

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

Communications Letter

June 30, 2017



**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, 2017, 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.



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 9, 2017, 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 9, 2017

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, on a timely basis. 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.

YEAR-END CLOSING PROCESS AND MATERIAL AUDIT ADJUSTMENTS

During the course of our engagement, there were several journal entries proposed by the audit team, including some that were material. Many of these entries are required year-end adjustments. Since an audit is to serve as an independent verification process, it is important that year-end adjustments are done prior to audit fieldwork.

We also found the District does not have a formal process in place to ensure a timely and efficient close to the year. This resulted in some areas not receiving any adjustment activity prior to audit fieldwork, including accounts payable and capital assets. As a result, 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 revenue allocations, retiree severance expense and payable, accounts payable, federal revenue and receivable, and capital lease activity.

We recommend the District establish procedures to ensure all year-end adjusting entries are made before the start of audit fieldwork. This will ensure the audit is conducted efficiently and the audit team stays independent as required by U.S. generally accepted auditing standards and *Government Auditing Standards*. It will also ensure the School Board receives timely and accurate information on which to base their decisions.

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 Director of Finance and Human Resources has access to all areas of the accounting system.
- The Director of Finance and Human Resources prepares the bank reconciliations, reviews receipts, and also has the ability to write checks.
- The Director of Finance and Human Resources records and maintains capital asset records.
- The Director of Finance and Human Resources reconciles state and federal receivables and revenues and posts entries to the general ledger to adjust them.
- The Director of Finance and Human Resources 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.
- The Director of Finance and Human Resources occasionally prepares journal entries, related documentation, and posts those entries.

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

Independent School District No. 2396
Material Weaknesses

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 also noted the community education activity is tracked using Quicken. A comparison of receipt activity in Quicken to receipt activity in Smart Finance revealed unexplained differences between the two systems.

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. We also recommend a reconciliation be completed between Quicken and Smart Finance to ensure all activity is accurately accounted for in Smart Finance.

**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.

APPROVAL 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 approval. 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 Director of Finance and Human Resources implement procedures that would include an approval process for 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 the depreciation method used and information on GASB 51 regarding intangible assets.

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, 2017. 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.

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.

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

PLANNED SCOPE AND TIMING OF THE AUDIT (CONTINUED)

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, 2017. 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.

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

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)

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 known and likely 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 statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- General Fund state receivables and revenue
- Accounts payable

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

- Revenue allocations
- Retiree severance expenditure and payable
- Accounts payable
- Federal revenue and receivable
- Capital lease activity

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.

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

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
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%
2018	6,188	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.

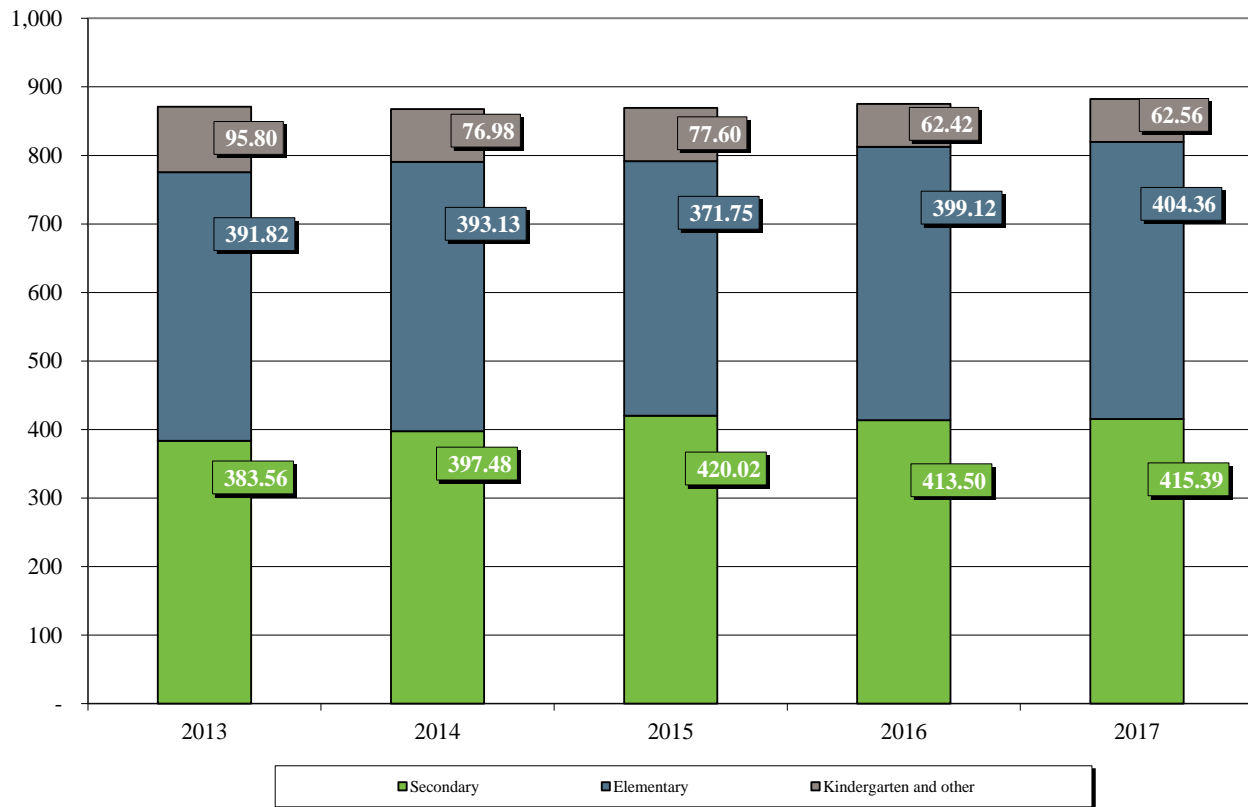
**Independent School District No. 2396
Financial Analysis**

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	2013	2014	2015	2016	2017
Kindergarten and other	95.80	76.98	77.60	62.42	62.56
Elementary	391.82	393.13	371.75	399.12	404.36
Secondary	383.56	397.48	420.02	413.50	415.39
Total Resident ADM	871.18	867.59	869.37	875.04	882.31
ADM Served	776.64	784.88	773.87	802.01	818.46

