

**INDEPENDENT SCHOOL DISTRICT NO. 2396
Atwater/Cosmos/Grove City, Minnesota**

COMMUNICATIONS LETTER

Year Ended June 30, 2015



INDEPENDENT SCHOOL DISTRICT NO. 2396

TABLE OF CONTENTS

REPORT ON MATTERS IDENTIFIED AS A RESULT OF THE AUDIT OF THE FINANCIAL STATEMENTS.....	1
MATERIAL WEAKNESSES	3
OTHER DEFICIENCIES	5
REQUIRED COMMUNICATION	7
FINANCIAL ANALYSIS.....	11
LEGISLATIVE SUMMARY.....	26
EMERGING ISSUES	30



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

To the School Board and Management
Independent School District No. 2396
Atwater/Cosmos/Grove City, Minnesota

In planning and performing our audit of the financial statements of Independent School District No. 2396, Atwater/Cosmos/Grove City, Minnesota, as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. The material weaknesses identified are stated within this letter.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During our audit, we also became aware of deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency. They are described in the accompanying letter under Other Deficiencies.

BerganKDV, Ltd.

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

Coralville
2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

St. Cloud
220 Park Avenue S
P.O. Box 1304
St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com



The accompanying memorandum also includes financial analysis provided as a basis for discussion. 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 30, 2015, on such statements.

This communication is intended solely for the information and use of management, the School Board and 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.

Bergan KDV, Ltd.

BerganKDV, Ltd.
St. Cloud, Minnesota
October 30, 2015

INDEPENDENT SCHOOL DISTRICT NO. 2396

MATERIAL WEAKNESSES

June 30, 2015

PREPARATION OF FINANCIAL STATEMENTS AND RELATED NOTE DISCLOSURES

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements. This circumstance is not unusual in a district of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected in a timely manner. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

MATERIAL AUDIT ADJUSTMENTS

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements.

In order to ensure financial statements were free from material misstatement, audit adjustments were required to properly record cash, salaries payable, inventory, state and federal revenues and receivables, property tax revenue, receivables and taxes levied for subsequent year's expenditures and equity restrictions.

INDEPENDENT SCHOOL DISTRICT NO. 2396

MATERIAL WEAKNESSES

June 30, 2015

LACK OF SEGREGATION OF ACCOUNTING DUTIES

The District has a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the School Board, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Business Manager has access to all areas of the accounting system.
- The Business Manager prepares the bank reconciliations, reviews receipts and also has the ability to write checks.
- The Business Manager records and maintains capital asset records.
- The Business Manager reconciles state and federal receivables and revenues and posts entries to the general ledger to adjust them.
- The Business Manager reconciles cash monthly, which is not reviewed by another employee, and has access to the general ledger.
- The Accounts Payable Clerk enters invoices into the system, prepares coding, verifies totals, signs off on invoices, has access to the digital signatures and also prepares the checks.
- The Payroll Clerk verifies pay rates, prepares and prints all payroll checks.
- Employees who collect money also reconcile the receipts, prepare the deposits and take the deposits to the bank.

We recommend segregation or independent review be implemented whenever practical and cost effective.

INDEPENDENT SCHOOL DISTRICT NO. 2396

OTHER DEFICIENCIES

June 30, 2015

PREPARATION OF REVENUE RECONCILIATIONS AND TIMELY DEPOSITS

School districts generally receive payments from students, parents and members of the community throughout the year. Oftentimes, payment comes in the form of cash, which is highly susceptible to theft. Therefore, it is important the District ensure there are adequate internal control procedures in place to ensure all payments made to the District are deposited into the District's bank account.

During our audit, we noted many of the receipts selected for testing did not have adequate back up documentation to allow for reconciling the total money received and deposited to the amount that should have been deposited. The District attaches receipts for cash payments, but while those receipts are pre-numbered, the receipts turned into the District Office had missing receipts in the sequence for the deposit. It was also noted there were instances where collected funds were not deposited within five days.

We recommend the District implement an internal control procedure to help ensure all money collected by District personnel is deposited into the District's account. An internal control procedure that could be implemented is to require reconciliations be completed by employees who are responsible for collecting money. This reconciliation should then be verified by another employee who would be responsible for completing the deposit and reviewed by a third employee to ensure there is adequate documentation to back up the reconciliation and that the amount deposited matches the reconciliation. This reconciling procedure could be implemented by requiring sequentially numbered receipts be given to students, parents or community members turning in the payment. If a teacher/coach collects payments, the teacher/coach should be provided with a receipt when the funds are turned into the main office for deposit. The teacher/coach should provide the main office with a list of the individual payments received, including whether the payments were cash or checks. At the end of the day, the employee responsible for collecting payments can then reconcile the carbon copies of the sequentially numbered receipts to the amount of money to be deposited. The reconciliation should be in writing and include the receipt numbers used that day, the total cash according to the receipts in that sequence, the total checks according to the receipts in that sequence, the total actual amount of cash, the total actual amount of checks and the difference. If there is a difference, an explanation should be documented as to why there is a difference. In instances such as a la carte and concessions, a cash register could be used. The cash register tape could then be used to reconcile the amount in sales to the amount turned in to be deposited.

During our testing of certain programs within the community education revenues, it was noted students or parents did not receive a carbon copy receipt showing they paid for their activity. Without the receipt, reconciling deposits cannot be completed. We further noted that the same receipt number was used twice in a deposit.

We recommend for every payment received by the District, a carbon copy receipt be filled out and the receipts reconciled with the deposit. We also recommend receipts collected be locked in a safe or secure location and be deposited daily or, at a minimum, weekly. Receipts should not be kept in the schools over the weekend.

INDEPENDENT SCHOOL DISTRICT NO. 2396

OTHER DEFICIENCIES

June 30, 2015

DISBURSEMENT APPROVAL PROCESS

During our audit, we reviewed a sample of invoices and noted some inconsistencies in the approval process. There were disbursements that had no purchase order or requisition form attached to the invoice so there were no approval signatures obtained.

We recommend the District follow the procedures in place for the disbursement process to ensure there is proper approval for all disbursements and to help prevent misuse of public funds.

DOCUMENTATION OF JOURNAL ENTRIES

During our audit, we tested the internal control over various District financial reporting functions. One such function is the general ledger journal entry process. We also tested specific journal entries for validity, purpose, amount and approval. Although our testing indicated valid journal entries, we found several entries lacking supporting documentation. Not having an adequate process in place could jeopardize the integrity of the financial statements.

With the District having the material weakness relating to the lack of segregation of accounting duties, there is the risk that not all significant areas of the District's financial reporting process is protected by adequate internal control. However, this is one area we recommend an additional internal control could be implemented without adding significant cost. While implementing this control will not relieve the District of the material weakness, it is another control that reduces the risk that the financial statements are materially misstated. With this information, we recommend the Business Manager implement procedures that would include having supporting documentation attached to all journal entries.

UPDATE WRITTEN CAPITAL ASSET POLICY

During our audit, we noted the District's capital asset policy does not address the District's depreciation method or GASB 51 regarding intangible assets.

In order to ensure capital asset records are consistently maintained and accurately reported, we recommend the District update its capital asset policy to include a capitalization threshold and GASB 51 regarding intangible assets.

IMPROVE THE BUDGETING PROCESS

During our audit, we noted a weakness in the budget process. The revenue and expenditure budgets approved by the School Board did not agree with the budgeted amounts in the financial accounting system, in both the original and final budgets for the General Fund. In order for the School Board to accurately monitor the budget and make informed decisions, it is critical they receive both revenue and expenditure budget detail that matches to their approved budgets.

We recommend the District implement procedures to verify that the budgets approved by the School Board match what is in the finance system.

INDEPENDENT SCHOOL DISTRICT NO. 2396

REQUIRED COMMUNICATION

June 30, 2015

We have audited the financial statements of Independent School District No. 2396 for the year ended June 30, 2015, and have issued our report thereon dated October 30, 2015. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, 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 accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) *Circular A-133*.

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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB *Circular A-133*, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the OMB *Circular A-133* Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

INDEPENDENT SCHOOL DISTRICT NO. 2396

REQUIRED COMMUNICATION

June 30, 2015

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the District 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. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. 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 the year ended June 30, 2015. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

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

Expenditure Allocation – Certain expenditures are allocated to functions based on an estimate of the benefit to that particular function. Examples include salaries, benefits, insurance and supplies.

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.

Net Other Post Employment Benefits (OPEB) Asset – This asset is based on an actuarial study using estimates of future obligations of the District for post employment benefits.

Net Pension Liability, Deferred Outflows of Resources Relating to Pension Activity and Deferred Inflows of Resources relating to Pension Activity – These balances are based on an allocation by the pension plans using estimates based on contributions.

The financial statement disclosures are neutral, consistent and clear.

INDEPENDENT SCHOOL DISTRICT NO. 2396

REQUIRED COMMUNICATION

June 30, 2015

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified the following uncorrected misstatements of the financial statement. Management has determined their effect are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- General Fund State Receivables
- General Fund Accounts Payable
- Pension revenue and expense related to state contribution

The following material misstatements detected as a result of audit procedures were corrected by management.

- Cash
- Salaries Payable
- Inventory
- State and Federal Revenues and Receivables
- Property Tax Revenue, Receivables and Taxes Levied for Subsequent Year's Expenditures
- Equity Restrictions

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is 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 that are included in the management representation letter.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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. To our knowledge, there were no such consultations with other accountants.

