

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

Communications Letter

June 30, 2018



Independent School District No. 2396
Table of Contents

Report on Matters Identified as a Result of the Audit of the Financial Statements	1
Material Weaknesses	3
Other Deficiencies	5
Required Communication	6
Financial Analysis	10
Legislative Summary	25
Emerging Issues	29



**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, 2018, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and 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 have not been 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 over financial reporting, 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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows: reasonably possible – the chance of the future event or events occurring is more than remote but less than likely; probable – the future event or events are likely to occur. 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 8, 2018, 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.

BergankDV, Ltd.

St. Cloud, Minnesota
October 8, 2018

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.
- The Business Manager 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.

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 the District discontinue the use of Quicken.

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 Business Manager 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, 2018. Professional standards require that we advise you of the following matters related to our audit.

OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective 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 supplements the basic audited 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.

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2018. 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.

Expense Allocation – Certain expenses 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.

Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB, and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of the District for post employment benefits.

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

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)

Net Pension Liability, Deferred Outflows of Resources Related to Pension Activity, and Deferred Inflows of Resources Related 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.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

UNCORRECTED AND CORRECTED 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. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. 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

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

REPRESENTATIONS REQUESTED FROM MANAGEMENT

We requested certain written representations from management, which are included in the management representation letter.

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

MANAGEMENT’S CONSULTATIONS WITH OTHER ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

OTHER SIGNIFICANT MATTERS, FINDINGS, OR ISSUES

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the District, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

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.

<u>Year</u>	<u>General Education Aid Formula Allowance</u>	
	<u>Amount</u>	<u>Percent Increase</u>
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%
2019	6,312	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.

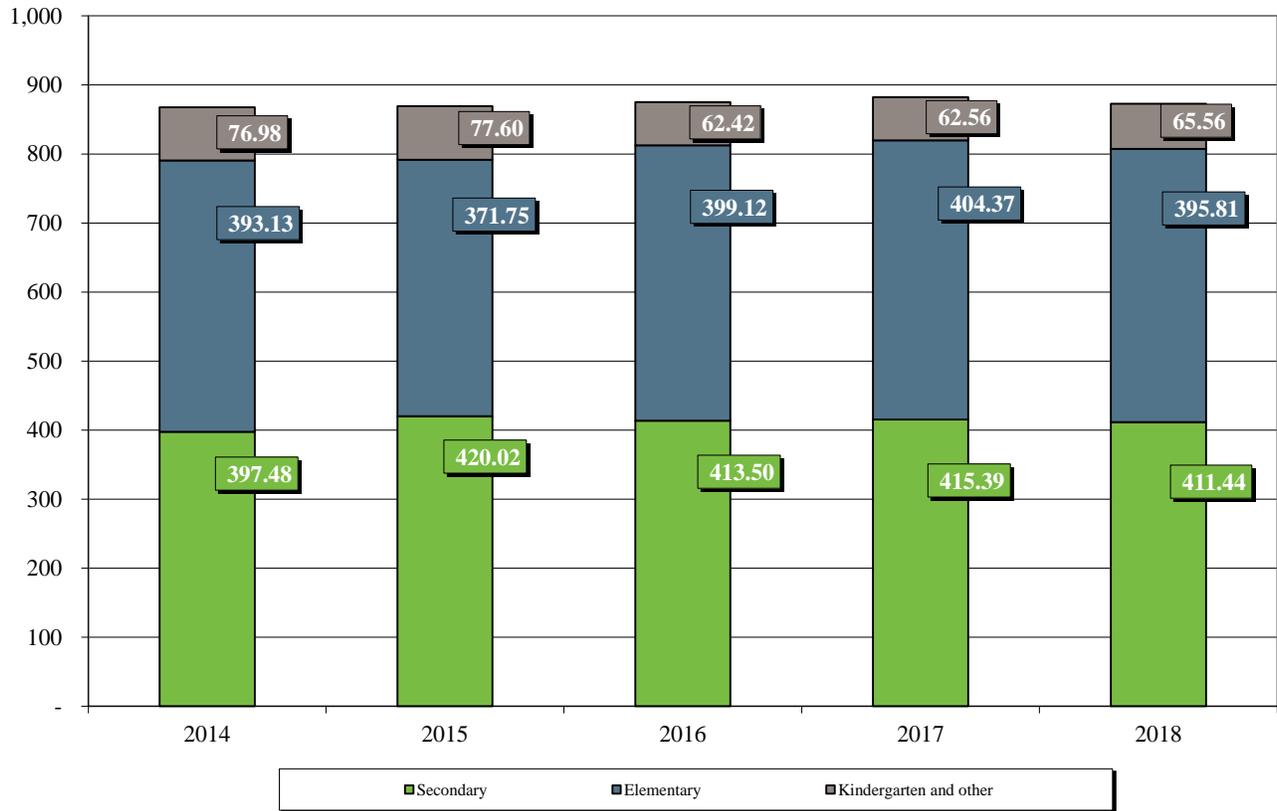
**Independent School District No. 2396
Financial Analysis**

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	2014	2015	2016	2017	2018
Kindergarten and other	76.98	77.60	62.42	62.56	65.56
Elementary	393.13	371.75	399.12	404.37	395.81
Secondary	397.48	420.02	413.50	415.39	411.44
Total Resident ADM	867.59	869.37	875.04	882.32	872.81
ADM Served	784.88	773.87	802.01	818.47	841.49