Resident Average Daily Membership



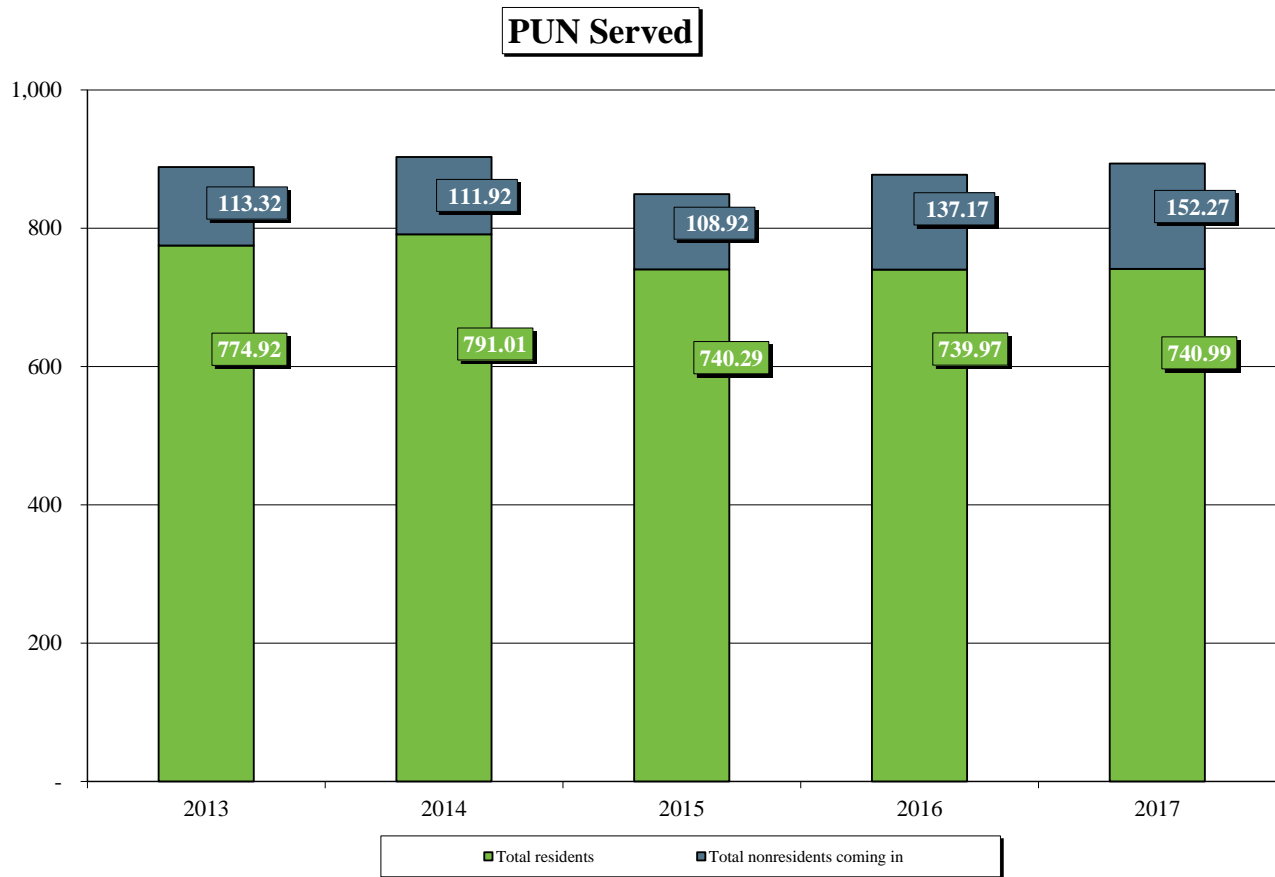
The graph above illustrates that over the last five years, the District has experienced a slight increase in ADM. The increase in resident ADM for 2017 compared to 2016 totaled 7.27. Since 2013, the District has had a 41.82 increase in ADM served. The chart and graph on the following page converts the 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	2013	2014	2015	2016	2017
Residents	989.40	998.25	953.36	957.73	965.41
Resident PUN going elsewhere	(214.48)	(207.24)	(213.07)	(217.76)	(224.42)
Total residents	774.92	791.01	740.29	739.97	740.99
Total nonresidents coming in	113.32	111.92	108.92	137.17	152.27
Total Students Served	888.24	902.93	849.21	877.14	893.26

* 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. The total change in PUN from 2016 to 2017 was an increase of 16.12. Resident students remained relatively consistent, increasing 7.68 from 2017. The net loss from open enrollment has decreased from 101.16 PUN in 2013 to 72.15 PUN in 2017. The District should continue to monitor this number to assist in budgeting state revenues.

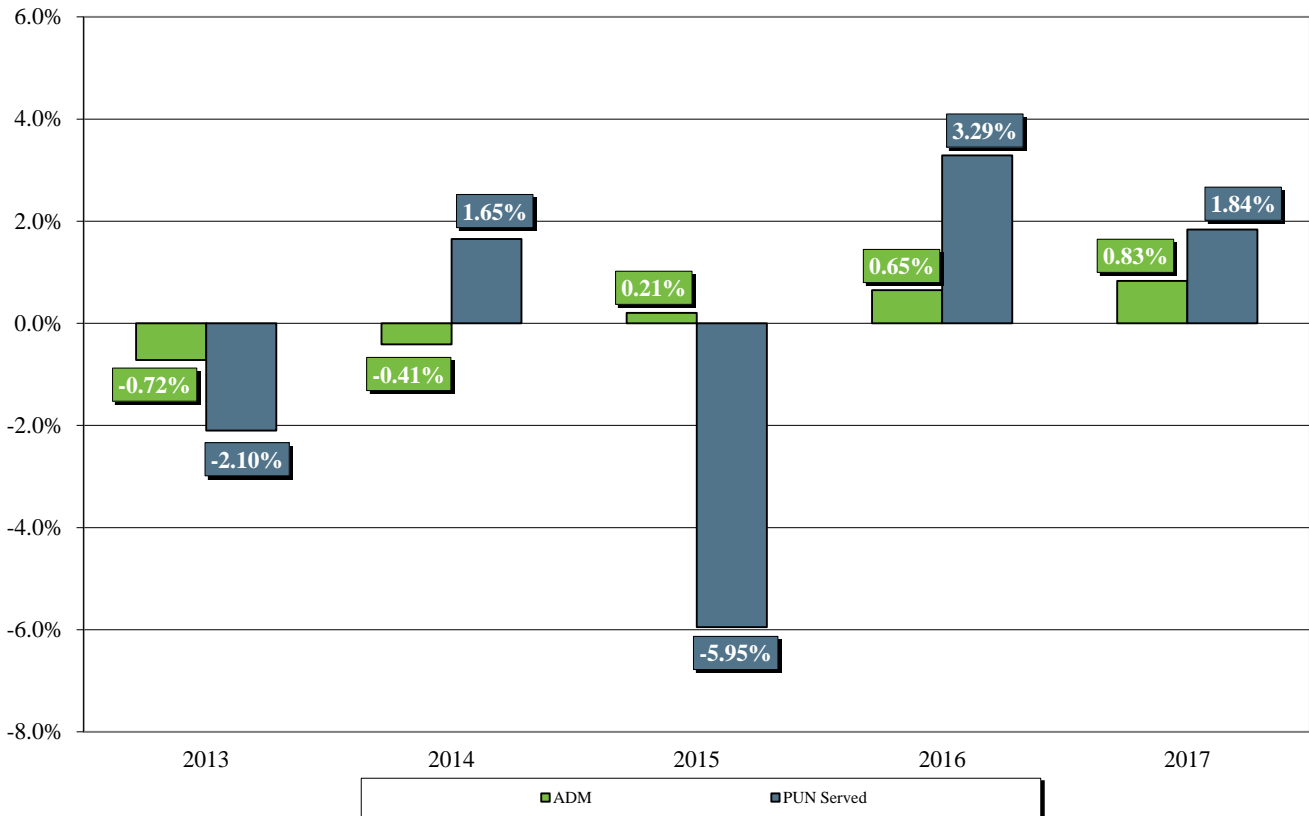
**Independent School District No. 2396
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