INDEPENDENT SCHOOL DISTRICT NO. 2396

REQUIRED COMMUNICATION

June 30, 2015

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 MATTERS

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

INDEPENDENT SCHOOL DISTRICT NO. 2396

FINANCIAL ANALYSIS June 30, 2015

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.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The largest single funding source for Minnesota school districts is basic General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to ADM. Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

Year	General Education Aid Formula Allowance	
	Amount	Percent Increase
2005	\$ 4,601	0.0%
2006	4,782	4.0%
2007	4,974	4.0%
2008	5,074	2.0%
2009	5,124	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%

* General Education Aid - Of the \$ 529 increase over 2014, \$ 105 is for inflation at 1.9%; the remaining \$ 424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

INDEPENDENT SCHOOL DISTRICT NO. 2396

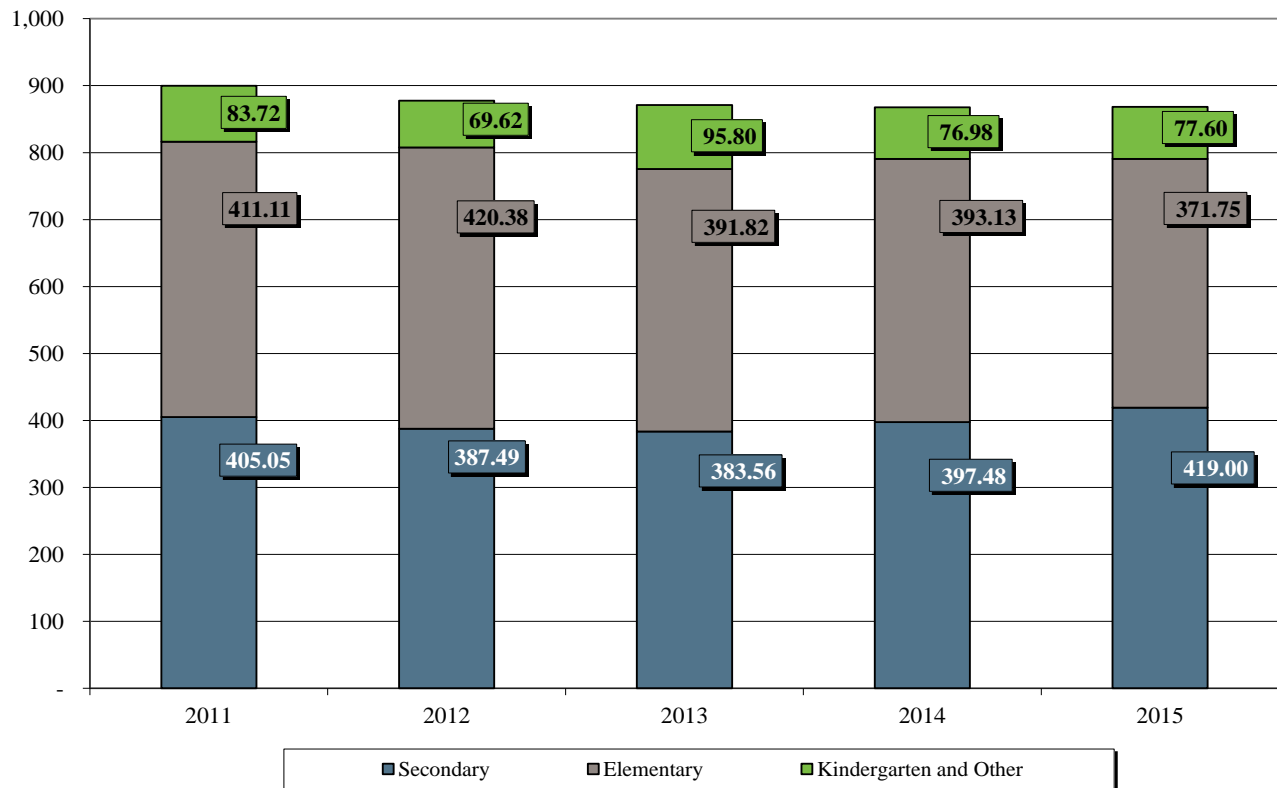
FINANCIAL ANALYSIS June 30, 2015

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The chart below summarizes resident ADM of the District over the past five years ended June 30:

ADM	2011	2012	2013	2014	2015
Kindergarten and Other	83.72	69.62	95.80	76.98	77.60
Elementary	411.11	420.38	391.82	393.13	371.75
Secondary	405.05	387.49	383.56	397.48	419.00
Total Resident ADM	899.88	877.49	871.18	867.59	868.35
ADM Served	816.45	785.67	776.64	784.88	773.86

Resident ADM



The graph above illustrates that over the last five years, the District has experienced a decrease in ADM. The increase in resident ADM for 2015 compared to 2014 totaled 0.76. Since 2011, the District has had a 42.59 decrease in ADM served. The chart and graph on the following page converts the ADM into pupil unit number (PUN) for the same five years, including the effects of open enrollment.

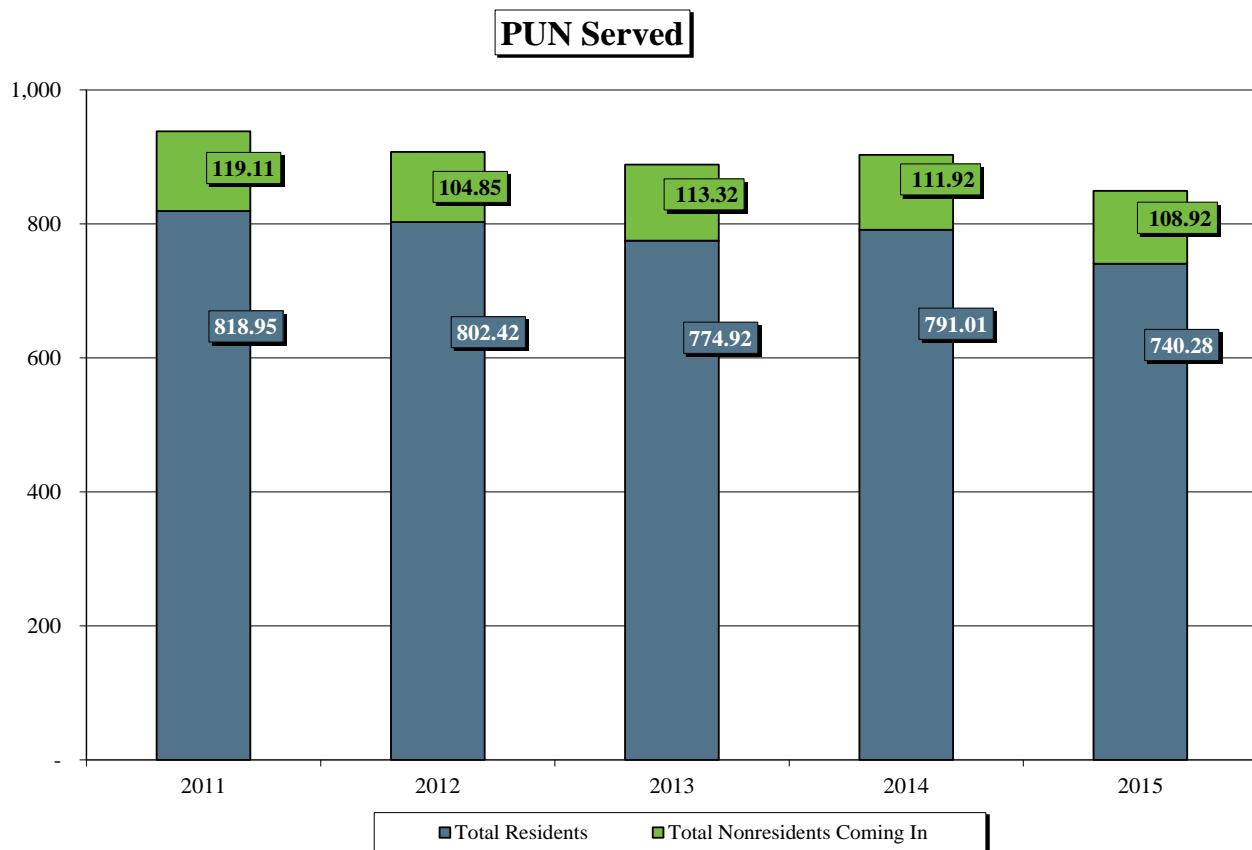
INDEPENDENT SCHOOL DISTRICT NO. 2396

FINANCIAL ANALYSIS June 30, 2015

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

PUN	2011	2012	2013	2014	2015
Residents	1,034.01	1,010.40	989.40	998.25	952.14
Resident PUN Going Elsewhere	(215.06)	(207.98)	(214.48)	(207.24)	(211.86)
Total Residents	818.95	802.42	774.92	791.01	740.28
Total Nonresidents Coming In	119.11	104.85	113.32	111.92	108.92
Total Students Served	938.06	907.27	888.24	902.93	849.20

* Prior to 2015, PUN was known as WADM, or weighted average daily membership



When reviewing this information, the reader should consider the pupil weighting. Pupil units are computed by weighting ADM using the factors in the table on the following page.

The District should be aware that PUN numbers directly affect the amount of funding the District receives from the federal and state government when reviewing the five year history of decreasing PUN. This decrease is primarily due to decreases in resident students, which have declined 81.87 PUN in the last five years. The net loss from open enrollment has increased from 95.95 PUN in 2011 to 102.94 PUN in 2015. The District should continue to monitor this number to assist in budgeting state revenues. The revenue per pupil unit was also adjusted to hold the District harmless on the General Education Aid formula.

