

**Independent School District No. 2396
Atwater/Cosmos/Grove City, Minnesota**

Communications Letter

June 30, 2016



Independent School District No. 2396
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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 the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2396, Atwater/Cosmos/Grove City, Minnesota, as of and for the year ended June 30, 2016, 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 audit 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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.

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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.

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 20, 2016, 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.

St. Cloud, Minnesota
October 20, 2016

Independent School District No. 2396
Material Weaknesses

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 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 state and federal revenues and receivables, federal expenditures, property tax revenue, receivables and taxes levied for subsequent year's expenditures, and salary expenditures.

Independent School District No. 2396
Material Weaknesses

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

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 one deposit selected for testing could not be located.

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**

DISBURSEMENT APPROVAL PROCESS

During our audit, we reviewed a sample of invoices and noted 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.

CONTRACT APPROVAL

During our audit, we noted that construction contracts for track resurfacing and parking lot repairs were entered into by the District but were never formally approved by the Board.

We recommend the District approve all construction contracts.

Independent School District No. 2396
Required Communication

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2016, and have issued our report thereon dated October 20, 2016. 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, AND *GOVERNMENT AUDITING STANDARDS*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions 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.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplement(s) the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

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.

Our responsibility with respect to the other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information was not audited and we do not express an opinion or provide any assurance on it.

**Independent School District No. 2396
Required Communication**

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 the notes to financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. 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.

**Independent School District No. 2396
Required Communication**

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)

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.

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

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED 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 its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- General Fund State Receivables

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

- state and federal revenues and receivables
- federal expenditures
- property tax revenue, receivables, and taxes levied for subsequent year's expenditures
- salary expenditures

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.

**Independent School District No. 2396
Required Communication**

MANAGEMENT REPRESENTATIONS

We requested certain representations from management that are included in the management representation letter.

MANAGEMENT CONSULTATIONS WITH OTHER 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.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the 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

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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 the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Independent School District No. 2396
Financial Analysis**

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.

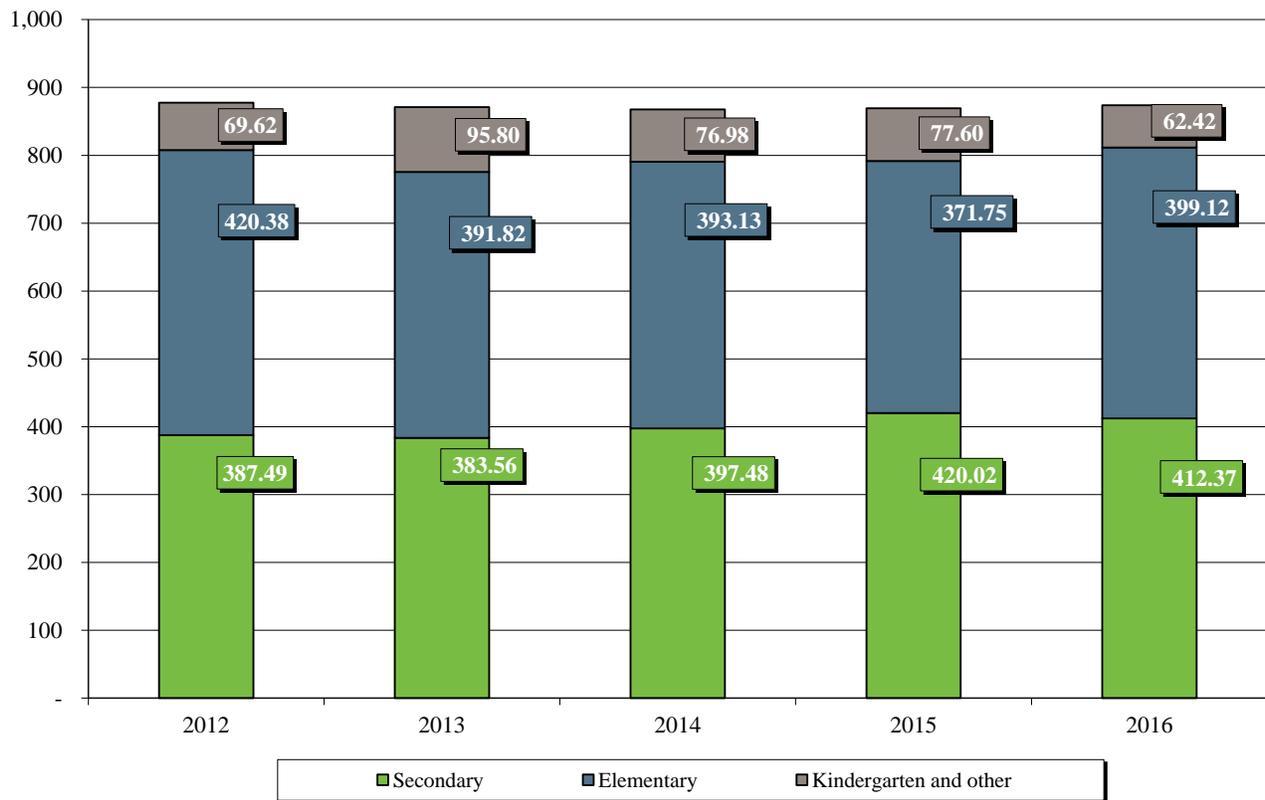
**Independent School District No. 2396
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

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

ADM	2012	2013	2014	2015	2016
Kindergarten and other	69.62	95.80	76.98	77.60	62.42
Elementary	420.38	391.82	393.13	371.75	399.12
Secondary	387.49	383.56	397.48	420.02	412.37
Total resident ADM	877.49	871.18	867.59	869.37	873.91
ADM served	785.67	776.64	784.88	773.87	801.87