Pupil Units Weighting

	Prekindergarten and Handicapped Kindergarten	Half Kindergarten and Full Kindergarten	Elementary	Secondary
Fiscal year 2013-2014	1.250/1.000	N/A / 0.612	1.115/1.060	1.300
Fiscal year 2015-2017	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 2017, each district received \$6,067 in General Education Aid for each PUN served.

Independent School District No. 2396 Financial Analysis

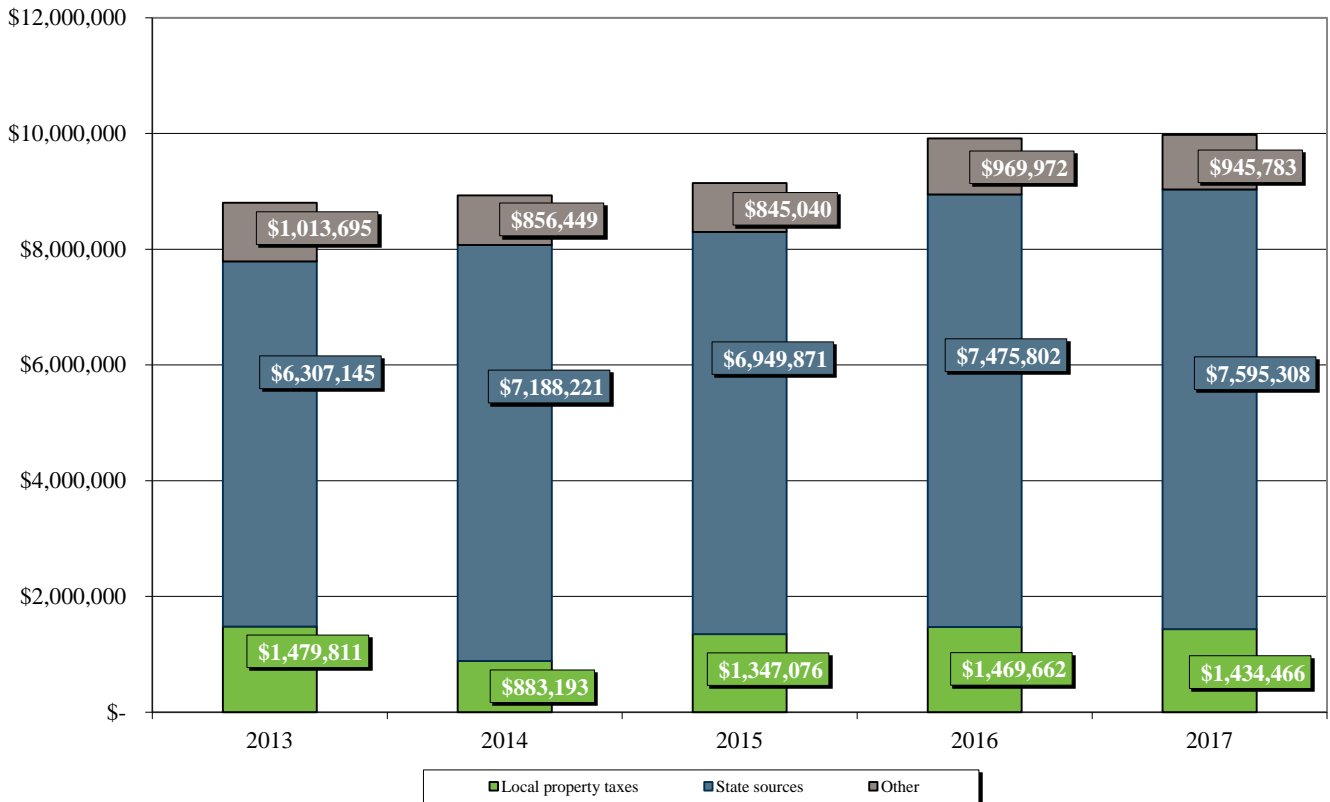
GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows:

	2013	2014	2015	2016	2017
Local property taxes	\$ 1,479,811	\$ 883,193	\$ 1,347,076	\$ 1,469,662	\$ 1,434,466
State sources	6,307,145	7,188,221	6,949,871	7,475,802	7,595,308
Other	1,013,695	856,449	845,040	969,972	945,783
Total	\$ 8,800,651	\$ 8,927,863	\$ 9,141,987	\$ 9,915,436	\$ 9,975,557

State sources represent 76.1% of the General Fund's total revenue, with local taxpayers contributing 14.4% of the funding and federal and other sources making up the remaining 9.5%. Local property taxes were consistent with the prior year, decreasing \$35,196. State revenue sources increased \$119,506. This increase is attributed to an increase in PUN, an increase of 2% in the general education aid formula allowance, and an increase in special education aid as a result of there being additional qualifying students in 2017. Other revenue sources were also consistent with the prior year, decreasing \$24,189. Included in other revenues are local, county, and federal revenues.

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*		
	2014	2015	2016	2014	2015	2016
General fund						
Property taxes	\$ 923	\$ 1,564	\$ 1,673	\$ 577	\$ 901	\$ 1,035
Other local sources	477	485	498	580	604	611
State aid	9,136	9,114	9,435	9,012	9,198	9,538
Federal aid	463	450	442	405	446	393
Total general fund	\$ 10,999	\$ 11,613	\$ 12,048	\$ 10,574	\$ 11,149	\$ 11,577
	Atwater-Cosmos-Grove City					
	2014	2015	2016	2017		
General fund						
Property taxes	\$ 1,069	\$ 1,672	\$ 1,786	\$ 1,753		
Other local sources	687	697	899	639		
State aid	9,114	8,902	9,167	9,280		
Federal aid	449	440	487	517		
Total general fund	\$ 11,319	\$ 11,711	\$ 12,339	\$ 12,188		

* Source: State-wide average and districts serving 625-874 ADM amounts for 2014 - 2016 were taken from the Minnesota Department of Education (MDE) publication, *School District Profiles*. Data for 2017 was not yet available.