INDEPENDENT SCHOOL DISTRICT NO. 2396

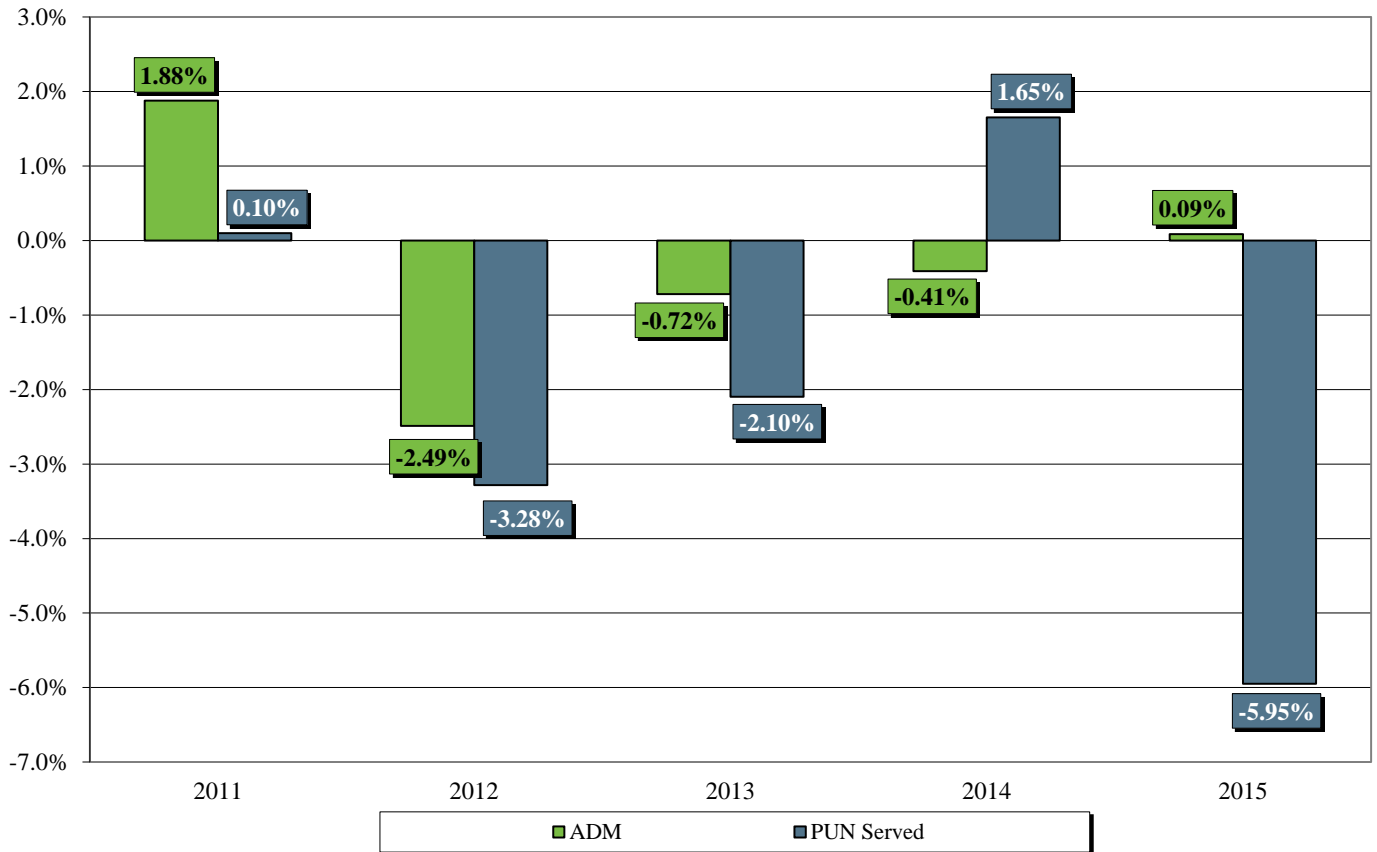
**FINANCIAL ANALYSIS
June 30, 2015**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

Pupil Units Weighting

	Prekindergarten and Handicapped Kindergarten	Half Kindergarten and Full Kindergarten	Elementary	Secondary
Fiscal Year 2011-2014	1.250/1.000	N/A / 0.612	1.115/1.060	1.300
Fiscal Year 2015	1.000/1.000	0.550/1.000	1.000/1.000	1.200

Change in ADM and PUN Served



As discussed earlier, each year, the State Legislature establishes a formula allowance used to calculate General Education Aid entitlement. For 2015, each district received \$ 5,831 in General Education Aid for each PUN served.

INDEPENDENT SCHOOL DISTRICT NO. 2396

FINANCIAL ANALYSIS June 30, 2015

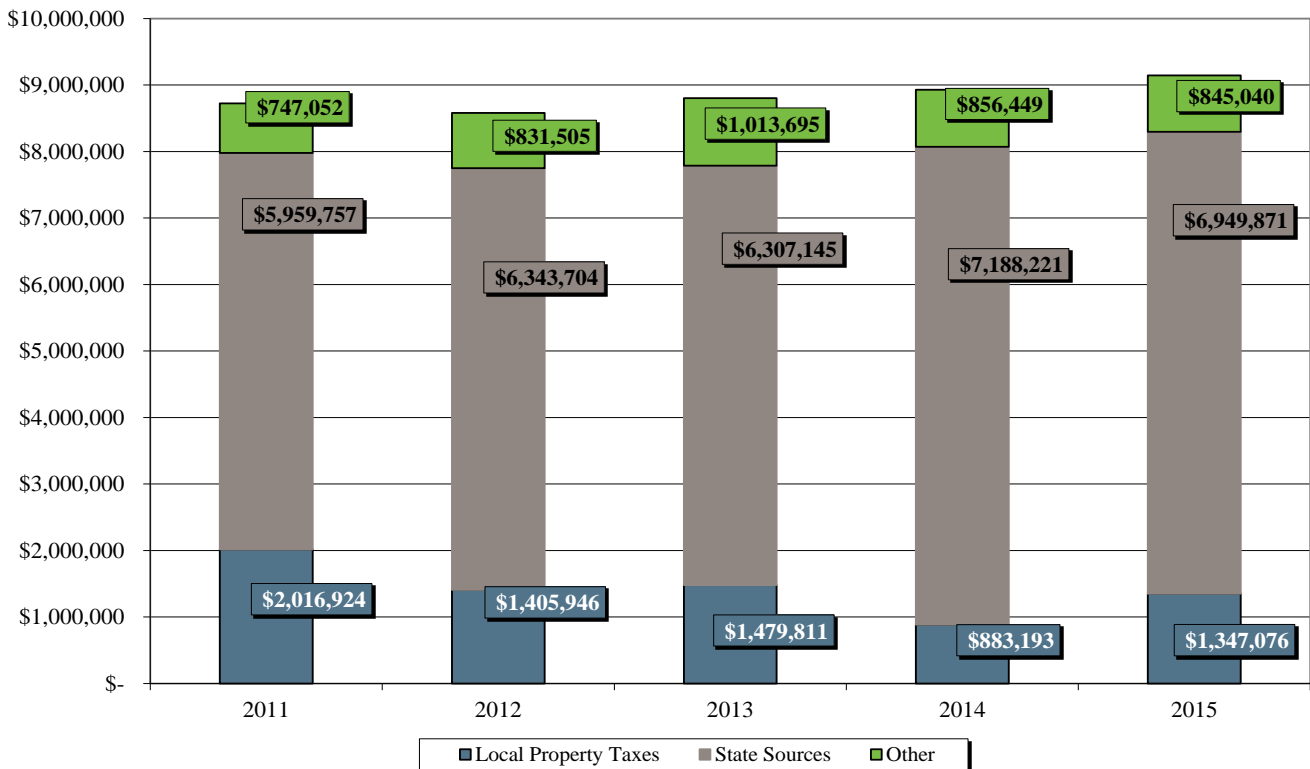
GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows:

	2011	2012	2013	2014	2015
Local Property Taxes	\$ 2,016,924	\$ 1,405,946	\$ 1,479,811	\$ 883,193	\$ 1,347,076
State Sources	5,959,757	6,343,704	6,307,145	7,188,221	6,949,871
Other	747,052	831,505	1,013,695	856,449	845,040
Total	\$ 8,723,733	\$ 8,581,155	\$ 8,800,651	\$ 8,927,863	\$ 9,141,987

State sources represent 76.1% of the General Fund's total revenue, with local taxpayers contributing 14.7% of the funding and federal and other sources making up the remaining 9.2%. Local property taxes increased \$ 463,883 due to the state tax shift adjustment in the prior year, which reduced property tax revenue in 2014 by \$ 570,672. State revenue sources decreased \$ 238,350. In 2011, the state implemented a tax shift to balance their budget. At the District level, this resulted in recognizing approximately \$ 581,000 of additional tax revenue and deferring the same amount of General Education Aid until the state's budget outlook improved. In 2014, the shift was paid back, resulting in the District recognizing \$ 570,672 in revenue from state sources, with the offset being property tax revenue. Without the tax shift effect in 2014, the state revenue would have increased due to an increase in the formula allowance, additional special education funding and new teacher development and evaluation funding. Other revenue sources were consistent with the prior year. Included in other revenues are local, county and federal revenues.