Resident ADM



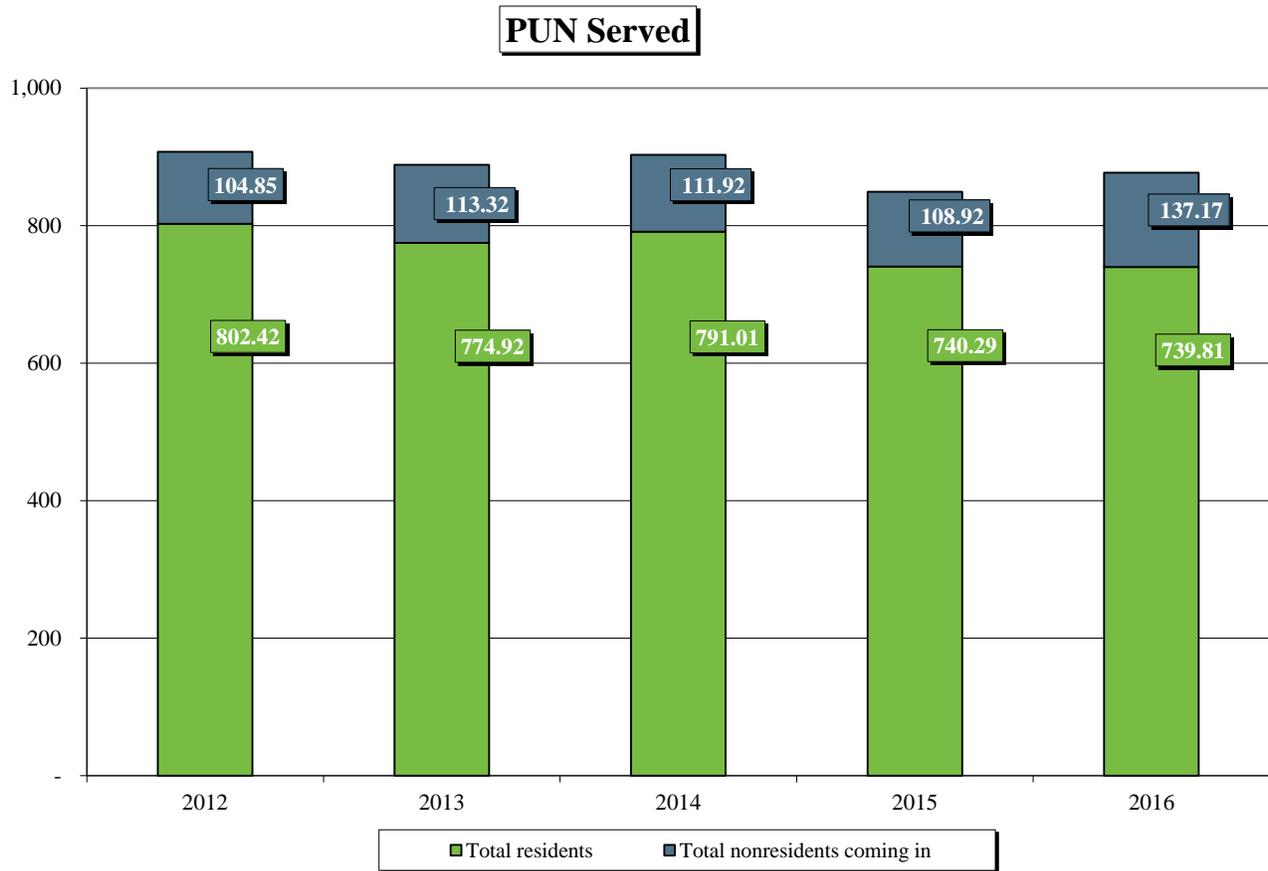
The graph above illustrates that over the last five years, the District has experienced a slight decrease in ADM. The increase in resident ADM for 2016 compared to 2015 totaled 4.54. Since 2012, the District has had a 16.2 increase in ADM served. The chart and graph on the following page converts the ADM into pupil unit number (PUN) for the same five years, including the effects of open enrollment.

**Independent School District No. 2396
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

PUN	2012	2013	2014	2015	2016
Residents	1,010.40	989.40	998.25	953.36	956.39
Resident PUN going elsewhere	(207.98)	(214.48)	(207.24)	(213.07)	(216.58)
Total residents	802.42	774.92	791.01	740.29	739.81
Total nonresidents coming in	104.85	113.32	111.92	108.92	137.17
Total students served	907.27	888.24	902.93	849.21	876.98

* 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. This decrease is primarily due to decreases in resident students, which have declined 54.01 PUN in the last five years. The net loss from open enrollment has decreased from 103.13 PUN in 2012 to 79.41 PUN in 2016. 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.

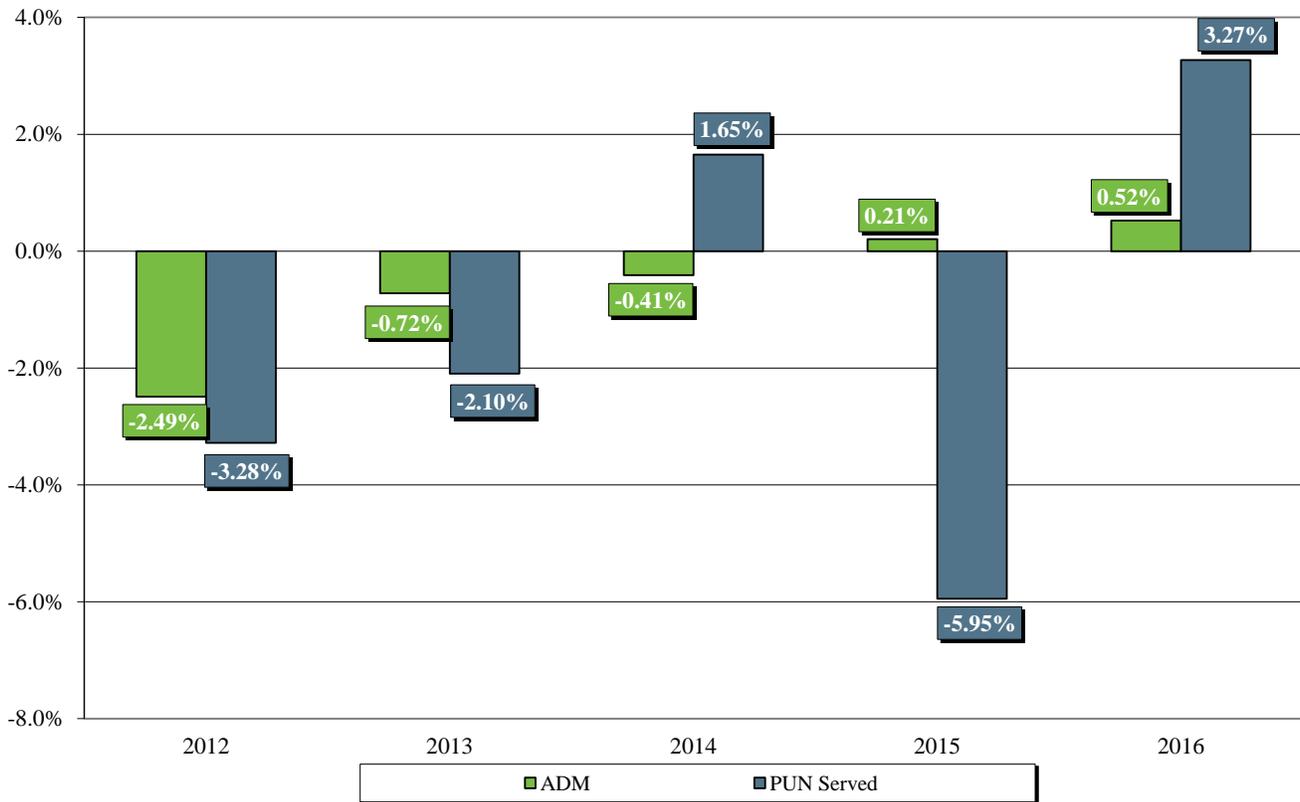
**Independent School District No. 2396
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