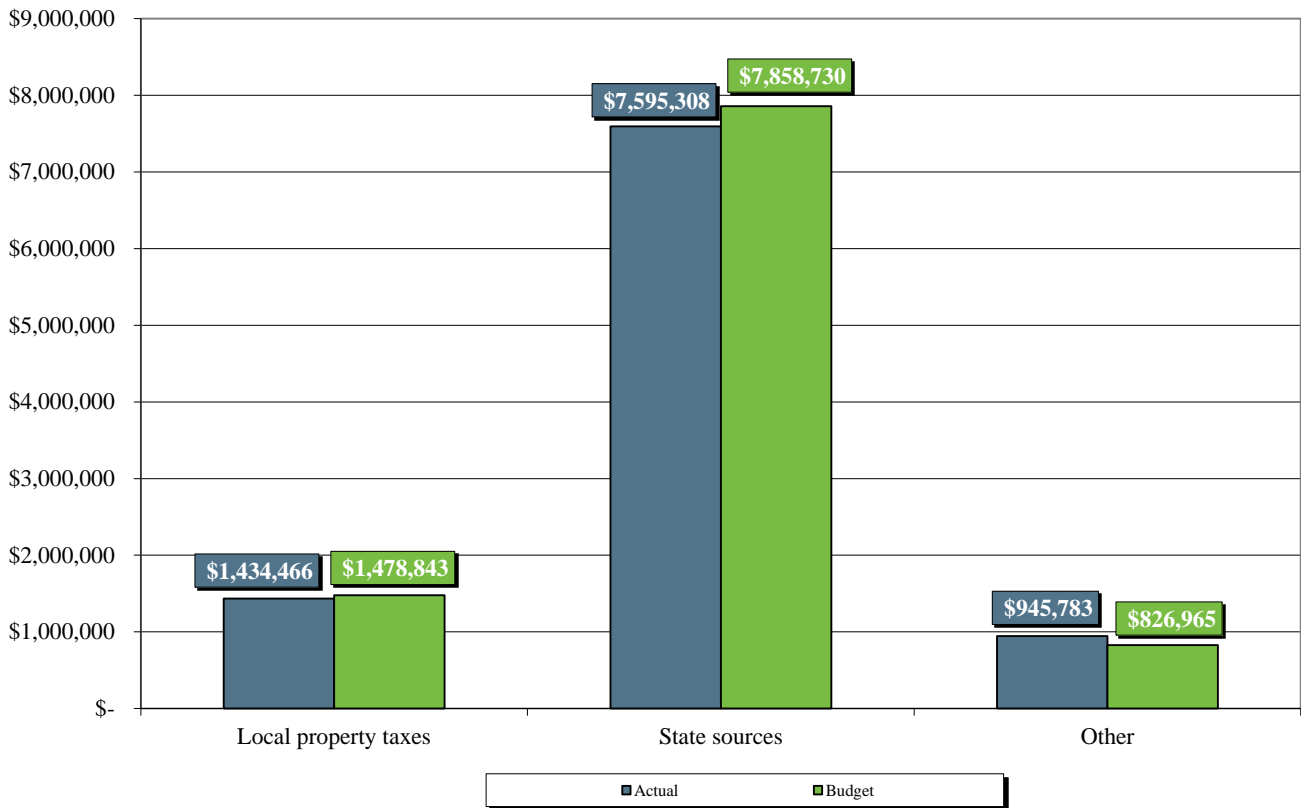
The mix of local and state revenues vary from year-to-year primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies due to factors such as the strength of property values, mix of property types, operating and bond referendums, 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 \$188,981, or 1.9%, under budget. Local property taxes were consistent with budgeted amounts. State revenue sources were under budget \$263,422, due to general education aid and special education aid coming in under anticipated amounts. Other sources of revenue were \$118,818 over budget due to conservative budgeting for rent at the CLC and for medical assistance aid, a higher entitlement than anticipated for Title I federal funding, and the District did not budget for the spenddown of federal special education aid.

2017 General Fund Revenues Budget and Actual

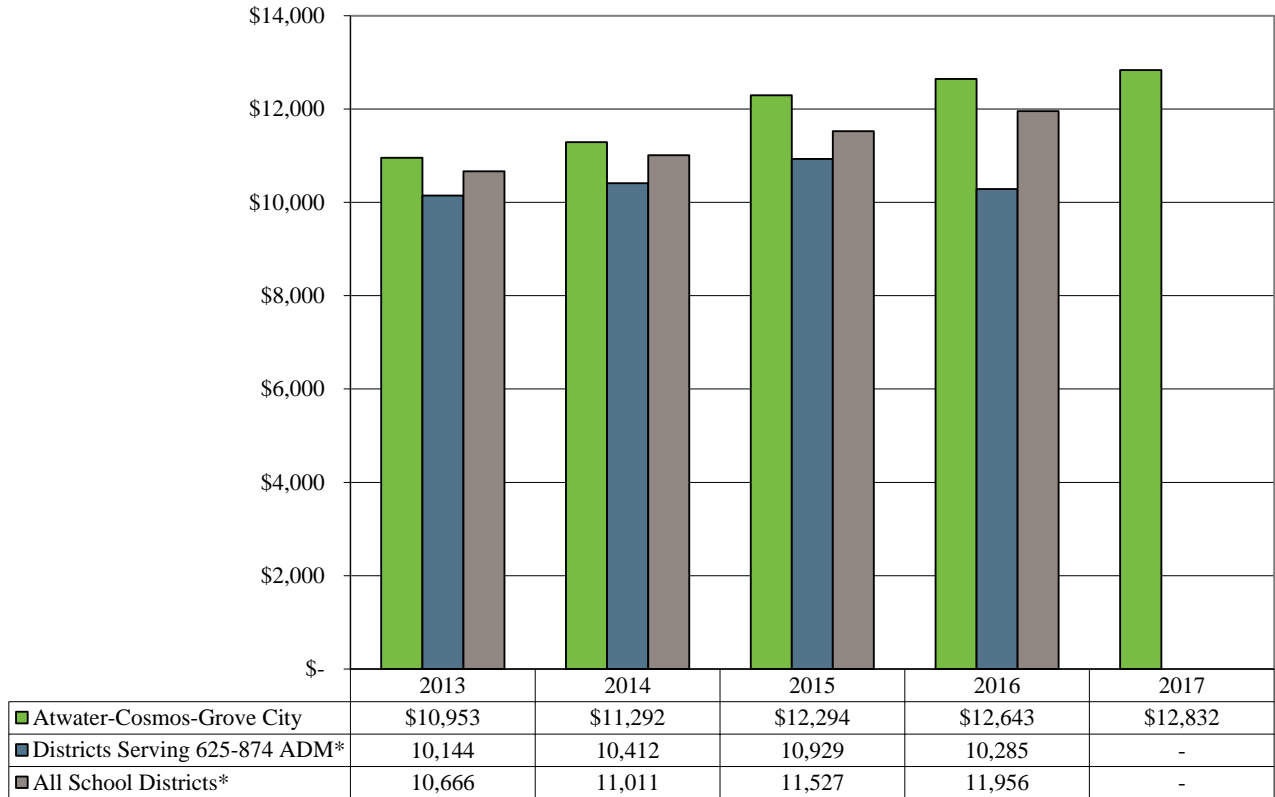


**Independent School District No. 2396
Financial Analysis**

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 2017 was not yet available.