General Fund Sources of Revenue



INDEPENDENT SCHOOL DISTRICT NO. 2396

**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND REVENUE PER STUDENT (ADM) SERVED

The table below shows a comparison of total revenue per ADM received by Minnesota school districts and for districts hosting 625-874 ADM in the District.

	State-Wide*			Districts Serving 625-874 ADM*		
	2012	2013	2014	2012	2013	2014
General Fund:						
Property Taxes	\$ 1,550	\$ 1,608	\$ 923	\$ 885	\$ 976	\$ 577
Other Local Sources	444	442	477	513	515	580
State Aid	8,033	8,234	9,136	8,217	8,280	9,012
Federal Aid	590	494	463	514	461	405
Total General Fund	\$ 10,617	\$ 10,778	\$ 10,999	\$ 10,129	\$ 10,232	\$ 10,574
	Atwater-Cosmos-Grove City					
	2012	2013	2014	2015		
General Fund:						
Property Taxes	\$ 1,754	\$ 1,852	\$ 1,069	\$ 1,741		
Other Local Sources	490	899	687	649		
State Aid	8,064	8,085	9,114	8,981		
Federal Aid	600	445	449	443		
Total General Fund	\$ 10,908	\$ 11,281	\$ 11,319	\$ 11,813		

* Source: State-wide average and districts serving 625-874 ADM amounts for 2012 - 2014 were taken from the Minnesota Department of Education (MDE) publication, *School District Profiles*. Data for 2015 was not yet available.

The mix of local and state revenues vary from year-to-year primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered and countless other criteria.

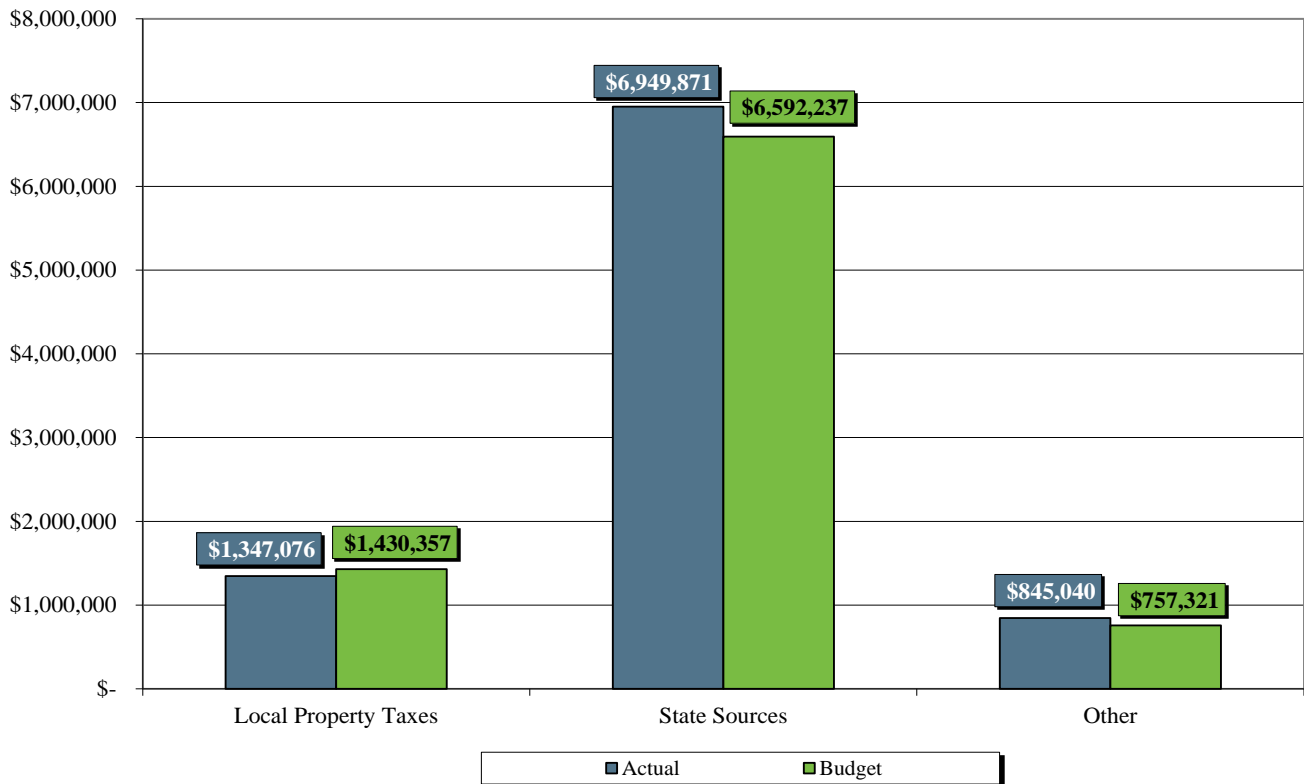
INDEPENDENT SCHOOL DISTRICT NO. 2396

FINANCIAL ANALYSIS June 30, 2015

GENERAL FUND SOURCES OF REVENUE

The following graph outlines the budget and actual of the General Fund revenue. Overall, actual revenue was \$ 362,072, or 4.1%, over budget. Local property taxes were under budget \$ 83,281 due to budgeting for a flat ley while it actually decreased from the prior year. State revenue sources were over budget \$ 357,634, due to enrollment numbers being higher than anticipated. Other sources of revenue were \$ 87,719 over budget due to increased student account activity and higher than anticipated medical assistance billings.

2015 General Fund Revenues Budget and Actual



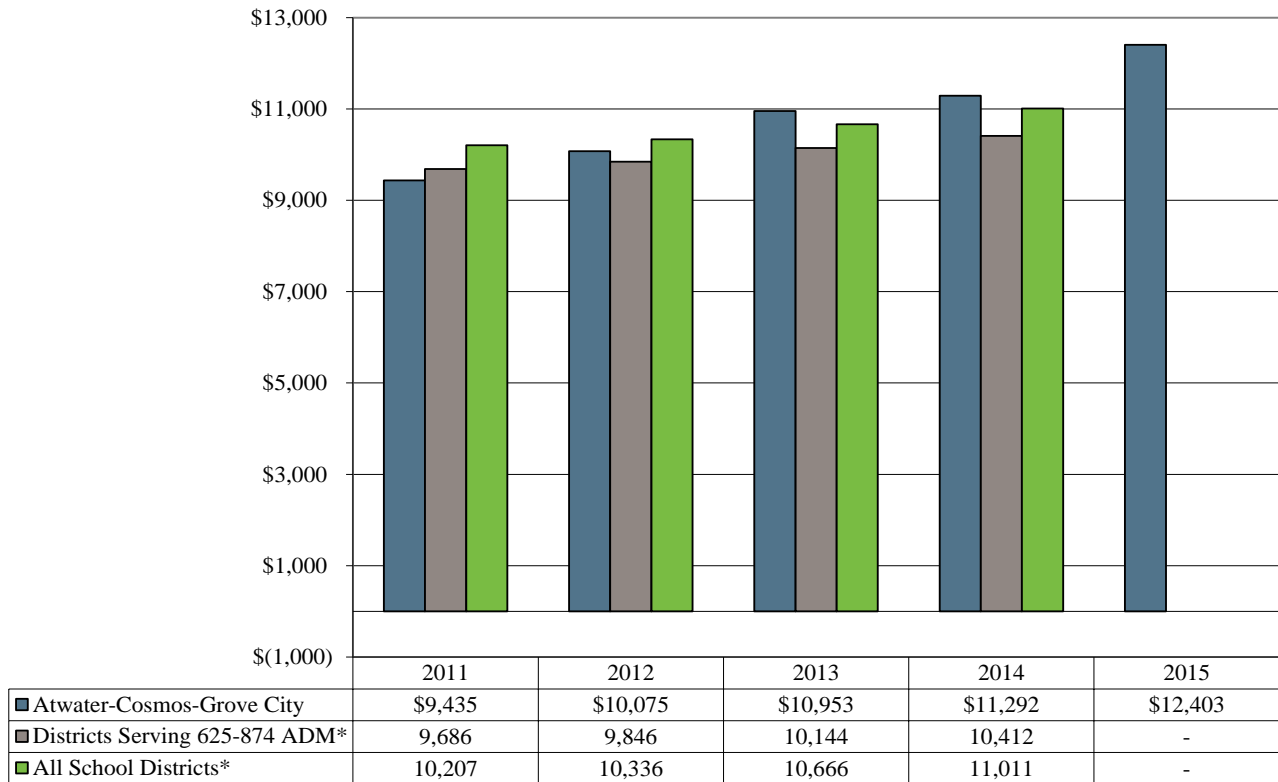
INDEPENDENT SCHOOL DISTRICT NO. 2396

**FINANCIAL ANALYSIS
June 30, 2015**

EXPENDITURES PER STUDENT

Expenditures per student for all General Fund programs are summarized in the graph below.

Expenditures Per ADM Served - General Fund



* Source of all school districts and districts serving 625-874 ADM: *School District Profiles Report* published by the MDE. Data for 2015 was not yet available.

Expenditures per student increased from 2014 to 2015 by \$ 1,111. Expenditures per student have increased from 2011 to 2015 by \$ 2,968, or 31.5%. This is due to expenditures increasing by approximately 24.3%, while ADM served decreased 5.2%.

ADM served represents residents served in the District, residents attending elsewhere on tuition and nonresidents served in the District both through open enrollment and tuition programs.