Pupil Units Weighting

	Prekindergarten and Handicapped Kindergarten	Half Kindergarten and Full Kindergarten	Elementary	Secondary
Fiscal year 2012-2014	1.250/1.000	N/A / 0.612	1.115/1.060	1.300
Fiscal year 2015-2016	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 2016, each district received \$5,948 in General Education Aid for each PUN served.

Independent School District No. 2396 Financial Analysis

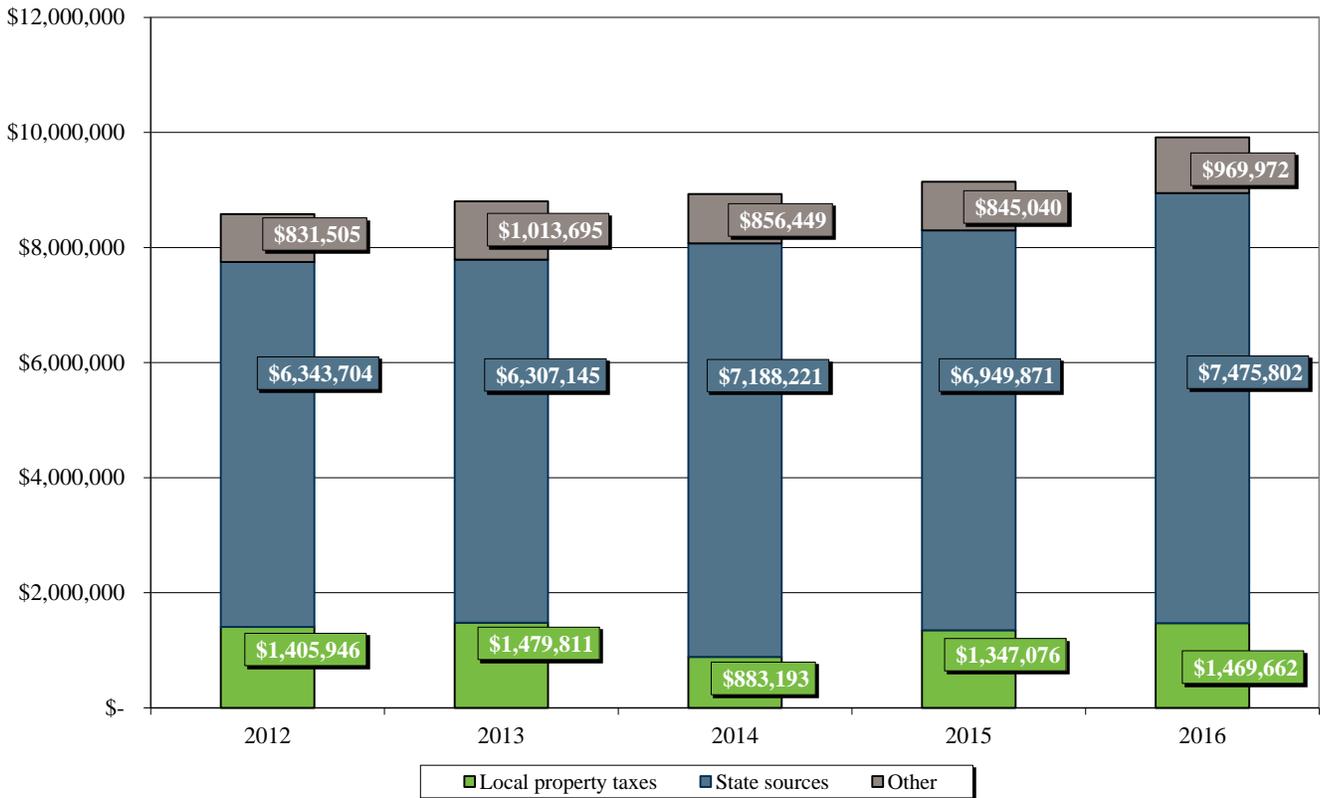
GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows:

	2012	2013	2014	2015	2016
Local property taxes	\$ 1,405,946	\$ 1,479,811	\$ 883,193	\$ 1,347,076	\$ 1,469,662
State sources	6,343,704	6,307,145	7,188,221	6,949,871	7,475,802
Other	831,505	1,013,695	856,449	845,040	969,972
Total	\$ 8,581,155	\$ 8,800,651	\$ 8,927,863	\$ 9,141,987	\$ 9,915,436

State sources represent 75.4% of the General Fund's total revenue, with local taxpayers contributing 14.8% of the funding and federal and other sources making up the remaining 9.8%. Local property taxes increased \$122,586 due to an increase in the levy. State revenue sources increased \$525,931. This increase is attributed to a contribution from the State to TRA on the District's behalf, an increase in students served and the formula allowance and additional special education funding. Other revenue sources increased \$124,932 from the prior year. Included in other revenues are local, county, and federal revenues. This increase is due to additional activity by the student activity accounts and a new federal award.

General Fund Sources of Revenue



**Independent School District No. 2396
Financial Analysis**

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*		
	2013	2014	2015	2013	2014	2015
General fund						
Property taxes	\$ 1,608	\$ 923	\$ 1,564	\$ 976	\$ 577	\$ 901
Other local sources	442	477	485	515	580	604
State aid	8,234	9,136	9,114	8,280	9,012	9,198
Federal aid	494	463	450	461	405	446
Total general fund	\$ 10,778	\$ 10,999	\$ 11,613	\$ 10,232	\$ 10,574	\$ 11,149
	Atwater-Cosmos-Grove City					
	2013	2014	2015	2016		
General fund						
Property taxes	\$ 1,852	\$ 1,069	\$ 1,672	\$ 1,833		
Other local sources	899	687	697	722		
State aid	8,085	9,114	8,902	9,323		
Federal aid	445	449	440	488		
Total general fund	\$ 11,281	\$ 11,319	\$ 11,711	\$ 12,365		

* Source: State-wide average and districts serving 625-874 ADM amounts for 2013 - 2015 were taken from the Minnesota Department of Education (MDE) publication, *School District Profiles*. Data for 2016 was not yet available.