Expenditures per student increased from 2016 to 2017 by \$189. Expenditures per student have increased from 2013 to 2017 by \$1,879, or 17%. This is due to expenditures increasing by approximately 22.9%, while ADM served increased 5.4%.

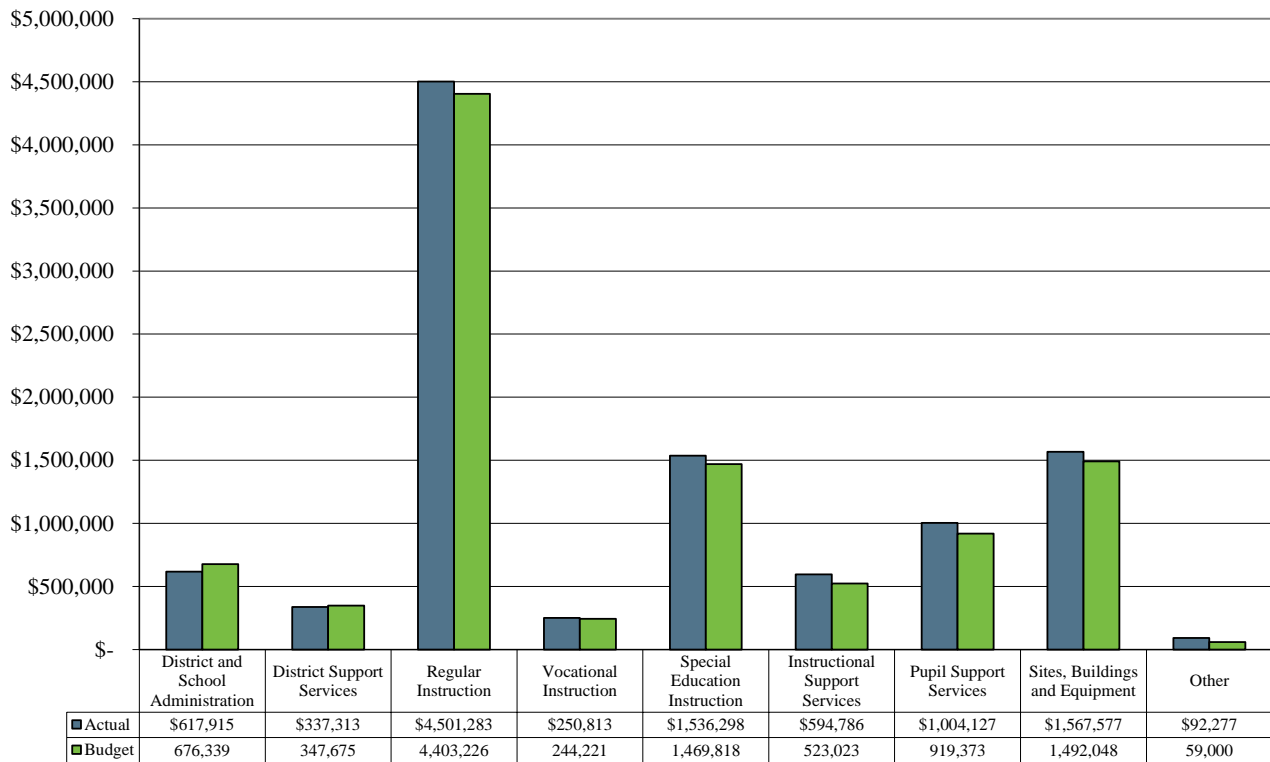
ADM served represents residents served in the District, residents attending elsewhere on tuition and nonresidents served in the District both through open enrollment and tuition programs.

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 \$367,666 over budget. Most programs were relatively similar to budgeted amounts. Regular instruction had the largest variance and was over budget \$98,057. This is primarily a result of a significant increase in PSEO student tuition that was not expected and adding an additional teacher mid-year.

2017 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,	2013	2014	2015	2016	2017
Revenues	\$ 8,800,651	\$ 8,927,863	\$ 9,141,987	\$ 9,915,436	\$ 9,975,557
Expenditures	8,544,856	8,906,125	9,597,799	10,159,681	10,502,389
Excess of revenues over (under) expenditures	255,795	21,738	(455,812)	(244,245)	(526,832)
Other financing sources	3,000	1,582	374	2,501	111,585
Fund balance, July 1	2,787,416	3,046,211	3,069,531	2,614,091	2,372,347
Fund Balance, June 30	\$ 3,046,211	\$ 3,069,531	\$ 2,614,093	\$ 2,372,347	\$ 1,957,100

Components of Fund Balance	2013	2014	2015	2016	2017
Nonspendable	\$ 28,655	\$ 28,115	\$ 12,217	\$ 14,217	\$ 15,267
Restricted for					
LTFM	-	-	-	-	(120,012)
Achievement and integration	-	130	-	4,364	-
Basic skills programs	296,631	321,432	383,418	295,480	158,475
Operating capital	-	-	-	45,172	-
Health and safety	(27,368)	13,037	-	(114,094)	(46,190)
Gifted and talented	12,230	13,657	16,531	20,151	22,968
Learning and development	33,761	69,762	125,560	240,405	368,538
Teacher development and evaluation	-	-	18,224	20,249	20,249
Safe schools - crime levy	45,759	25,996	43,281	57,455	71,391
Unfunded severance and retirement levy	-	-	-	18,284	-
Deferred maintenance	150,245	201,917	255,249	-	-
Committed for retirement benefits	168,739	233,269	252,470	249,986	227,320
Assigned for student activities	105,402	97,602	100,601	124,519	131,057
Unassigned fund balance	2,232,157	2,064,614	1,406,542	1,396,159	1,108,037
Total Fund Balance	\$ 3,046,211	\$ 3,069,531	\$ 2,614,093	\$ 2,372,347	\$ 1,957,100