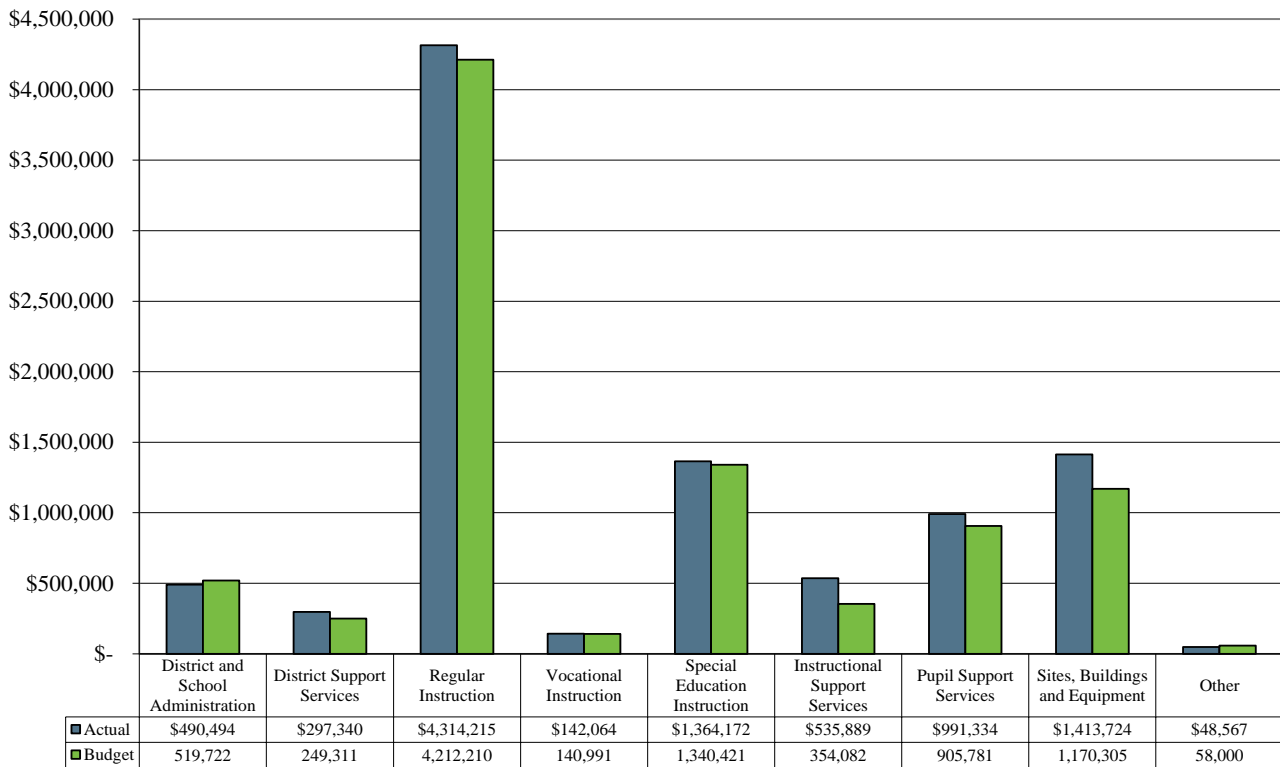
INDEPENDENT SCHOOL DISTRICT NO. 2396

FINANCIAL ANALYSIS June 30, 2015

GENERAL FUND EXPENDITURES

The following graph outlines the budget and actual expenditures of the General Fund. Overall, actual expenditures were \$ 646,976 over budget. Regular instruction was over budget \$ 102,005 as a result of increase retirement contribution rates and additional payments in lieu of health insurance that were not included in the budget. Instructional support services was over budget \$ 181,807 due to having planned for the phase out of the reward status programming from the prior year at a faster rate than was completed. Pupil support services was over budget \$ 85,553 as a result of higher than anticipated fuel costs. Sites, buildings and equipment was over budget \$ 243,419 as a result of a new boiler required mid-year that was not in the budget. Other programs were close to their budgeted amounts.

2015 General Fund Expenditures Budget and Actual



INDEPENDENT SCHOOL DISTRICT NO. 2396

FINANCIAL ANALYSIS

June 30, 2015

GENERAL FUND OPERATIONS

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

For the Year Ended June 30,	2011	2012	2013	2014	2015
Revenues	\$ 8,723,733	\$ 8,581,155	\$ 8,800,651	\$ 8,927,863	\$ 9,141,987
Expenditures	7,724,010	7,925,599	8,544,856	8,906,125	9,597,799
Excess of Revenues Over (Under) Expenditures	999,723	655,556	255,795	21,738	(455,812)
Other Financing Sources	1,777	2,500	3,000	1,582	374
Fund Balance, July 1	1,127,860	2,129,360	2,787,416	3,046,211	3,069,531
Fund Balance, June 30	\$ 2,129,360	\$ 2,787,416	\$ 3,046,211	\$ 3,069,531	\$ 2,614,093

Components of Fund Balance	2011	2012	2013	2014	2015
Nonspendable	\$ 27,192	\$ 53,576	\$ 28,655	\$ 28,115	\$ 12,217
Restricted for:					
Achievement and Integration	-	-	-	130	-
Basic Skills Programs	179,986	340,289	296,631	321,432	383,418
Operating Capital	136,154	86,151	-	-	-
Health and Safety	(47,387)	(15,404)	(27,368)	13,037	-
Gifted and Talented	9,662	11,275	12,230	13,657	16,531
Learning and Development	-	-	33,761	69,762	125,560
Teacher Development and Evaluation	-	-	-	-	18,224
Safe Schools - Crime Levy	25,469	36,173	45,759	25,996	43,281
State Approved Alternative Program	6,521	-	-	-	-
Deferred Maintenance	49,560	100,761	150,245	201,917	255,249
Committed for Retirement Benefits	214,565	168,739	168,739	233,269	252,470
Assigned for Student Activities	95,794	92,968	105,402	97,602	100,601
Unassigned Fund Balance	1,431,844	1,912,888	2,232,157	2,064,614	1,406,542
Total Fund Balance	\$ 2,129,360	\$ 2,787,416	\$ 3,046,211	\$ 3,069,531	\$ 2,614,093

General Fund revenues have increased 4.8%, while expenditures have increased 24.3% since 2011. Total fund balance increased to a balance of \$ 2,614,093 in 2015, compared to a balance of \$ 2,129,360 in 2011. From 2014 to 2015, fund balance decreased \$ 455,438.

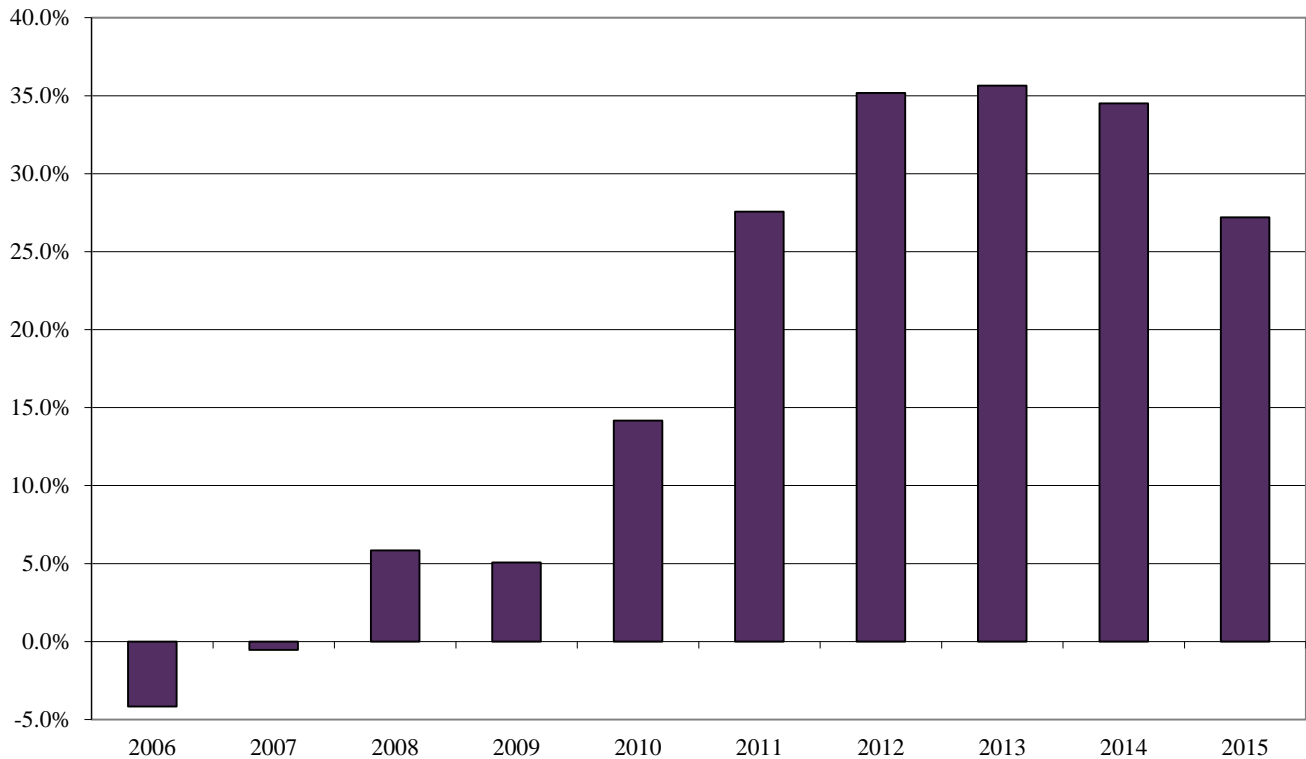
INDEPENDENT SCHOOL DISTRICT NO. 2396

FINANCIAL ANALYSIS June 30, 2015

GENERAL FUND OPERATIONS

One of the most common and comparable statistics used to evaluate school district financial health is the operating fund balance as a percentage of operating expenditures.