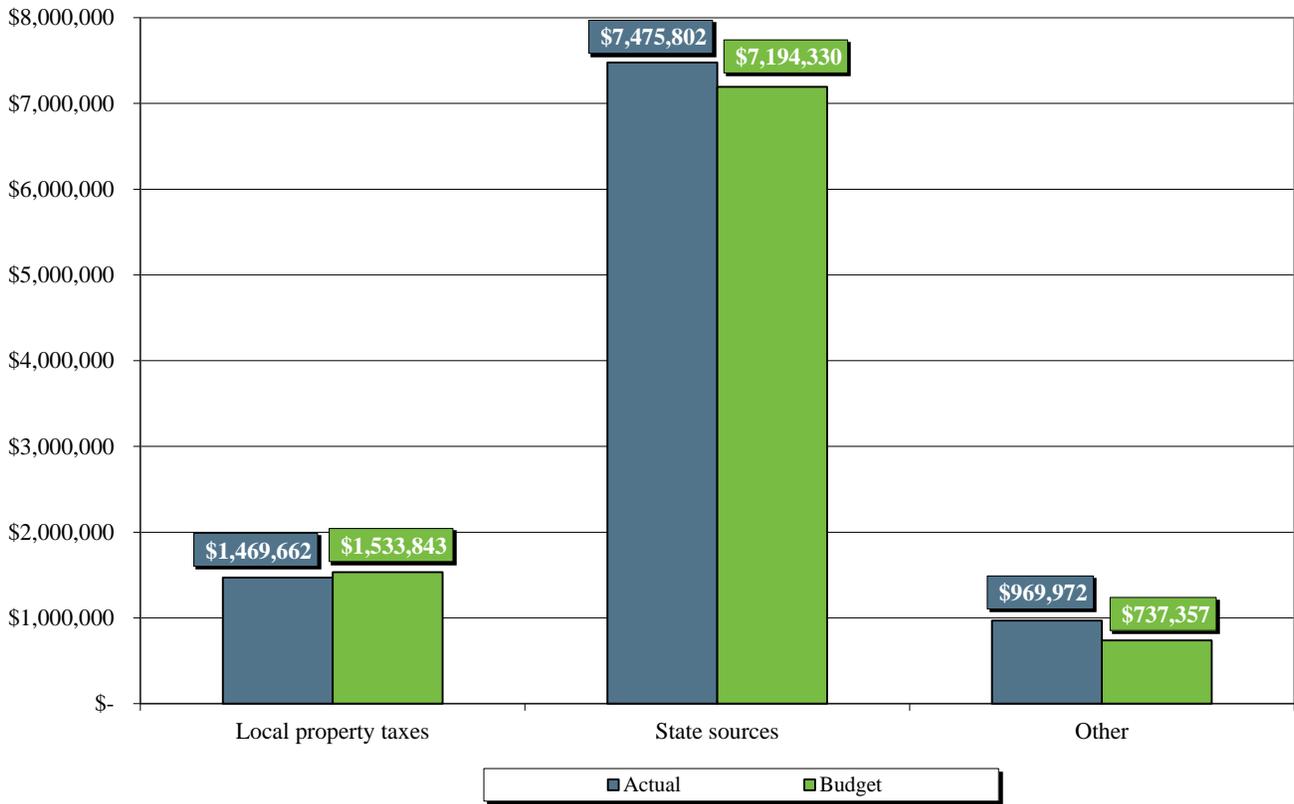
The mix of local and state revenues vary from year-to-year primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies due to factors such as the strength of property values, mix of property types, operating and bond referendums,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

**Independent School District No. 2396
Financial Analysis**

GENERAL FUND SOURCES OF REVENUE

The following graph outlines the budget and actual of the General Fund revenue. Overall, actual revenue was \$449,906, or 4.8%, over budget. Local property taxes were consistent with budgeted amounts. State revenue sources were over budget \$281,472, due to enrollment numbers being higher than anticipated as well as a contribution from the State for TRA that was not budgeted. Other sources of revenue were \$232,615 over budget due to increased student account activity, higher than anticipated medical assistance billings and not budgeting for the new federal grant.