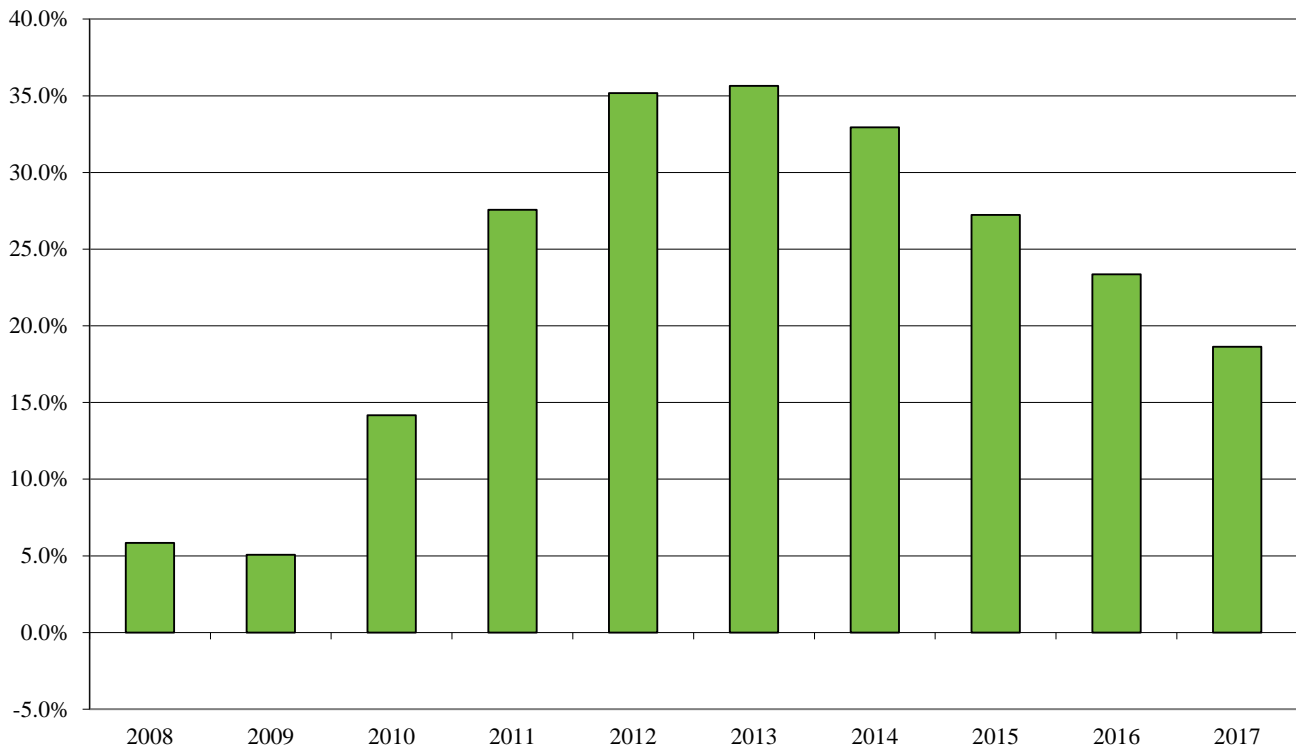
General Fund revenues have increased 13.4%, while expenditures have increased 22.9% since 2013. Total fund balance decreased to a balance of \$1,957,100 in 2017, compared to a balance of \$3,046,211 in 2013. From 2016 to 2017, fund balance decreased \$415,247.

**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



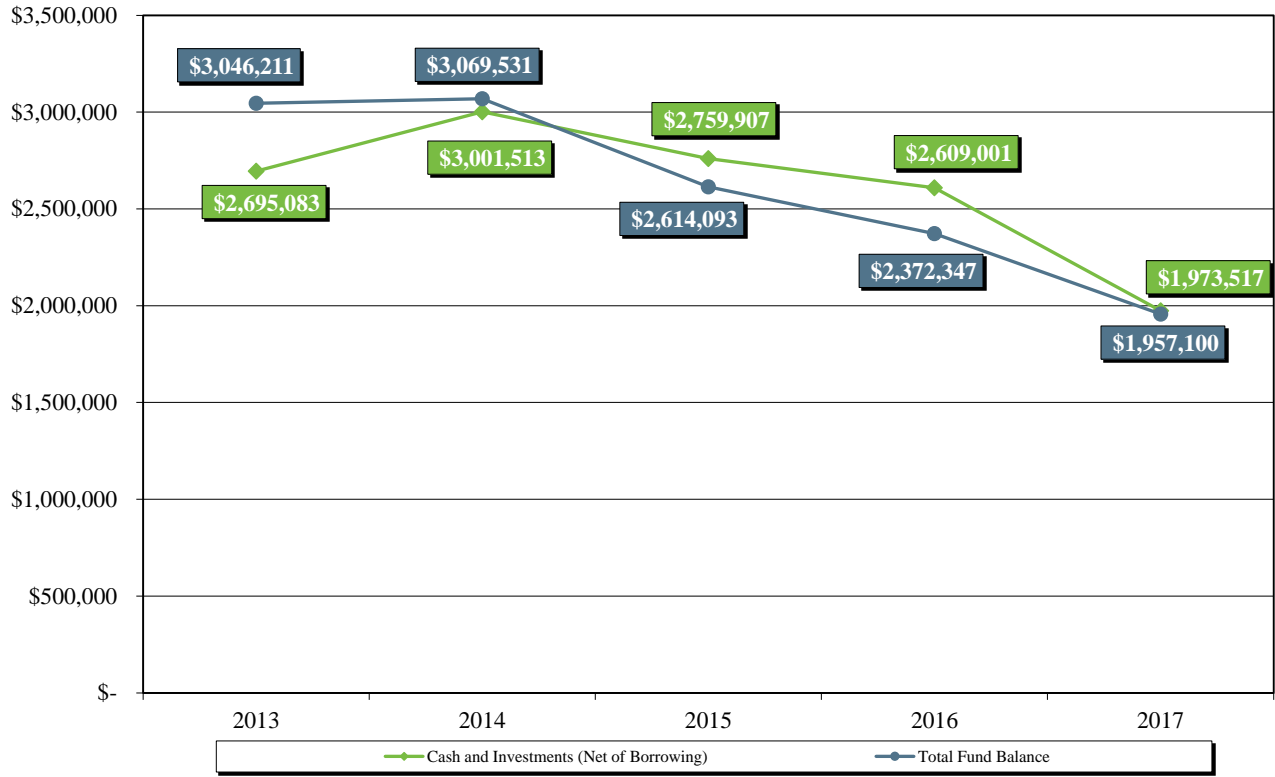
The above graph details the total fund balance as a percentage of expenditures. Based on 2017 expenditures, the District's General Fund balance would be sufficient to cover approximately two months of expenditures. The District's overall General Fund balance as a percentage of total expenditures decreased from 23.4% in 2016 to 18.6% in 2017, while the unassigned fund balance as a percentage of total expenditures decreased from 13.7% in 2016 to 10.6% in 2017. The District's fund balance policy states they will strive to maintain a minimum General Fund balance of 20% of the annual budget.