Fund Balance as a Percent of Expenditures



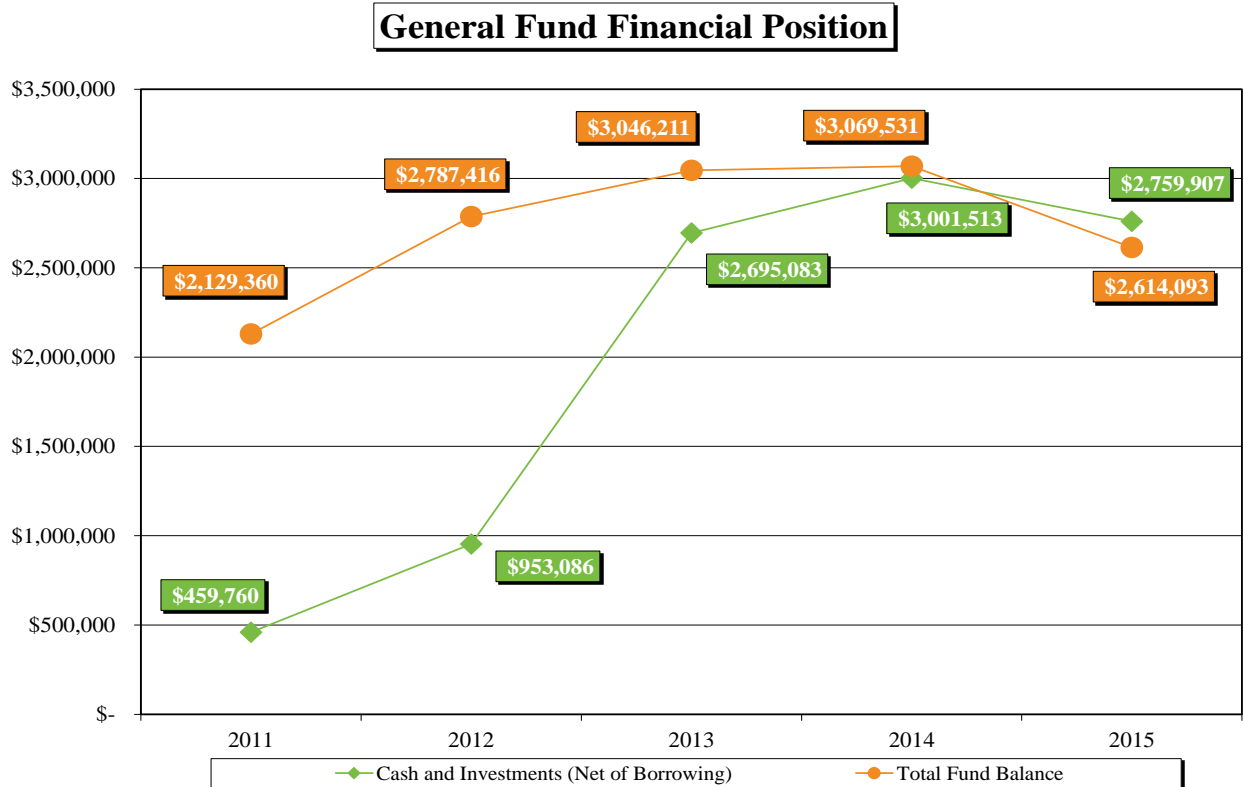
The above graph details the total fund balance as a percentage of expenditures. Based on 2015 expenditures, the District's General Fund balance would be sufficient to cover approximately three months of expenditures. The District's overall General Fund balance as a percentage of total expenditures decreased from 34.5% in 2014 to 27.2% in 2015, while the unassigned fund balance as a percentage of total expenditures decreased from 23.2% in 2014 to 14.7% in 2015. The District's fund balance policy states they will strive to maintain a minimum unassigned General Fund balance of 20% of the annual budget.

The chart on the following page illustrates the positive change in the District's financial position over the last five years.

INDEPENDENT SCHOOL DISTRICT NO. 2396

FINANCIAL ANALYSIS June 30, 2015

GENERAL FUND OPERATIONS



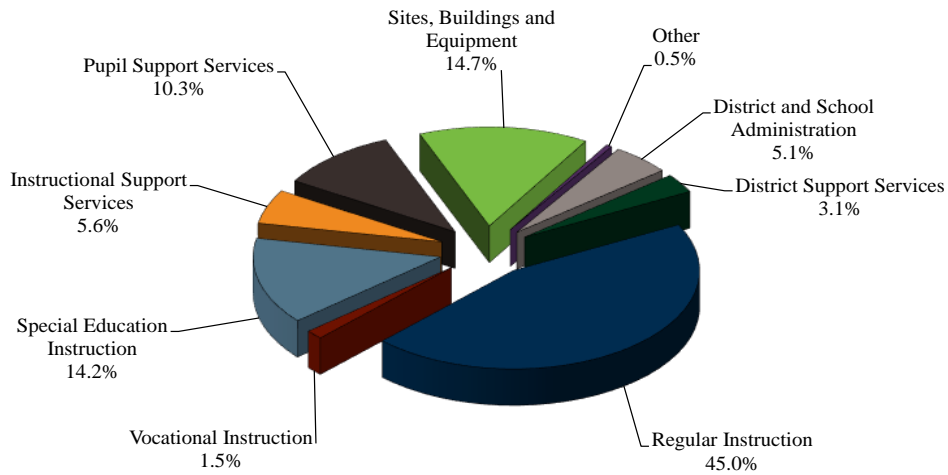
For the five years presented, fund balance has increased by \$ 484,733 from 2011 to 2015. Cash (net of borrowing) has increased in that same time period by \$ 2,300,147. More significantly, cash increased from 2012 to 2013 by \$ 1,741,977. The state previously had been metering aid payments by paying 90% of the aids throughout the year and holding 10% back to pay subsequent to year-end. During 2010, this metering changed to a 27% hold back, causing a significant decrease in cash and investments, net of borrowing. In 2011, this hold back was further increased to 30%. During 2011, the state also reenacted the property tax shift which early recognized property tax revenue and further decreased cash balances. In 2012, the metering was changed to reflect a 35.7% holdback. In 2013, the state decreased the holdback to 14.6%, causing the increase in cash. During 2014, the state returned the metering of payments back to paying 90% of the District's aid during the year and 10% after year end. 2015 saw the metering of payments continue at 10%.

INDEPENDENT SCHOOL DISTRICT NO. 2396

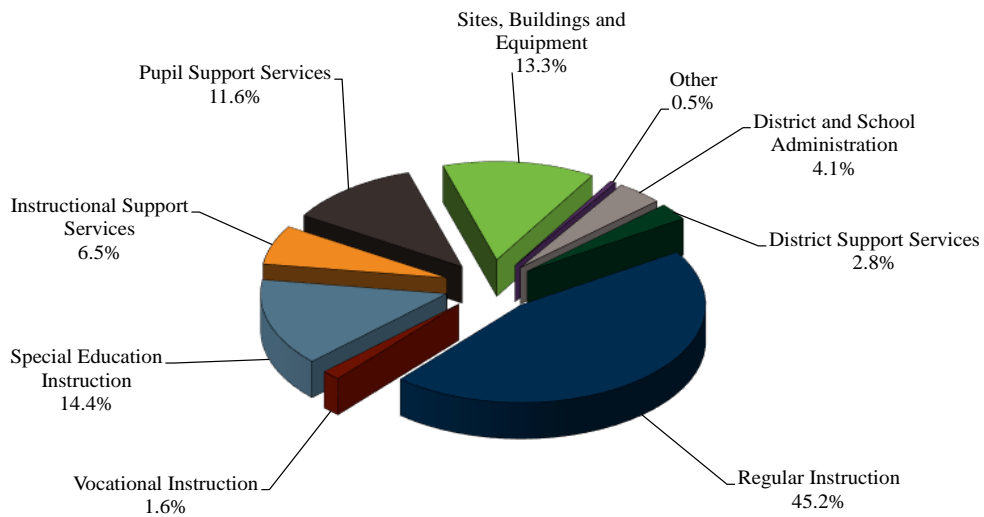
FINANCIAL ANALYSIS June 30, 2015

GENERAL FUND OPERATIONS

2015 District Expenditures



2014 District Expenditures



INDEPENDENT SCHOOL DISTRICT NO. 2396

**FINANCIAL ANALYSIS
June 30, 2015**

FOOD SERVICE FUND

The following table presents comparative operating results for the District’s Food Service Fund.