2016 General Fund Revenues Budget and Actual

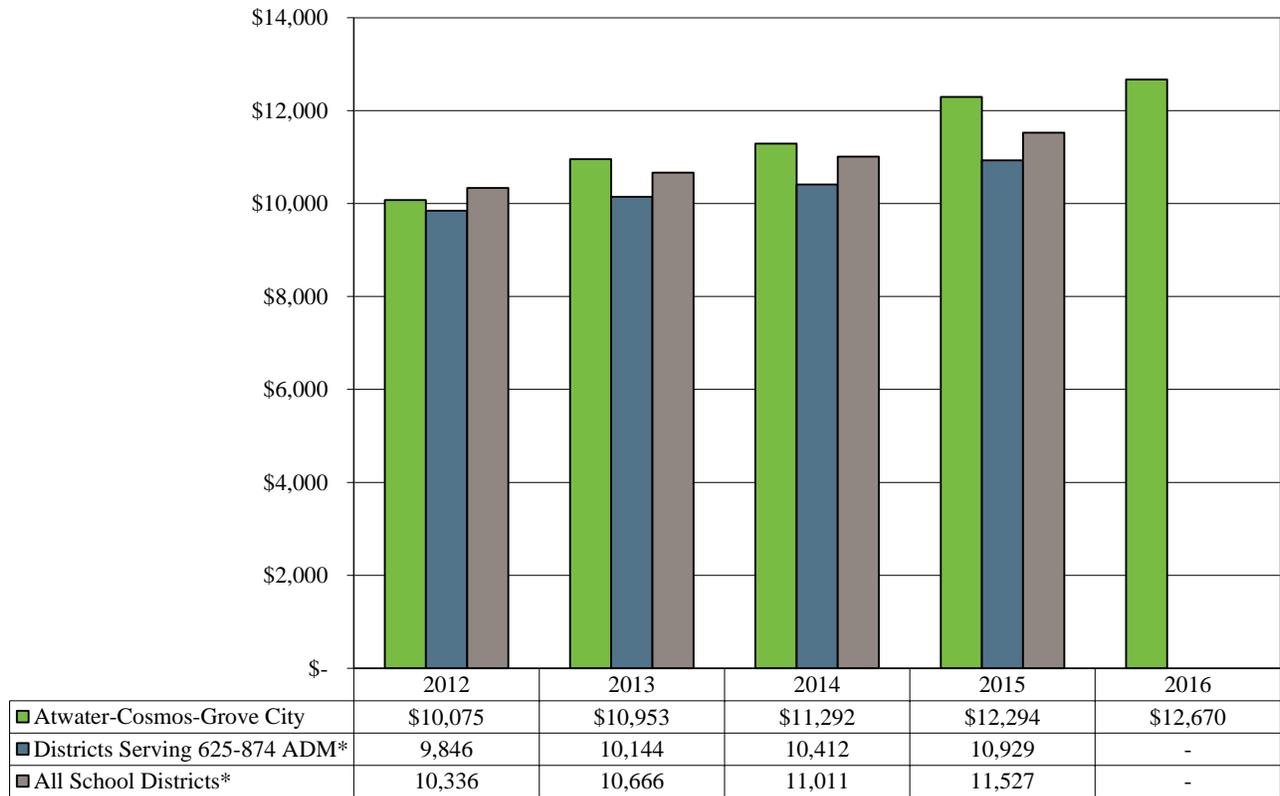


**Independent School District No. 2396
Financial Analysis**

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 2016 was not yet available.

Expenditures per student increased from 2015 to 2016 by \$376. Expenditures per student have increased from 2012 to 2016 by \$2,595, or 26%. This is due to expenditures increasing by approximately 28.2%, while ADM served increased 2.1%.

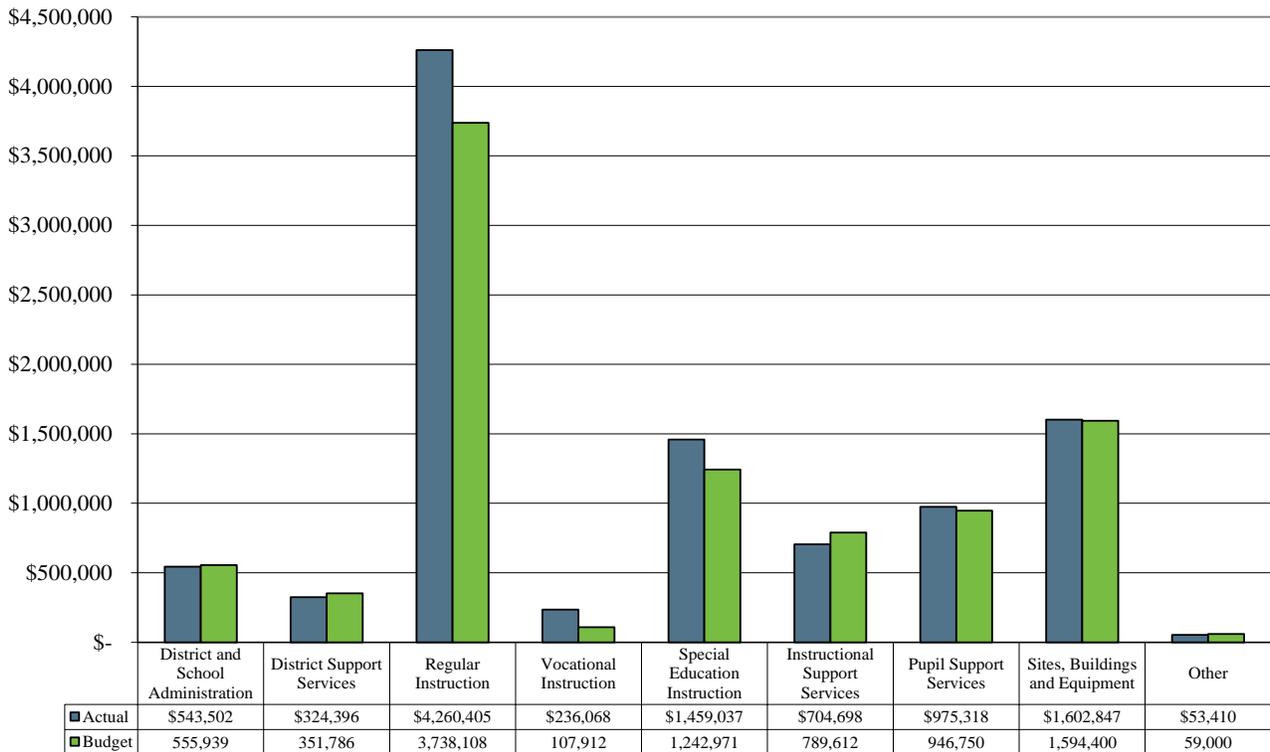
ADM served represents residents served in the District, residents attending elsewhere on tuition and nonresidents served in the District both through open enrollment and tuition programs.

Independent School District No. 2396 Financial Analysis

GENERAL FUND EXPENDITURES

The following graph outlines the budget and actual expenditures of the General Fund. Overall, actual expenditures were \$773,203 over budget. Regular instruction was over budget \$522,297 as a result of the State's contribution to TRA, increased health insurance costs and participation, and increased activity by the student activity accounts. Vocational instruction was over budget \$128,156 due to growing the program by adding a staff that was not included in the budget. Special education instruction was over budget \$216,066 due to not including new staff and payoffs in the budget. Instructional support services was under budget \$84,914 due to mistakenly over budgeting purchased services. Other programs were close to their budgeted amounts.