Resident Average Daily Membership



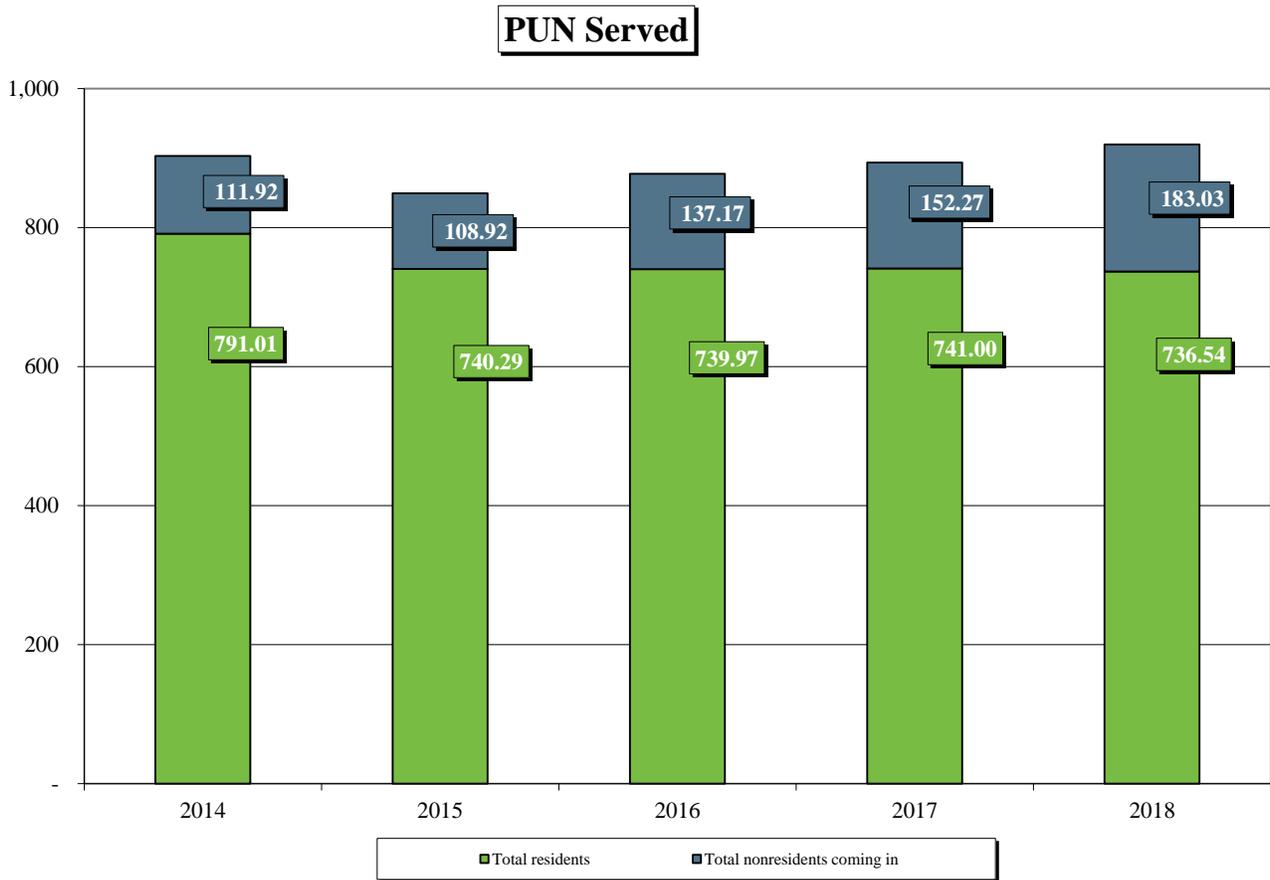
The graph above illustrates that over the last five years, the District has experienced a slight increase in ADM. The change in resident ADM for 2018 compared to 2017 totaled a decrease of 9.51. Since 2014, the District has had an increase of 56.61 in ADM served. The chart and graph on the following 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	2014	2015	2016	2017	2018
Residents	998.25	953.36	957.73	965.42	955.09
Resident PUN going elsewhere	(207.24)	(213.07)	(217.76)	(224.42)	(218.55)
Total residents	791.01	740.29	739.97	741.00	736.54
Total nonresidents coming in	111.92	108.92	137.17	152.27	183.03
Total PUN Served	902.93	849.21	877.14	893.27	919.57

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 2017 to 2018 was an increase of 26.30. Resident students remained relatively consistent, decreasing 10.33 from 2017. The net loss from open enrollment has decreased from 104.15 PUN in 2014 to 35.52 PUN in 2018. The District should continue to monitor this number to assist in budgeting state revenues.