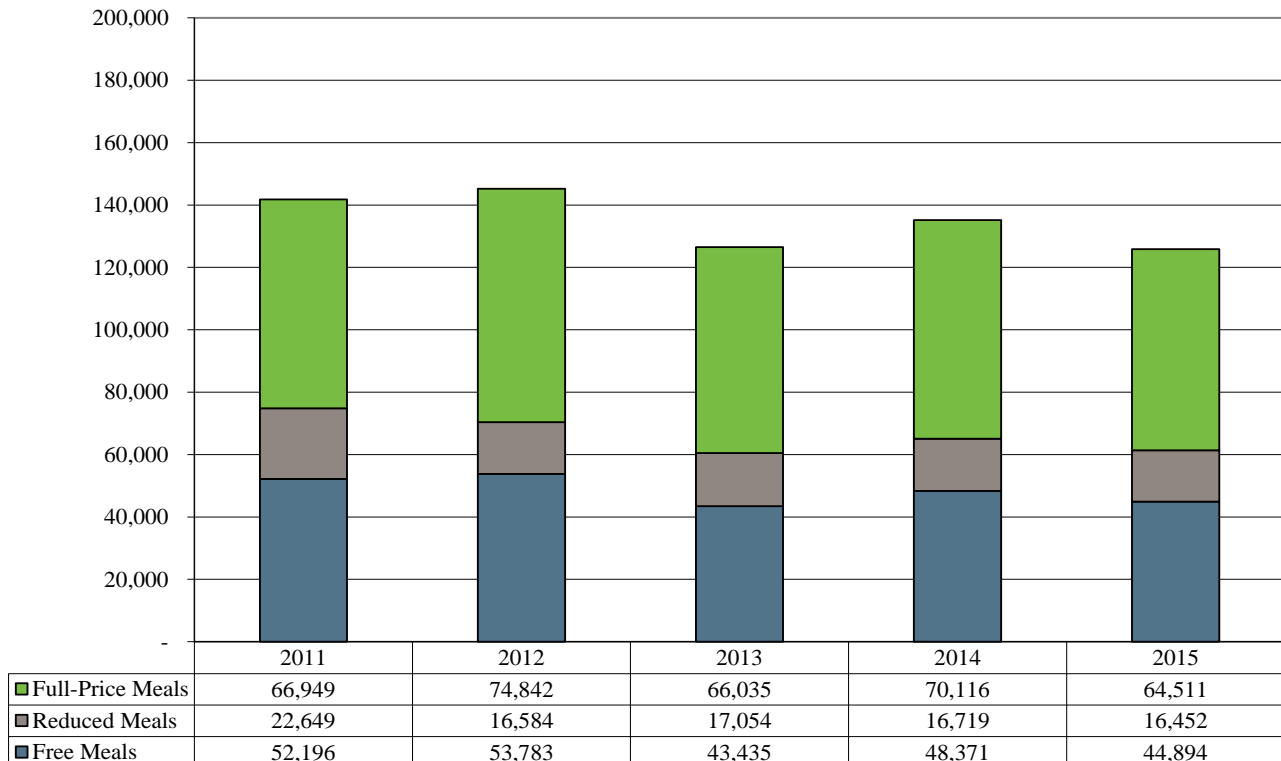
For the Year Ended June 30,	2011	2012	2013	2014	2015
Revenues	\$ 405,294	\$ 439,526	\$ 399,932	\$ 402,972	\$ 387,174
Expenditures	411,860	430,378	396,566	399,547	389,033
Excess of Revenues Over (Under) Expenditures	(6,566)	9,148	3,366	3,425	(1,859)
Fund Balance, July 1	35,515	28,949	38,097	41,463	44,888
Fund Balance, June 30	\$ 28,949	\$ 38,097	\$ 41,463	\$ 44,888	\$ 43,029

Food Service Fund revenues have exceeded expenditures in three of the last five years. In 2015, Food Service Fund expenditures exceeded revenues by \$ 1,859. This decreased the total fund balance to \$ 43,029. Revenues and expenditures remained consistent with the prior year. Total meals served to students decreased compared to 2014 levels.

We recommend the District continue to monitor the Food Service Fund to maintain a positive fund balance.

The following chart reflects the number and type of meals served to students over the past five years.

Meals Served to Students



INDEPENDENT SCHOOL DISTRICT NO. 2396

FINANCIAL ANALYSIS

June 30, 2015

COMMUNITY SERVICE FUND

The following table presents comparative operating results for the District's Community Service Fund.

For the Year Ended June 30,	2011	2012	2013	2014	2015
Revenues	\$ 354,319	\$ 396,418	\$ 301,361	\$ 314,710	\$ 463,760
Expenditures	389,210	393,339	321,744	346,241	361,385
Excess of Revenues Over (Under) Expenditures	(34,891)	3,079	(20,383)	(31,531)	102,375
Fund Balance, July 1	32,302	(2,589)	490	(19,893)	(51,424)
Fund Balance, June 30	\$ (2,589)	\$ 490	\$ (19,893)	\$ (51,424)	\$ 50,951

Fund Balance Components:	2011	2012	2013	2013	2014
Restricted for Early Childhood and Family Education	\$ 15,200	\$ 9,464	\$ 9,868	\$ 10,368	\$ 10,864
Restricted for Community Education	(34,288)	(26,155)	(30,197)	(33,615)	48,543
Restricted for School Readiness	(4,666)	(3,526)	(14,179)	(45,534)	(26,016)
Restricted for Community Service	21,165	20,707	14,615	17,357	17,560
Total Fund Balance	\$ (2,589)	\$ 490	\$ (19,893)	\$ (51,424)	\$ 50,951

Community Service Fund expenditures exceeded revenues in three of the last five years. In 2013, revenues and expenditures decreased \$ 95,057 and \$ 71,595, respectively, due to the loss of the 21st Century Grant and a reduction in state aids. From 2014 to 2015, revenues increased \$ 149,050 due to increased fees programming, and the new Race to the Top and Pathways II funding. Expenditures increased \$ 15,144 due to increased salaries. As a result of revenues exceeding expenditures, total fund balance increased \$ 102,375 from 2014 to 2015, resulting in the highest fund balance in the five years presented.

We recommend the District continue to monitor the Community Service Fund to ensure revenues cover expenditures each year.

INDEPENDENT SCHOOL DISTRICT NO. 2396

LEGISLATIVE SUMMARY

June 30, 2015

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

STATE AID APPROPRIATIONS

Total appropriations from the state general fund for E-12 education for the 2016-2017 biennium are \$ 17.23 billion. The formula allowance for 2016 General Education Aid was increased \$ 117 (2%) to \$ 5,948. For 2017, the formula allowance is set at \$ 6,067, which is also an increase of 2%.

Beginning in 2016, the extended time revenue allowance increases to \$ 5,117, a \$ 100 increase.

ENGLISH LEARNER REVENUE

The funding eligibility time period has been extended from six years to seven years beginning in 2017.

COMPENSATORY REVENUE

Districts not in a compensatory pilot project are allowed to reallocate up to 50% of compensatory revenue among buildings based on a local plan beginning in 2016. The compensatory pilot grants have been extended for 2016 and later.

STUDENT ACHIEVEMENT LEVY

The Student Achievement Levy is reduced from \$ 20 million to \$ 10 million for 2018 and eliminated for 2019.

OPERATING CAPITAL LEVY

The operating capital levy equalizing factor has been increased from \$ 14,500 for 2016 to \$ 14,740 for 2017, \$ 17,473 for 2018 and \$ 20,510 for 2019.

LEARNING AND DEVELOPMENT

Districts are no longer required to annually report on uses of learning and development revenue.

Q COMP

The basic Q Comp aid cap was increased to \$ 88,118,000 beginning for 2017. This cap was set at \$ 75,636,000 previously.

INDEPENDENT SCHOOL DISTRICT NO. 2396

LEGISLATIVE SUMMARY

June 30, 2015

ALTERNATIVE TEACHER PAY

New language has been introduced allowing the alternative teacher pay system to include a hiring bonus or other added compensation for teachers identified as effective or highly effective who work in a hard to fill position or hard to staff school. There are additional incentives for teachers who earn a Master's degree or other advanced certification in their field, pursue training or dedication in shortage areas identified by their district, or help fund a "grow your own" new teacher initiative.

STAFF DEVELOPMENT

Districts are required to use the 2% staff development set-aside for teacher development and evaluation, principal development and evaluation, professional development, in-service education and, to the extent funds remain, for staff development plans. Staff development plans must be aligned with teacher development and evaluation agreement.

AMERICAN INDIAN EDUCATION AID

Success for the Future grants will be replaced with American Indian Education aid effective for 2016. Districts with at least 20 American Indian students are eligible for this aid in the amount of approved cost or \$ 20,000 plus \$ 358 per American Indian enrolled on October 1 of the prior school year for enrollment exceeding 20. Districts currently receiving Success for the Future grants will be held harmless.

LONG-TERM FACILITIES MAINTENANCE REVENUE

Beginning in 2017, deferred maintenance, health and safety and alternative facilities revenues will be rolled into a new long-term facilities maintenance revenue program. This new revenue equals the sum of the product of:

- 1) \$ 193/APU for 2017, \$ 292 for 2018, and \$ 380 for 2019 and later, and
- 2) The lesser of 1 or the ratio of the district's average building age to 35 years
- 3) The approved cost of indoor air quality, fire alarm and suppression and asbestos abatement projects with a cost per site of \$ 100,000 or more

The 25 large districts currently eligible for alternative facilities revenue continue to be eligible based on approved project costs without a state-imposed per pupil limit.

Districts are guaranteed to receive at least as much revenue and state aid as they would have received under existing law.

INDEPENDENT SCHOOL DISTRICT NO. 2396

LEGISLATIVE SUMMARY June 30, 2015

MISCELLANEOUS LEVIES

The maximum rate for the building lease levy is changed from \$ 162 to \$ 212 per adjusted pupil unit for districts and from \$ 46 to \$ 65 for intermediate district members.

There is a new natural disaster debt service equalization levy available for Districts who have natural disaster damage in excess of \$ 500,000 that is not covered by FEMA or insurance. This is effective for the pay 2016 levy.