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

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

GENERAL FUND OPERATIONS (CONTINUED)

General Fund Financial Position

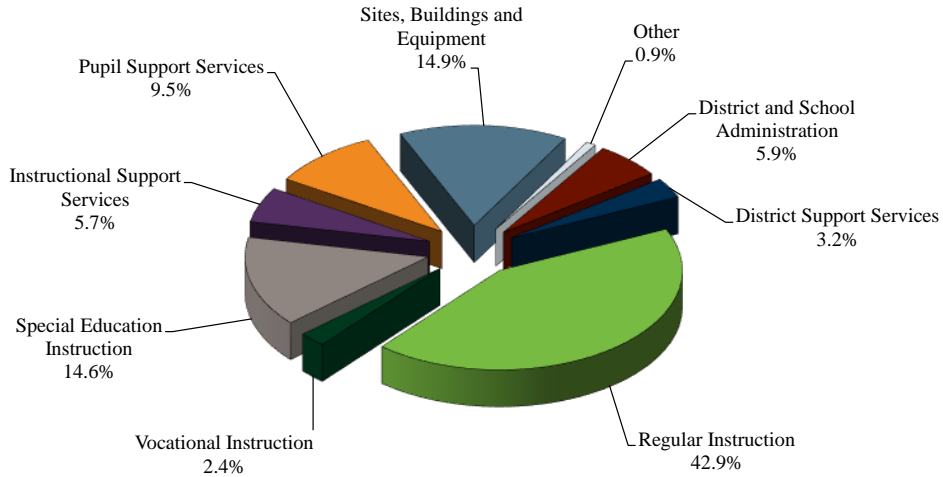


For the five years presented, fund balance has decreased by \$1,089,111 from 2013 to 2017. Cash (net of borrowing) has decreased in that same time period by \$721,566.

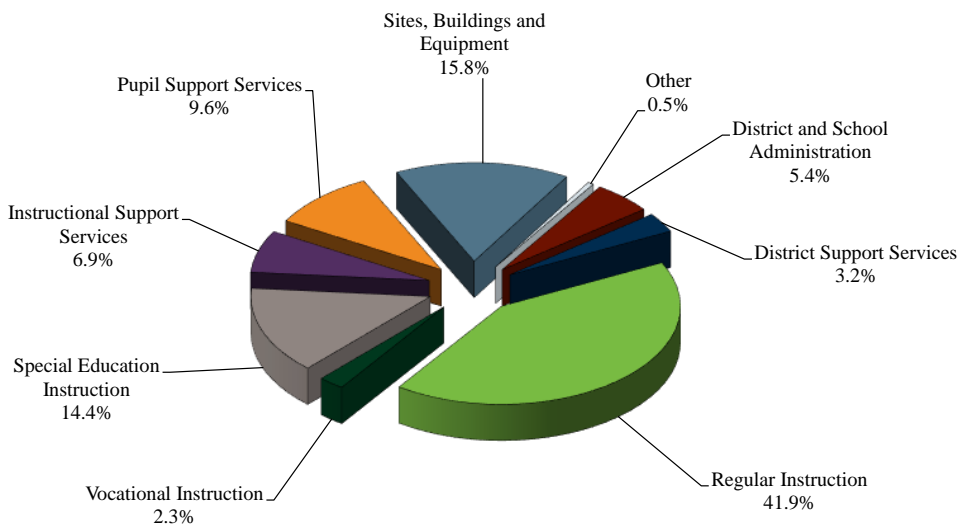
Independent School District No. 2396 Financial Analysis

GENERAL FUND OPERATIONS (CONTINUED)

2017 District Expenditures



2016 District Expenditures



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

FOOD SERVICE FUND

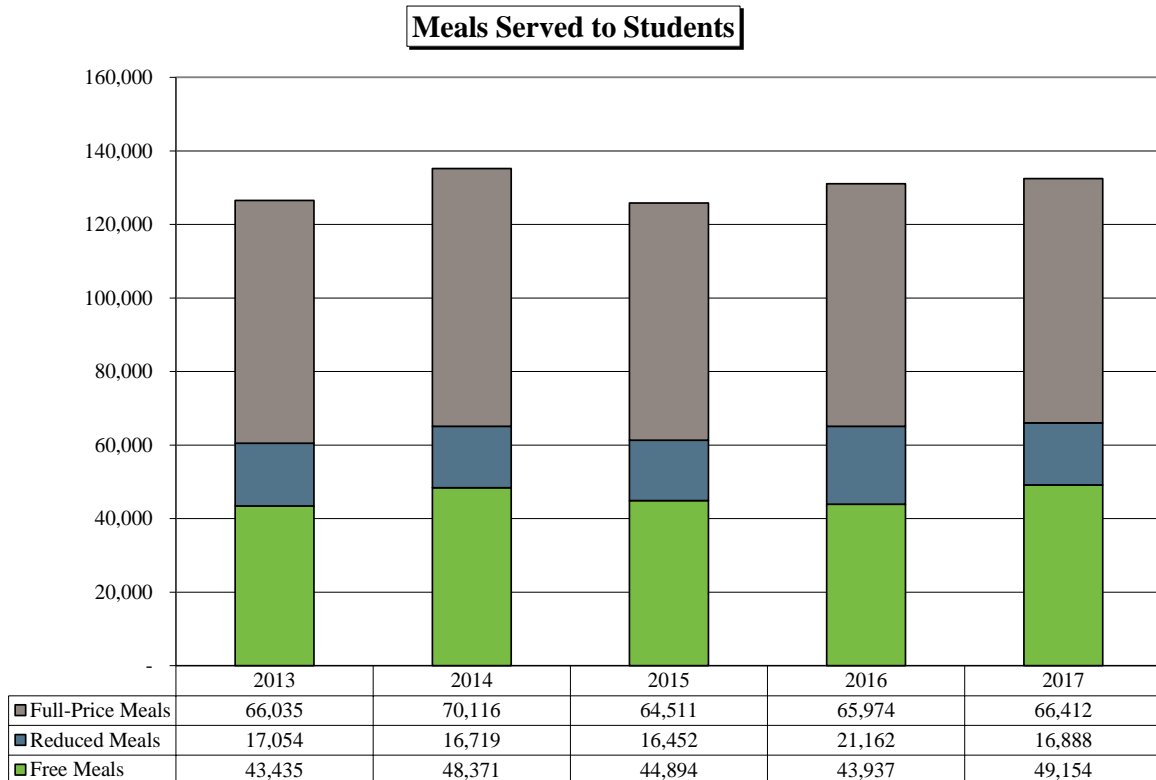
The following table presents comparative operating results for the District's Food Service Fund.