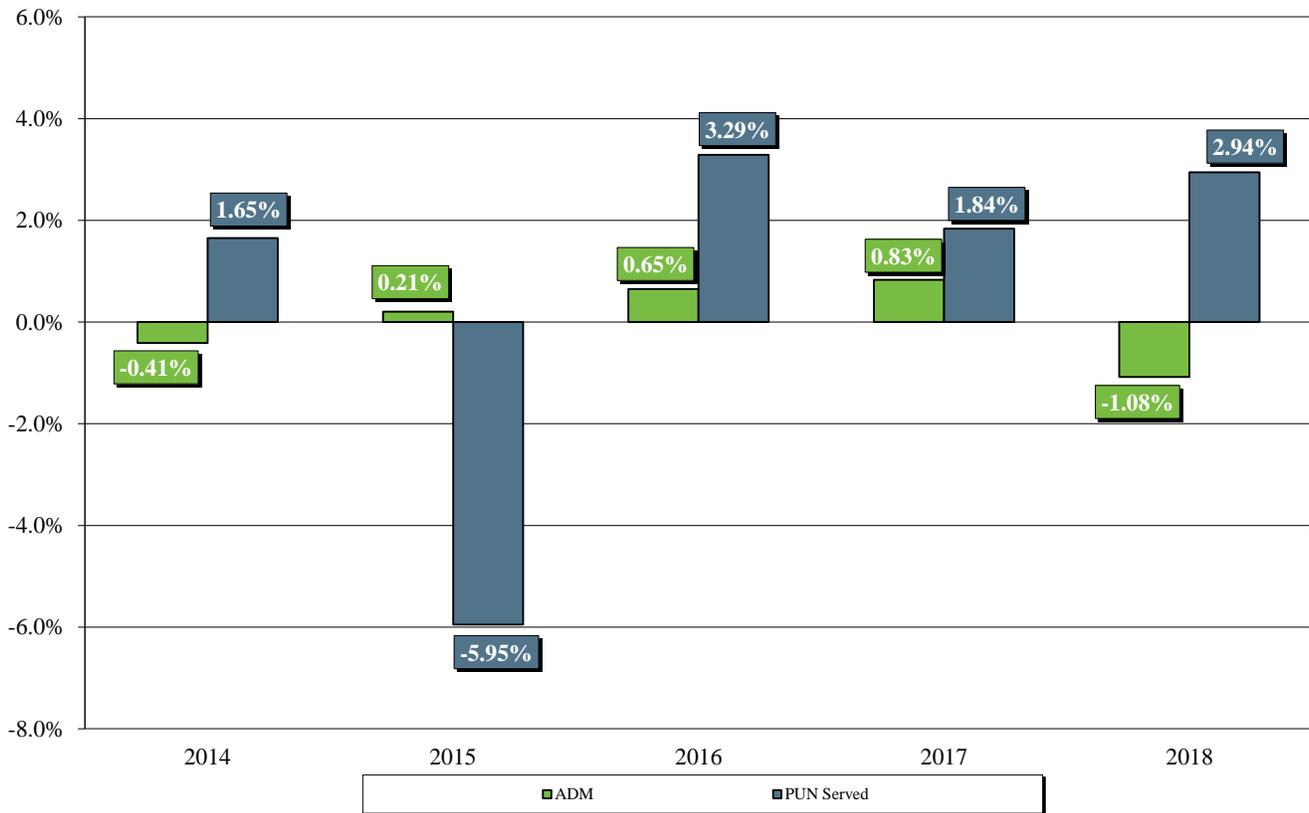
**Independent School District No. 2396
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

Pupil Units Weighting

	Prekindergarten and Handicapped Kindergarten	Half Kindergarten and Full Kindergarten	Elementary	Secondary
Fiscal year 2014	1.250/1.000	N/A / 0.612	1.115/1.060	1.300
Fiscal years 2015-2018	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 2018, each district received \$6,188 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:

	2014		2015		2016		2017		2018	
Local property taxes	\$	883,193	\$	1,347,076	\$	1,469,662	\$	1,434,466	\$	1,570,858
State sources		7,188,221		6,949,871		7,475,802		7,595,308		8,015,413
Other		856,449		845,040		969,972		945,783		792,269
Total	\$	8,927,863	\$	9,141,987	\$	9,915,436	\$	9,975,557	\$	10,378,540

State sources represent 77.2% of the General Fund's total revenue, with local taxpayers contributing 15.1% of the funding and federal and other sources making up the remaining 7.7%. Overall, revenue increased \$402,983 or 4.0% from 2017. Local property taxes increased \$136,392 from the prior year as a result of the General Fund's share of the levy increasing approximately \$130,000. State revenue sources increased \$420,105. 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 2018. Other revenue sources, which include local, county, and federal revenues, decreased \$153,514 from 2017. This is a result of a decrease in federal revenue due to decreases in the District's entitlement for the title and special education programs.

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*		
	2015	2016	2017	2015	2016	2017
General fund						
Property taxes	\$ 1,564	\$ 1,673	\$ 1,814	\$ 901	\$ 1,035	\$ 1,038
Other local sources	485	498	512	604	611	550
State aid	9,114	9,435	9,576	9,198	9,538	9,863
Federal aid	450	442	462	446	393	462
Total general fund	\$ 11,613	\$ 12,048	\$ 12,364	\$ 11,149	\$ 11,577	\$ 11,913
	Atwater-Cosmos-Grove City					
	2015	2016	2017	2018		
General fund						
Property taxes	\$ 1,672	\$ 1,786	\$ 1,704	\$ 1,867		
Other local sources	697	899	688	621		
State aid	8,902	9,167	9,240	9,525		
Federal aid	440	487	517	503		
Total general fund	\$ 11,711	\$ 12,339	\$ 12,149	\$ 12,516		

* Source: State-wide average and districts serving 625-874 ADM amounts for 2015 - 2017 were taken from the Minnesota Department of Education (MDE) publication, *School District Profiles*. Data for 2018 was not yet available.