2016 General Fund Expenditures Budget and Actual



Independent School District No. 2396
Financial Analysis

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,	2012	2013	2014	2015	2016
Revenues	\$ 8,581,155	\$ 8,800,651	\$ 8,927,863	\$ 9,141,987	\$ 9,915,436
Expenditures	7,925,599	8,544,856	8,906,125	9,597,799	10,159,681
Excess of revenues over (under) expenditures	655,556	255,795	21,738	(455,812)	(244,245)
Other financing sources	2,500	3,000	1,582	374	2,501
Fund balance, July 1	2,129,360	2,787,416	3,046,211	3,069,531	2,614,091
Fund balance, June 30	\$ 2,787,416	\$ 3,046,211	\$ 3,069,531	\$ 2,614,093	\$ 2,372,347

Components of Fund Balance	2012	2013	2014	2015	2016
Nonspendable	\$ 53,576	\$ 28,655	\$ 28,115	\$ 12,217	\$ 14,217
Restricted for					
Achievement and integration	-	-	130	-	4,364
Basic skills programs	340,289	296,631	321,432	383,418	295,480
Operating capital	86,151	-	-	-	45,172
Health and safety	(15,404)	(27,368)	13,037	-	(114,094)
Gifted and talented	11,275	12,230	13,657	16,531	20,151
Learning and development	-	33,761	69,762	125,560	240,405
Teacher development and evaluation	-	-	-	18,224	20,249
Safe schools - crime levy	36,173	45,759	25,996	43,281	57,455
Unfunded severance and retirement levy	-	-	-	-	18,284
Deferred maintenance	100,761	150,245	201,917	255,249	-
Committed for retirement benefits	168,739	168,739	233,269	252,470	249,986
Assigned for student activities	92,968	105,402	97,602	100,601	124,519
Unassigned fund balance	1,912,888	2,232,157	2,064,614	1,406,542	1,396,159
Total fund balance	\$ 2,787,416	\$ 3,046,211	\$ 3,069,531	\$ 2,614,093	\$ 2,372,347

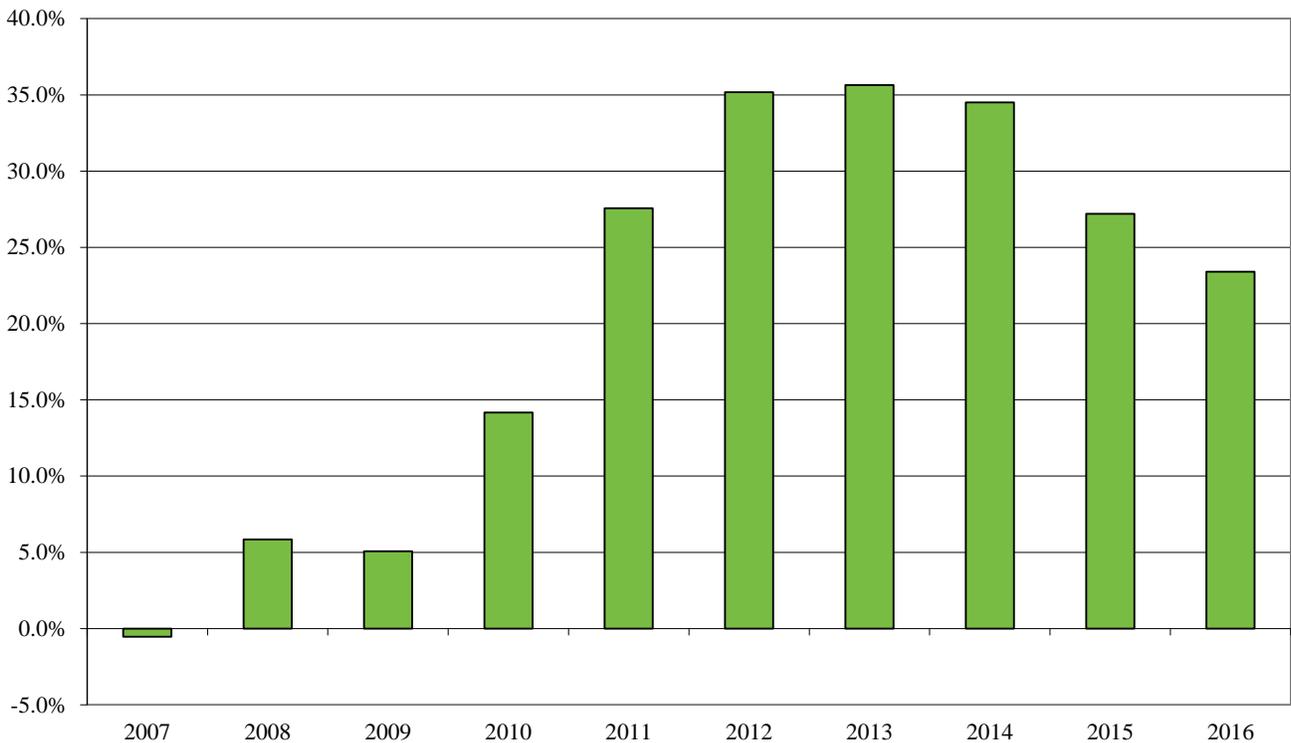
General Fund revenues have increased 15.5%, while expenditures have increased 28.2% since 2012. Total fund balance decreased to a balance of \$2,372,347 in 2016, compared to a balance of \$2,787,416 in 2012. From 2015 to 2016, fund balance decreased \$241,746.

**Independent School District No. 2396
Financial Analysis**

GENERAL FUND OPERATIONS (CONTINUED)