For the Year Ended June 30,	2013	2014	2015	2016	2017
Revenues	\$ 399,932	\$ 402,972	\$ 387,174	\$ 418,697	\$ 438,339
Expenditures	396,566	399,547	389,033	420,410	437,376
Excess of revenues over (under) expenditures	3,366	3,425	(1,859)	(1,713)	963
Fund balance, July 1	38,097	41,463	44,888	43,029	41,316
Fund Balance, June 30	\$ 41,463	\$ 44,888	\$ 43,029	\$ 41,316	\$ 42,279

Food Service Fund revenues have exceeded expenditures in three of the last five years. In 2017, Food Service Fund revenues exceeded expenditures by \$963. This increased the total fund balance to \$42,279. Revenues and expenditures increased \$19,642 and \$16,966, respectively, due to increased participation rates, increased reimbursement rates, and increased commodities. Total meals served to students increased compared to 2016 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,	2013	2014	2015	2016	2017
Revenues	\$ 301,361	\$ 314,710	\$ 463,760	\$ 475,954	\$ 472,093
Expenditures	321,744	346,241	361,385	372,615	477,991
Excess of revenues over (under) expenditures	(20,383)	(31,531)	102,375	103,339	(5,898)
Fund balance, July 1	490	(19,893)	(51,424)	50,951	154,290
Fund Balance, June 30	\$ (19,893)	\$ (51,424)	\$ 50,951	\$ 154,290	\$ 148,392

Fund Balance Components:	2013	2014	2015	2016	2017
Restricted for Early Childhood and Family Education	\$ 9,868	\$ 10,368	\$ 10,864	\$ 50,844	\$ 46,890
Restricted for Community Education	(30,197)	(33,615)	48,543	100,814	111,685
Restricted for School Readiness	(14,179)	(45,534)	(26,016)	(16,440)	(10,183)
Restricted for Community Service	14,615	17,357	17,560	19,072	-
Total Fund Balance	\$ (19,893)	\$ (51,424)	\$ 50,951	\$ 154,290	\$ 148,392

Community Service Fund expenditures exceeded revenues in three of the last five years. 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 2017, revenues decreased \$3,861 while expenditures increased \$105,376. Expenditures increased significantly as a result of adding personnel to meet mandatory minimum staffing requirements as well as allocating some of the personnel costs from administration, secretaries, clerks, and other positions to the Community Service Fund in 2017. As a result of expenditures exceeding revenues, total fund balance decreased \$5,898 from 2016 to 2017, which is still the second 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

The formula allowance for 2017 General Education Aid was increased \$119 (2%) to \$6,067. For 2018, the formula allowance is set at \$6,188, which is also an increase of 2%.

COMPENSATORY REVENUE

The compensatory pilot grants have been added permanently to regular compensatory revenue at the 2017 level. A percentage of the total compensatory revenue must be used for extended time activities. These percentages are 1.7% for 2018, 3.5% for 2019, and for 2020 and later it will be 3.5% plus the percentage change in the formula from 2019.

STUDENT ACHIEVEMENT LEVY

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

LEAD IN SCHOOL DRINKING WATER

By July 1, 2018, districts will be required to begin testing school water for lead. Testing must be completed for all schools within five years. School districts and charter schools must adopt a plan to test school water for lead at least every five years. Lead test results must be made available to the public and parents must be notified when this information is available.

The testing may be included in the ten year facilities plans and districts can use long-term facilities maintenance revenue for lead testing and remediation costs.

PAYMENTS TO NONOPERATING FUNDS

The payment schedule for nonoperating fund aids is moving to six monthly installments from July through December rather than 12 monthly installments.

SCHOOL BUILDING BOND AGRICULTURAL CREDIT

Effective for taxes payable in 2018, there will be a property tax credit on all property classified as agricultural. The credit will be equal to 40% of the tax on the property attributable to school district bonded debt levies. Total amounts available will be \$34.8 million in 2019, \$45.2 million in 2020, and \$52.5 million in 2021.

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

LONG-TERM FACILITIES MAINTENANCE REVENUE

Beginning in 2017, deferred maintenance, health and safety and alternative facilities revenues were 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.

EQUITY REVENUE

For 2017 through 2019, nonmetro school district are eligible for a 16% increase in the sliding portion of their equity revenue. The seven county metro area schools continue to receive a 25% increase over their initial calculation for revenue.

Beginning in 2020, all districts will receive the same 25% increase over the initial calculation for revenue.

For 2017 all revenue increases will be paid out as additional state aid.

SPECIAL EDUCATION

An adjustment to the prior year data and the fiscal year 2016 old formula revenue base used to calculate the hold harmless and group cap will be necessary for closed or restructured programs.

Although there was a change in Federal law removing student awaiting foster care from the definition of "homeless", these students will still be included in the special education funding calculations.

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.

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

NONPUBLIC PUPIL AID

The definition of "textbook" has been modified to include the on-line books with annual subscription costs. The definition of "software or other educational technology" has been modified to include registration fees for online advanced placement courses.

VOLUNTARY PREKINDERGARTEN/SCHOOL READINESS PLUS

A new school readiness plus program has been created for 2018 and 2019 only. This program changes the voluntary preK cap from a limit on the total state aid entitlement to a limit on the number of participants. For 2018 this cap will be 6,160 for voluntary preK and school readiness plus and will be 7,160 for 2019. The cap of 6,160 for 2018 covers the 3,160 2017 voluntary preK participants that have renewed their applications for 2018 plus 3,000 new participants. After 2019 the school readiness plus will be eliminated and the cap for voluntary preK will be 3,160 participants.

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.

PUPIL TRANSPORTATION FUNDING

Beginning in 2018, sparsity revenue will increase by 18.2% of the difference between the lesser of the district's actual regular and excess transportation costs, including bus depreciation for the previous year or 105% of the district's cost for the second previous year, and the sum of 4.66% of the district's basic revenue, transportation sparsity revenue and charter school transportation adjustment from the previous year.

REVIEW AND COMMENT

The commissioner will now include comments from district residents in the review and comment on capital projects.

School boards must now hold a public meeting to review the commissioner's review and comment on a proposal before the bond election.

NEW FINANCE CODES

Starting in 2018, there are multiple new finance codes for tracking revenue. Finance code 175 will be used to track revenue related to Title VII – Impact Aid. This finance code will close to balance sheet code 475, Restricted for Title VII Impact Aid. Finance code 185 will be used to track revenue from private sources. This finance code will close to balance sheet 485, restricted for private sources. Finance code 176 will be used to track revenue from payments in lieu of taxes (PILT). This finance code will close to balance sheet 476, restricted for payments in lieu of taxes.

Independent School District No. 2396
Legislative Summary

SPECIAL ELECTIONS

District's no longer have the ability to choose any date for special elections. Special elections must now be held on the second Tuesday in February, April, May, August or election day.

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 No. 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 No. 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 No. 75 carries forward from Statement No. 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 No. 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.