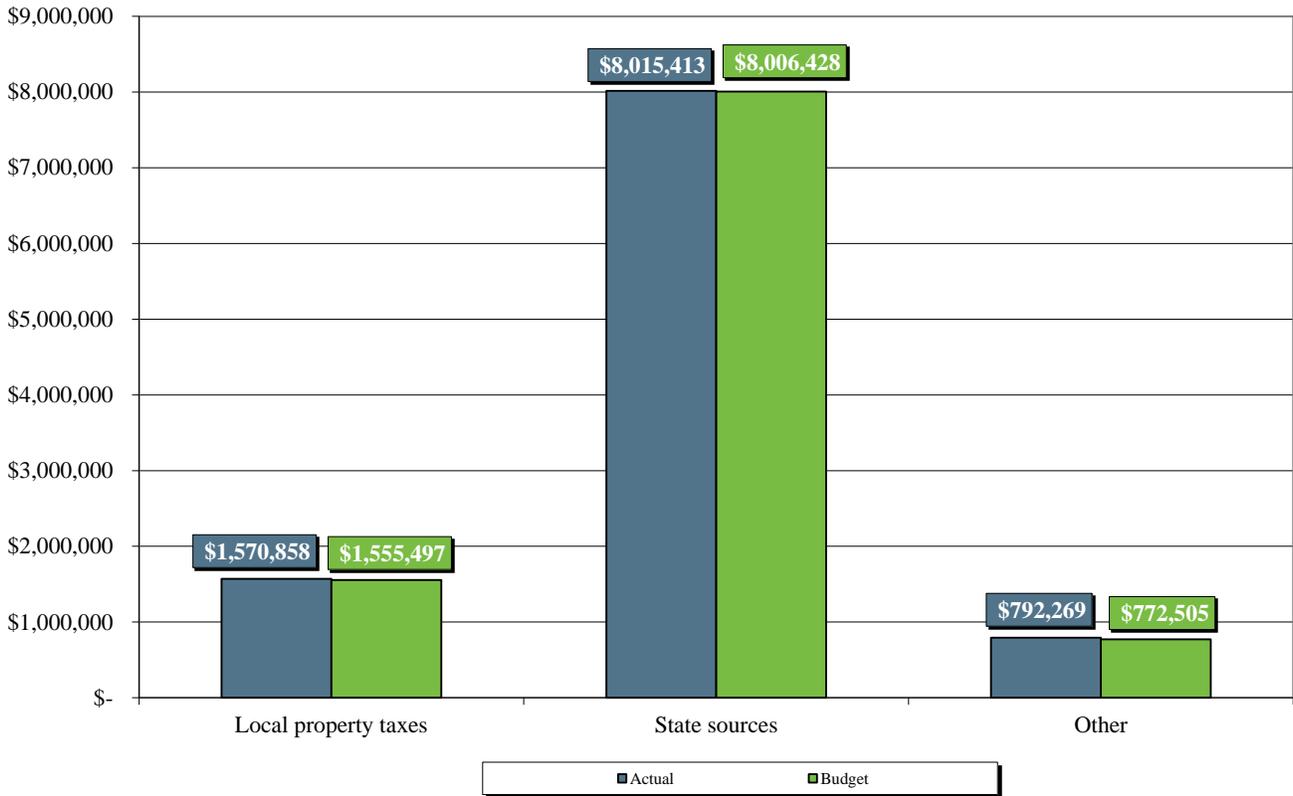
The mix of local and state revenues vary from year-to-year primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies due to factors such as the strength of property values, mix of property types, operating and bond referendums, 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 results of General Fund revenue. Overall, actual revenue was \$44,110, or 0.4%, over budget. All sources of revenue were relatively consistent with budgeted amounts.

2018 General Fund Revenues Budget and Actual

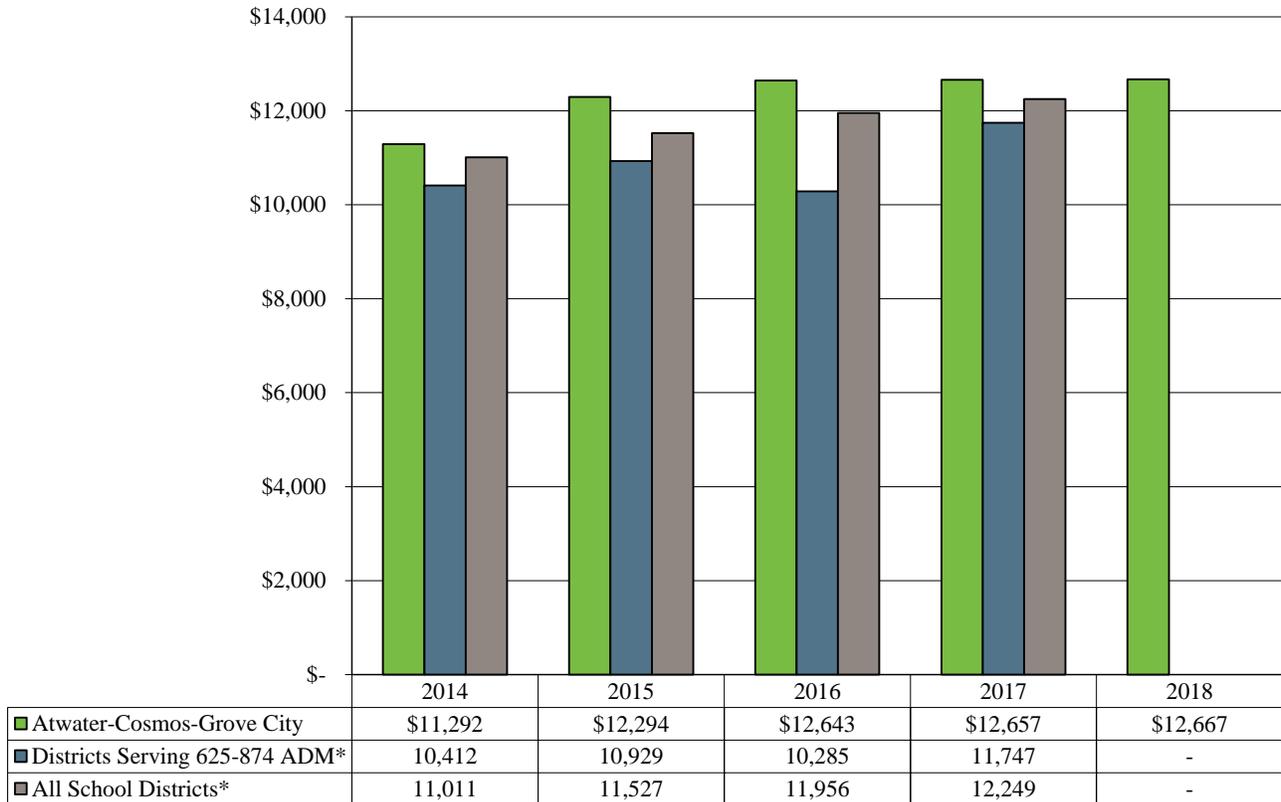


**Independent School District No. 2396
Financial Analysis**

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 2018 was not yet available.