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

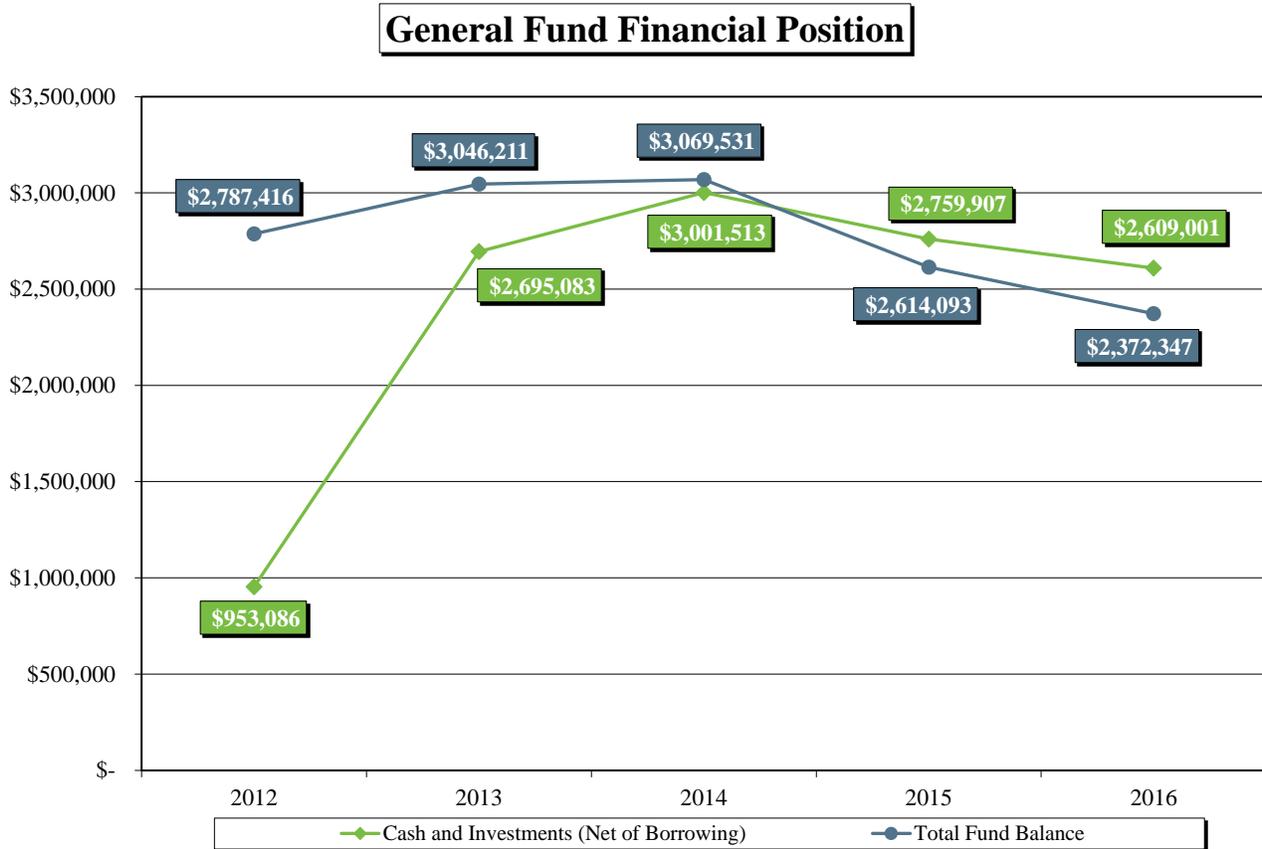


The above graph details the total fund balance as a percentage of expenditures. Based on 2016 expenditures, the District's General Fund balance would be sufficient to cover approximately two months of expenditures. The District's overall General Fund balance as a percentage of total expenditures decreased from 27.2% in 2015 to 23.4% in 2016, while the unassigned fund balance as a percentage of total expenditures decreased from 14.7% in 2015 to 13.7% in 2016. 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**

GENERAL FUND OPERATIONS (CONTINUED)

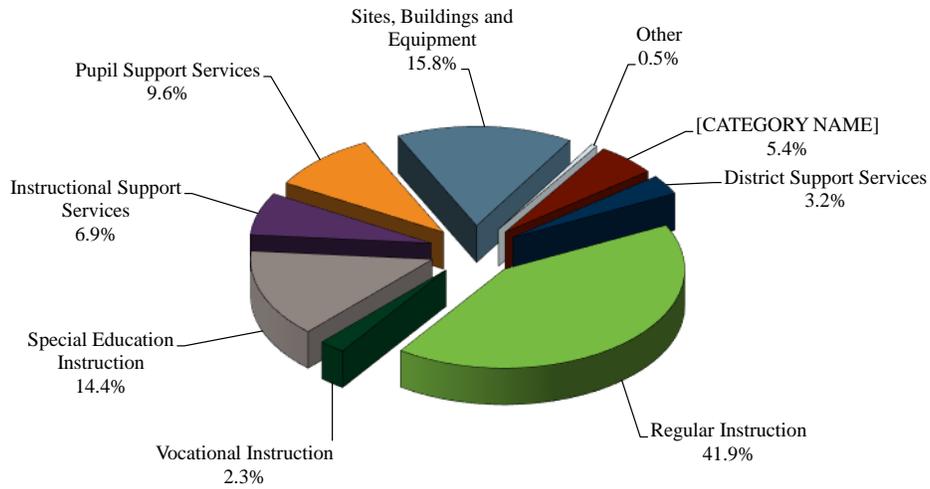


For the five years presented, fund balance has decreased by \$415,069 from 2012 to 2016. Cash (net of borrowing) has increased in that same time period by \$1,655,915. More significantly, cash increased from 2012 to 2013 by \$1,741,977. The state previously had been metering aid payments by paying 90% 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 and 2016 saw the metering of payments continue at 10%.

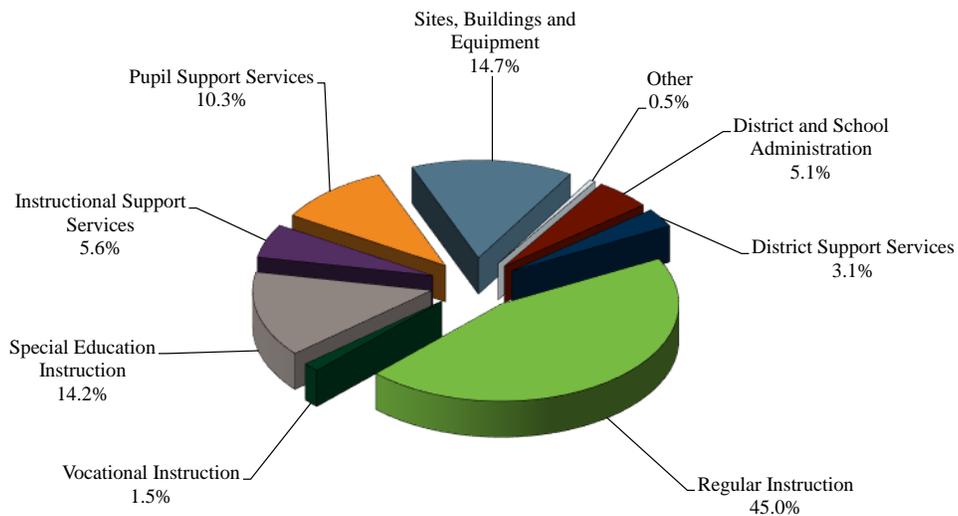
Independent School District No. 2396 Financial Analysis

GENERAL FUND OPERATIONS (CONTINUED)

