection with the delivery of certain services. Solely for the purpose of rendering services hereunder, the District

acknowledges that we may share with these parties information obtained in the course of rendering our services. Wipfli remains committed to maintaining the confidentiality and security of the District's information, and accordingly, Wipfli maintains internal policies, procedures, and safeguards to protect the confidentiality of client information and, in addition, ensures that our agreements with all service providers appropriately maintain and protect the confidentiality of the District's information. Some persons who own an interest in Wipfli may not be licensed as Certified Public Accountants and may provide services related to this engagement.

The working papers prepared in conjunction with our audit are our property and constitute confidential information. They will be retained by us in accordance with our policies and procedures. All of the District's original records will be returned to management at the end of this engagement. Our working papers and files are not a substitute for the original records the District should retain. We understand that we are authorized to respond directly to inquiries from the cognizant agencies including requests to review audit workpapers. Access to the requested workpapers will be provided to the cognizant agencies under the supervision of Wipfli LLP's audit personnel and at a location designated by our firm. We will notify you of any such inquiries or requests and of our reply thereto.

Rob Ganschow, CPA, CFE will be your audit engagement partner. Michelle Swoboda, CPA will be your relationship executive.

Professional and certain regulatory standards require us to be independent, in both fact and appearance. Any discussions that you have with Wipfli personnel regarding employment could pose a threat to our independence. Therefore, we request that you inform us immediately prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

In order for us to remain independent, professional and regulatory standards require us to maintain certain respective roles and relationships with you with respect to any nonattest services we may be asked to perform. Prior to performing such services in conjunction with our audit, management must acknowledge its acceptance of certain responsibilities.

Whenever possible, each provision of this Letter shall be interpreted in such a manner as to be effective and valid under applicable laws, regulations, or published interpretations, but if any provision is deemed prohibited, invalid, or otherwise unenforceable, such provision shall be ineffective only to the extent of such prohibition, invalidity, or unenforceability and such revised provision shall be made a part of this Letter. Further, the provisions of the foregoing sentence shall not invalidate the remainder of this Letter. This Letter shall be construed and governed in accordance with laws of the state in which the Wipfli office issuing this Letter is located, as determined by the address indicated on this Letter, and proper jurisdiction and venue for any matter hereunder shall be the state or federal courts of that state.

If the above terms are acceptable to you and the services outlined are in accordance with your requirements, please return a signed copy of this Letter to us.

To the School Board
Independent School District No. 709
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We look forward to our continued association with you and your staff and appreciate the opportunity to serve you. Please do not hesitate to call us if you have any questions about the work we are to perform or any other aspect of the services we can provide.

Sincerely,

Wipfli LLP

Wipfli LLP

ACCEPTED: INDEPENDENT SCHOOL DISTRICT NO. 709

By: _____

(Print Name and Title)

Date: _____

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