Expenditures per student were very consistent, increasing just \$10 2017 to 2018. Expenditures per student have increased from 2014 to 2018 by \$1,375, or 12.2%. This is due to expenditures increasing by approximately 19.7%, while ADM served increased 7.2%.

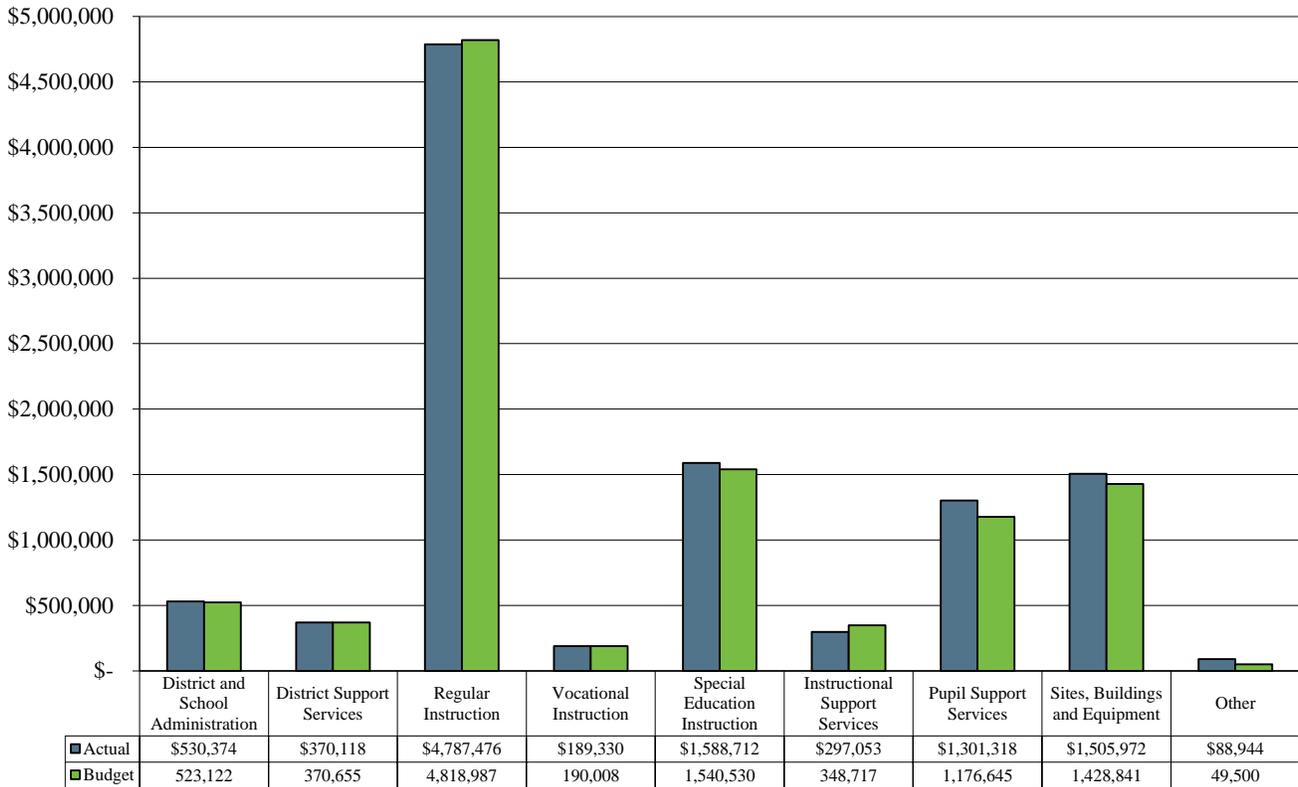
ADM served represents residents served in the District, residents attending elsewhere on tuition, and nonresidents served in the District both through open enrollment and tuition programs.

Independent School District No. 2396 Financial Analysis

GENERAL FUND EXPENDITURES

The following graph outlines the budget and actual results of General Fund expenditures. Overall, actual expenditures were \$212,292, or 2.0%, over budget. Most programs were relatively similar to budgeted amounts. Pupil support services had the largest variance and was \$124,673 over budget. This is primarily the result of transportation costs being higher than anticipated. Sites and buildings was \$77,131 over budget as a result of expenditures related to repairs after the storm in the summer of 2017 that were not part of the budget.

2018 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,	2014	2015	2016	2017	2018
Revenues	\$ 8,927,863	\$ 9,141,985	\$ 9,915,436	\$ 9,975,557	\$ 10,378,540
Expenditures	8,906,125	9,597,799	10,159,681	10,502,389	10,659,297
Excess of revenues over (under) expenditures	21,738	(455,814)	(244,245)	(526,832)	(280,757)
Other financing sources	1,582	374	2,501	111,585	211,058
Fund balance, July 1	3,046,211	3,069,531	2,614,091	2,372,347	1,957,100
Fund Balance, June 30	\$ 3,069,531	\$ 2,614,091	\$ 2,372,347	\$ 1,957,100	\$ 1,887,401

Components of Fund Balance	2014	2015	2016	2017	2018
Nonspendable	\$ 28,115	\$ 12,217	\$ 14,217	\$ 15,267	\$ 48,751
Restricted for					
Staff Development	-	-	-	-	68,983
Achievement and integration	130	-	4,364	-	3,272
Basic skills programs	321,432	383,418	295,480	158,475	154,144
Basic skills extended time	-	-	-	-	7,826
Operating capital	-	-	45,172	-	56,208
Health and safety	13,037	-	(114,094)	(46,190)	127,671
Gifted and talented	13,657	16,531	20,151	22,968	27,142
Learning and development	69,762	125,560	240,405	368,538	124,959
Teacher development and evaluation	-	18,224	20,249	20,249	20,249
Safe schools levy	25,996	43,281	57,455	71,391	39,798
LTFM	-	-	-	(120,012)	(144,496)
Unfunded severance and retirement levy	-	-	18,284	-	-
Deferred maintenance	201,917	255,249	-	-	-
Committed for retirement benefits	233,269	252,470	249,986	227,320	191,498
Assigned for student activities	97,602	100,601	124,519	131,057	134,968
Unassigned fund balance	2,064,614	1,406,542	1,396,159	1,108,037	1,026,428
Total Fund Balance	\$ 3,069,531	\$ 2,614,093	\$ 2,372,347	\$ 1,957,100	\$ 1,887,401