The debt service equalizing factors have changed from \$ 3,550 to \$ 3,400 for 2016 and to \$ 4,430 for 2017 and later for tier 1 Districts and from \$ 7,900 to \$ 8,000 for tier 2 Districts.

LOCAL OPTIONAL REVENUE

Local optional revenue is replacing location equity revenue. All districts are eligible for \$ 424 per APU. The revenue will be deducted from the referendum allowance as local equity revenue was in 2015. Districts no longer need to opt out via board resolution. Instead, Districts will indicate the revenue allowance on the levy information system.

ACCOUNTING

A two-year extension was approved through 2017 of authority for school districts to transfer funds with commissioner approval if transfer does not result in additional aid or levy authority. Transfers are not allowed from the food service or community service funds or the reserved/restricted account for staff development.

FINANCIAL REPORTING DATES

The deadline for prior year data corrections for final payments has been moved from December 30 to December 15.

SPECIAL EDUCATION

A new special education formula is enacted beginning in 2016. Beginning in 2016, special education aid equals the sum of the new formula aid plus the new formula excess cost aid.

Beginning in 2016, the new special education regular formula is the least of:

- 62% of the District's old formula special expenditures for the prior fiscal year
- 50% of the District's nonfederal special education expenditures for the prior fiscal year (including fringe benefits)
- 56% of the amount calculated using a new pupil-driven formula based on prior year data

INDEPENDENT SCHOOL DISTRICT NO. 2396

**LEGISLATIVE SUMMARY
June 30, 2015**

SPECIAL EDUCATION (CONTINUED)

Beginning in 2016, the new special education excess cost aid is the greater of:

- 56% of the difference between the District's prior year unreimbursed nonfederal special education cost and 7% of the District's prior year general education revenue
- 62% of the difference between the District's prior year unreimbursed old formula special education cost and 2.5% of the District's prior year general education revenue

Beginning in 2016, special education aid will be paid directly to cooperatives and intermediate districts, rather than having those aids flow through the resident district. Tuition bills will be reduced to offset the aid paid to the cooperative and intermediaries.

INDEPENDENT SCHOOL DISTRICT NO. 2396

EMERGING ISSUES

June 30, 2015

Executive Summary

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards** – The Office of Management and Budget (OMB) issued grant reform rules on December 23, 2013. This reform streamlines the language from eight existing OMB Circulars (listed below) into one consolidated set of guidance, in the code of Federal regulations, known as the “Super Circular”.
- **Accounting Standard Update – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – Governmental Accounting Standards Board (GASB) has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities.

The following are extensive summaries of each of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your district.

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

The Office of Management and Budget (OMB) issued grant reform rules on December 23, 2013. This uniform grant guidance streamlines Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.

Effective Dates

Federal agencies must implement the requirements to be effective by December 26, 2014. Non-federal entities will need to implement the new Administrative Requirements and Cost Principles for all new Federal Awards made after December 26, 2014. Audit Requirements are effective for fiscal years beginning on or after December 26, 2014.

Objective of OMB Grant Reform

This reform streamlines the language from eight existing OMB Circulars into one consolidated set of guidance, in the code of Federal regulations, known as the “Super Circular”. The objective of the grant reform is to reduce administrative burden for non-federal entities receiving Federal Awards while reducing the risk of waste, fraud and abuse by:

1. Eliminating duplicative and conflicting guidance
2. Focusing on performance over compliance for accountability
3. Encouraging efficient use of information technology and shared services
4. Providing for consistent and transparent treatment of costs
5. Limiting allowable costs to make the best use of federal resources
6. Setting standard processes using data definitions
7. Encouraging non-federal entities to have family friendly policies
8. Strengthening oversight
9. Targeting audit requirements on risk of waste, fraud and abuse

INDEPENDENT SCHOOL DISTRICT NO. 2396

EMERGING ISSUES

June 30, 2015

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (CONTINUED)

This grant reform complements targeted efforts by OMB and a number of Federal agencies to reform overall approaches to grant-making by implementing innovative, outcome-focused grant making decisions and processes in collaboration with their non-federal partners.

Administrative Requirements – Subpart A-D of Federal Register

Following are some of the notable items in the updated Administrative Requirements.

- Must is defined as required
- Should is defined as best practice or recommended approach
- The term “vendor” is no longer used and was replaced with the term “contractor” (Section 200.23)
- Personally Identifiable Information (PII) and Protected Personally Identifiable Information (PPII) are defined (Sections 200.79 and 200.82)
- Fixed amount awards focused on meeting performance milestones (Section 200.201)
- Emphasis on performance goals and performance reporting (Section 200.301)
- Defined that computers are considered supplies, not equipment (Section 200.940)
- Flexibility in electronic documentation retention, with associated internal controls (Section 200.335)

Internal Controls (Section 200.303)

Internal controls should comply with:

- “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)
- Federal statutes, regulations and terms and conditions of the Federal award

Internal controls must:

- Evaluate and monitor compliance
- Take prompt action for noncompliance
- Take reasonable measures to safeguard PPII and other sensitive information

Procurement Standards (Sections 200.317 through 200.326)

Guidelines provide five different procurement methods

- Micro-purchases
- Small purchases
- Sealed bids
- Competitive proposals
- Noncompetitive proposals

Entities must have a documented procurement policy, written standards of conduct covering organizational conflicts of interest and must maintain oversight to ensure that contractors perform in accordance with the terms, conditions and specifications of their contracts or purchase orders.

INDEPENDENT SCHOOL DISTRICT NO. 2396

EMERGING ISSUES

June 30, 2015

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (CONTINUED)

Subrecipient Monitoring (Sections 200.330 through 200.332 and 200.521)

The pass-through entity must clearly identify the agreements as a subaward and must provide up to 13 different award identification pieces of information within the contract. There are also other required disclosures described for all requirements imposed by the pass-through entity on the subrecipient, indirect cost rate, allowing access to records, etc. An evaluation of each subrecipients risk of noncompliance is also required.

Cost Principles – Subpart E of Federal Register

Following are some of the notable items in the updated Cost Principles.

Indirect/Direct Costs (Sections 200.413-200.414)

- Salaries of administrative or clerical staff could be directly charged to a federal program if they meet certain conditions.
- Any non-federal entity that has never negotiated an indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct costs which may be used indefinitely
- Federally negotiated indirect cost rates must be accepted by all federal awarding agencies (usually).
- Any non-federal entity that has a federally negotiated indirect cost rate may apply for a one-time extension of a current negotiated indirect cost rates for a period of up to four years.

Time and Effort Reporting (Section 200.430)

Charges to Federal Awards must be based on records that accurately reflect the work performed.

- Records are to be supported by a system of internal controls which provides reasonable assurance that the charges are accurate, allowable and properly allocated
- There is flexibility in process used to meet those standards
- Personnel activity reports not specifically required
- Maintained budget estimates may be used for interim accounting purposes, provided that, the non-federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal Award based on budget estimates to ensure adjustments are made so final amounts to Federal Awards are proper.

Audit Requirements – Subpart F of Federal Register

Following are some of the notable items in the updated Audit Requirements.

- Single Audit threshold raised from \$ 500,000 in Federal Awards per year to \$ 750,000 in Federal awards per year
- Major program determination changes include:
 - Type A/B program threshold is a sliding scale with a minimum of \$ 750,000
 - Percentage of coverage rule changes to 40% (50% currently) for non-low risk auditees and 20% (25% currently) for low risk auditees
- Updated criteria for a low-risk auditee
 - Going concern is incorporated
 - Cognizant/oversight agency can no longer waive exception
- Reporting for questioned costs threshold raised from \$ 10,000 to \$ 25,000

INDEPENDENT SCHOOL DISTRICT NO. 2396

EMERGING ISSUES

June 30, 2015

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (CONTINUED)

Other Items of Interest

- List of items requiring prior written approval (*Section 200.407*)
- Advertising and public relations clarified, include program outreach (*Section 200.421*)
- Conference spending clarified (*Section 200.432*)
- Employee “morale” costs eliminated (*Section 200.437*)

Example of Strategy to Implement OMB Grant Reform Changes

1. Understand grant reform changes
2. Assign an internal expert who will be responsible for leading effort (time, resources and availability)
3. Establish a team and include those in program, financial and budget sides of federal grant management
4. Develop a plan and concentrate on areas of most significance first
5. Obtain approval from management and those charged with governance as it relates to policy changes
6. Attain/Provide training on new requirements and new entity specific policies and procedures
7. Monitor plan and focus on areas of most significant change

Additional Resources on OMB Grant Reform

- OMB Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards
 - (<https://www.federalregister.gov/articles/2013/12/26/2013-30465/uniform-administrative-requirements-cost-principles-and-audit-requirements-for-federal-awards>)
- COFAR FAQs
 - (<https://cfo.gov/wp-content/uploads/2013/01/2-C.F.R.-200-FAQs-2-12-2014.pdf>)
 - (<https://cfo.gov/wp-content/uploads/2014/08/2014-08-29-Frequently-Asked-Questions.pdf>)
- OMB Policy Statements
 - (http://www.whitehouse.gov/OMB/grants_docs)

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 - ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

INDEPENDENT SCHOOL DISTRICT NO. 2396

EMERGING ISSUES

June 30, 2015

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 - ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

GASB Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide:

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.
- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.
- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

GASB Statement 75 carries forward from Statement 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.

GASB Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Information provided above was obtained from www.gasb.org.