2016 District Expenditures



2015 District Expenditures



**Independent School District No. 2396
Financial Analysis**

FOOD SERVICE FUND

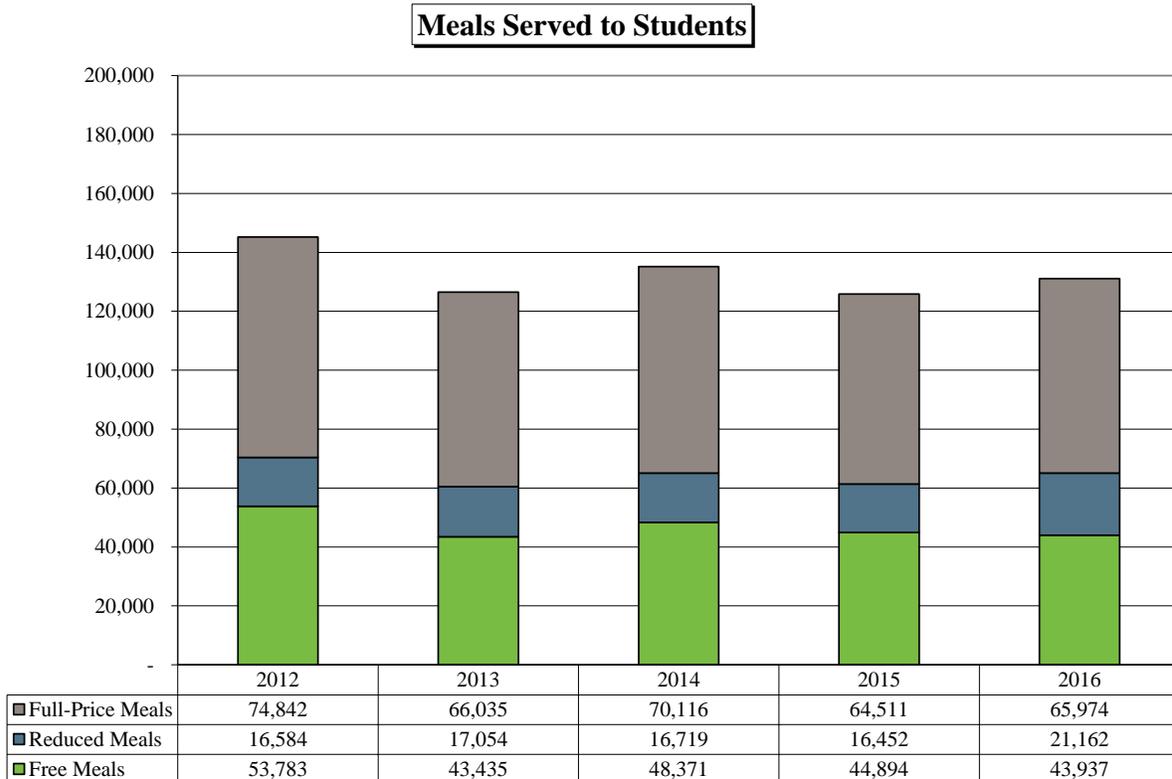
The following table presents comparative operating results for the District's Food Service Fund.

For the Year Ended June 30,	2012	2013	2014	2015	2016
Revenues	\$ 439,526	\$ 399,932	\$ 402,972	\$ 387,174	\$ 418,697
Expenditures	430,378	396,566	399,547	389,033	420,410
Excess of revenues over (under) expenditures	9,148	3,366	3,425	(1,859)	(1,713)
Fund balance, July 1	28,949	38,097	41,463	44,888	43,029
Fund balance, June 30	\$ 38,097	\$ 41,463	\$ 44,888	\$ 43,029	\$ 41,316

Food Service Fund revenues have exceeded expenditures in three of the last five years. In 2016, Food Service Fund expenditures exceeded revenues by \$1,713. This decreased the total fund balance to \$41,316. Revenues and expenditures increased \$31,523 and \$31,377, respectively, due to increased participation rates, increased reimbursement rates and increased commodities. Total meals served to students increased compared to 2015 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.



Independent School District No. 2396
Financial Analysis

COMMUNITY SERVICE FUND

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

For the Year Ended June 30,	2012	2013	2014	2015	2016
Revenues	\$ 396,418	\$ 301,361	\$ 314,710	\$ 463,760	\$ 475,954
Expenditures	393,339	321,744	346,241	361,385	372,615
Excess of revenues over (under) expenditures	3,079	(20,383)	(31,531)	102,375	103,339
Fund balance, July 1	(2,589)	490	(19,893)	(51,424)	50,951
Fund balance, June 30	\$ 490	\$ (19,893)	\$ (51,424)	\$ 50,951	\$ 154,290

Fund Balance Components:	2012	2013	2014	2015	2016
Restricted for Early Childhood and Family Education	\$ 9,464	\$ 9,868	\$ 10,368	\$ 10,864	\$ 50,844
Restricted for Community Education	(26,155)	(30,197)	(33,615)	48,543	100,814
Restricted for School Readiness	(3,526)	(14,179)	(45,534)	(26,016)	(16,440)
Restricted for Community Service	20,707	14,615	17,357	17,560	19,072
Total fund balance	\$ 490	\$ (19,893)	\$ (51,424)	\$ 50,951	\$ 154,290

Community Service Fund revenues exceeded expenditures 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. In 2016, revenues increased \$12,194 while expenditures increased \$11,230. As a result of revenues exceeding expenditures, total fund balance increased \$103,339 from 2015 to 2016, 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

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. Eligibility was expanded to include cooperative units other than intermediate districts beginning in 2017.

**Independent School District No. 2396
Legislative Summary**

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 education 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 may choose to issue bonds for the program, levy on a pay as you go basis, or a combination of the two.

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

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. For 2016, special education aid equals the sum of the new formula aid plus the new formula excess cost aid.

For 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**

SPECIAL EDUCATION (CONTINUED)

For 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

During 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.

FOUR DAY WEEKS

Grandfathered districts that currently operate using a four-day week are allowed to maintain this program until the 2019-2020 school year. Future approval is dependent upon meeting the World's Best Workforce goals. If discontinued, districts are allowed a one-year transition time.

VOLUNTARY PREKINDERGARTEN

Starting in 2017, children who are four years old on September 1st of the school year in which they enroll are eligible. Funding is formula driven, with students at participating sites generating up to 0.6 pupil units.

Aid entitlement is capped at \$27,092,000 for 2017, \$27,239,000 for 2018, and \$26,399,000 for 2019.

HOME VISITING REVENUE

Effective for 2018, on the Pay 2017 levy, the formula for home visiting revenue is increased from \$1.60 to \$3.00 times the population under age 5 residing in the District on September 1 of the last school year.

SCHOOL BOARD ELECTIONS

Schools are allowed to appoint someone to a vacant seat; however they are required to hold an election for the vacated seat during the next general election. The appointed position may be negated if 5% of the general election voters sign a petition within the first 30 days.

Independent School District No. 2396 Emerging Issues

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:

- **Accounting Standard Update –GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** –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.

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.

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.

Independent School District No. 2396
Emerging Issues

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

- 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.