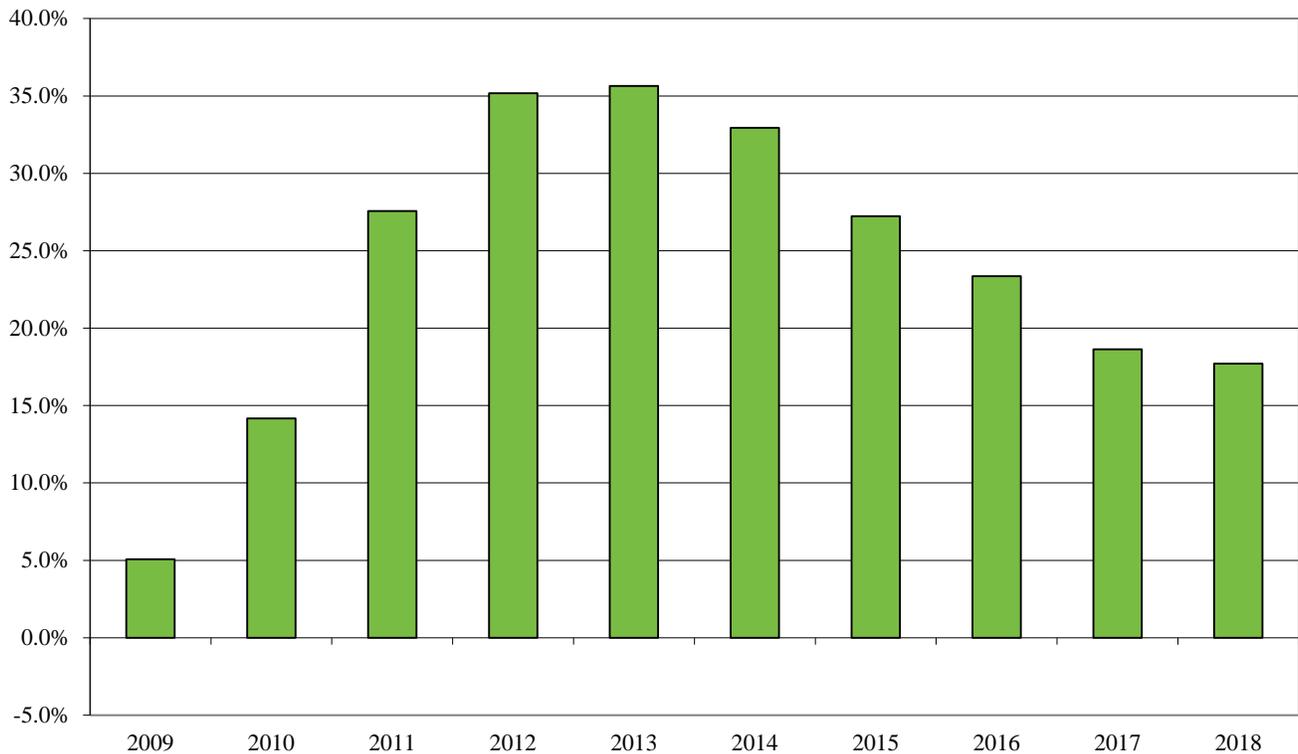
General Fund revenues have increased 16.2%, while expenditures have increased 19.7% since 2014. Total fund balance decreased to a balance of \$1,887,401 in 2018, compared to a balance of \$3,049,531 in 2014. From 2017 to 2018, fund balance decreased \$69,699.

**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



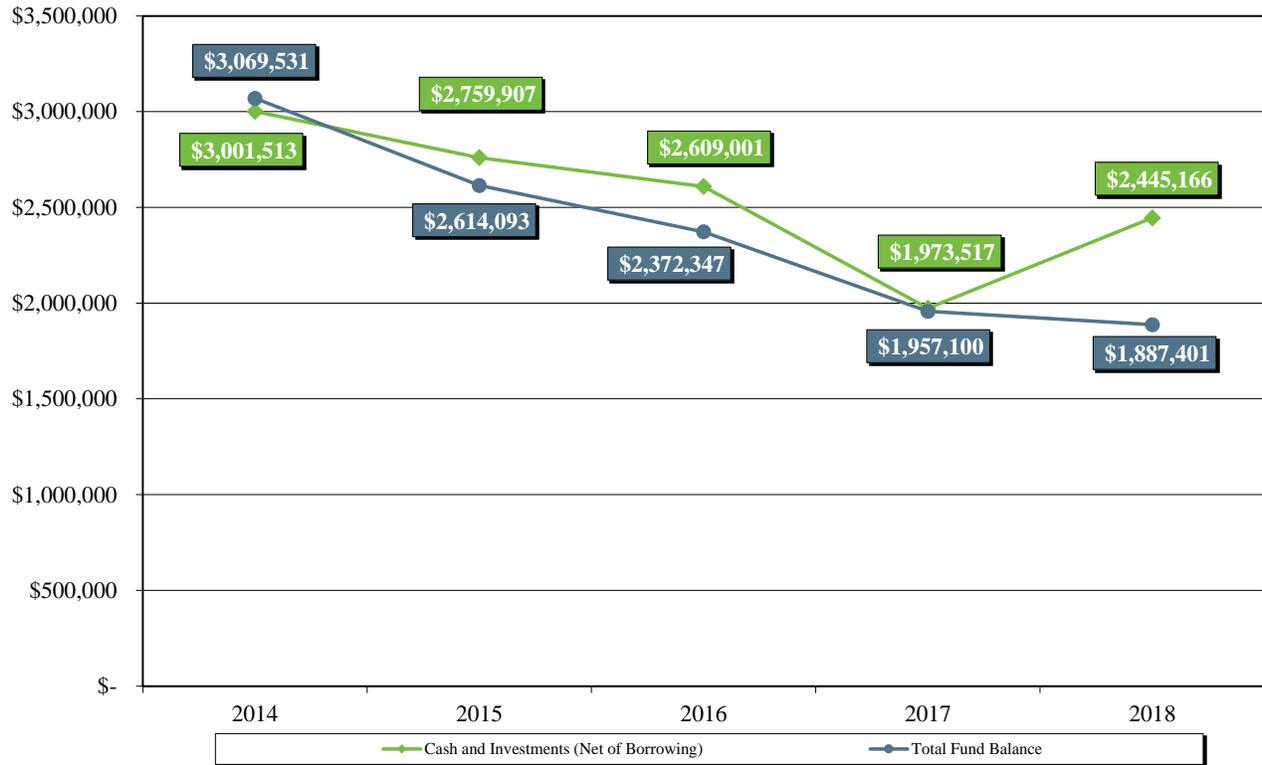
The above graph details the total fund balance as a percentage of expenditures. Based on 2018 expenditures, the District's General Fund balance would be sufficient to cover approximately two months of expenditures. The District's overall General Fund balance as a percentage of total expenditures decreased from 18.6% in 2017 to 17.7% in 2018, while the unassigned fund balance as a percentage of total expenditures decreased from 10.6% in 2017 to 9.6% in 2018. 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

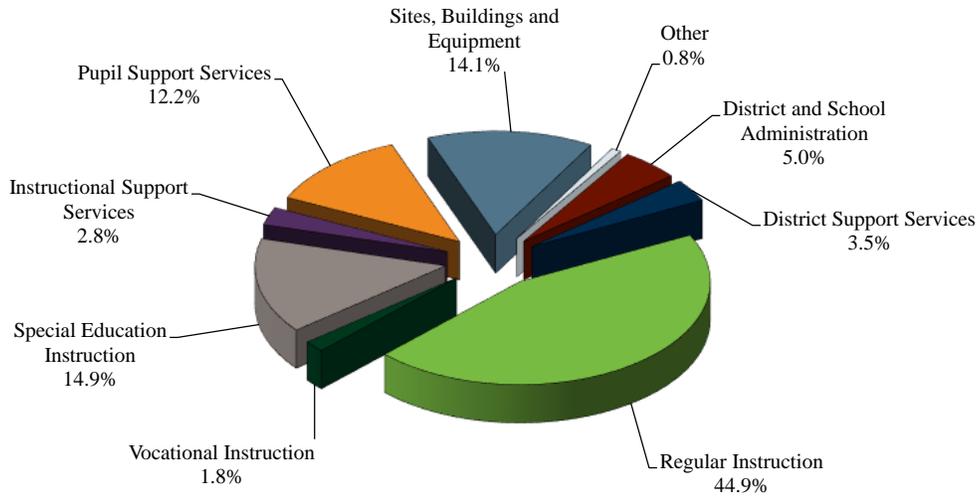


For the five years presented, fund balance has decreased by \$1,182,130 from 2014 to 2018. Cash (net of borrowing) has decreased in that same time period by \$556,347.

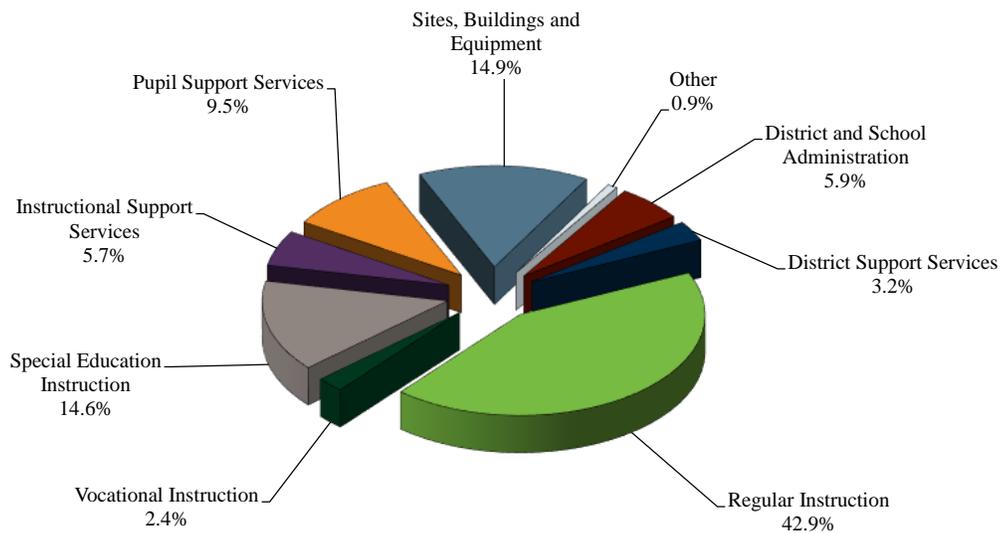
**Independent School District No. 2396
Financial Analysis**

GENERAL FUND OPERATIONS (CONTINUED)

2018 District Expenditures



2017 District Expenditures



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

FOOD SERVICE FUND

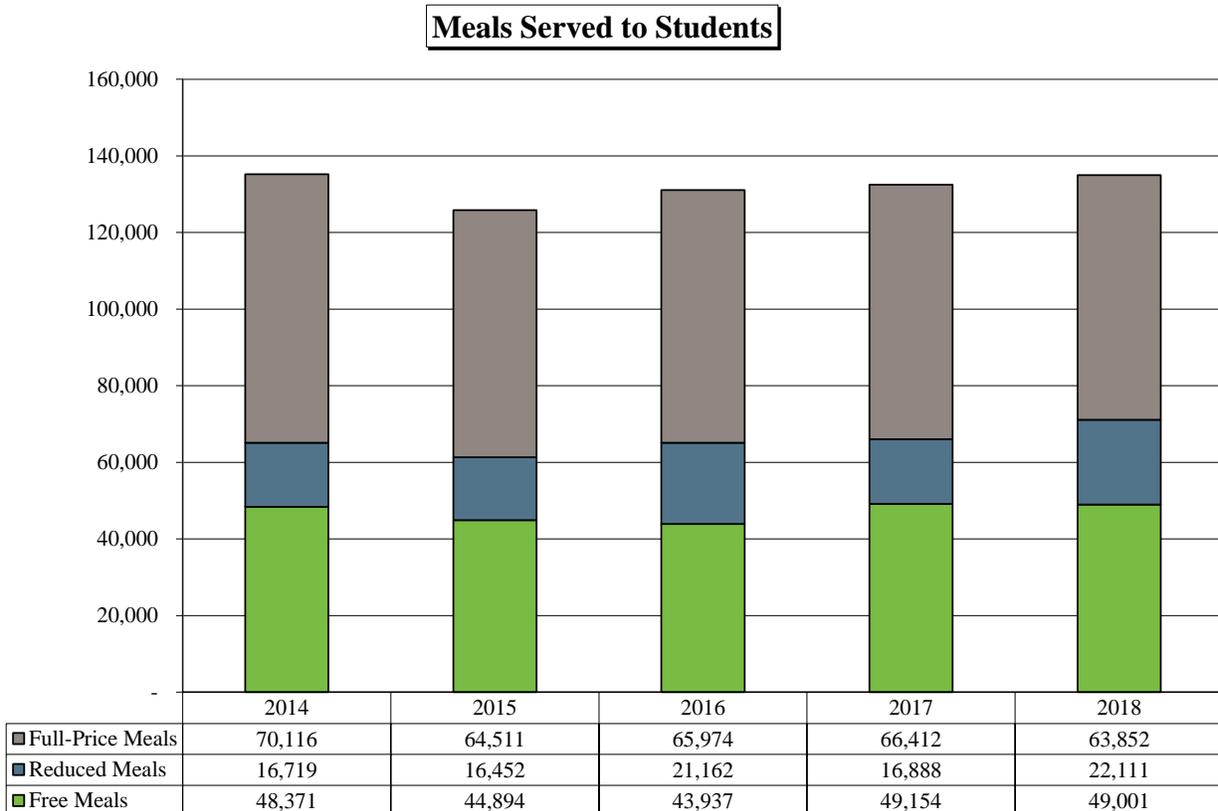
The following table presents comparative operating results for the District's Food Service Fund.

For the Year Ended June 30,	2014	2015	2016	2017	2018
Revenues	\$ 402,972	\$ 387,174	\$ 418,697	\$ 438,339	\$ 447,261
Expenditures	399,547	389,033	420,410	437,376	434,442
Excess of revenues over (under) expenditures	3,425	(1,859)	(1,713)	963	12,819
Fund balance, July 1	41,463	44,888	43,029	41,316	42,279
Fund Balance, June 30	\$ 44,888	\$ 43,029	\$ 41,316	\$ 42,279	\$ 55,098

Food Service Fund revenues have exceeded expenditures in three of the last five years. In 2018, Food Service Fund revenues exceeded expenditures by \$12,819. This increased the total fund balance to \$55,098. Revenues increased \$8,922 while expenditures decreased \$2,934, due to increased participation rates with an increase in students. Total meals served to students increased compared to 2017 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,	2014	2015	2016	2017	2018
Revenues	\$ 314,710	\$ 463,760	\$ 475,954	\$ 472,093	\$ 462,075
Expenditures	346,241	361,385	372,615	477,991	458,805
Excess of revenues over (under) expenditures	(31,531)	102,375	103,339	(5,898)	3,270
Fund balance, July 1	(19,893)	(51,424)	50,951	154,290	148,392
Fund Balance, June 30	\$ (51,424)	\$ 50,951	\$ 154,290	\$ 148,392	\$ 151,662

Fund Balance Components:	2014	2015	2016	2017	2018
Restricted for Early Childhood and Family Education	\$ 10,368	\$ 10,864	\$ 50,844	\$ 46,890	\$ 42,699
Restricted for Community Education	(33,615)	48,543	100,814	111,685	105,400
Restricted for School Readiness	(45,534)	(26,016)	(16,440)	(10,183)	-
Restricted for Community Service	17,357	17,560	19,072	-	3,563
Total Fund Balance	\$ (51,424)	\$ 50,951	\$ 154,290	\$ 148,392	\$ 151,662

Community Service Fund revenues exceeded expenditures 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 2018, revenues decreased \$10,018 while expenditures decreased \$19,186. Revenues decreased primarily as a result of a decrease of approximately \$6,000 in the amount of property taxes levied for the Community Service Fund. Expenditures decreased as a result of allocating more personnel costs from administration, secretaries, clerks, and other positions to the Community Service Fund in 2017. As a result of revenues exceeding expenditures, total fund balance increased \$3,270 from 2017 to 2018, which is 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 2018 General Education Aid was increased \$121 (2%) to \$6,188. For 2019, the formula allowance is set at \$6,312, 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 (regular plus pilot grant) must be used for extended time activities. These percentages are 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 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

The per pupil revenue increases from \$193/APU to \$292 for 2018 and \$380 for 2019 and later. Equalized revenue is limited to \$292 for 2018 and \$380 for 2019 and later. LTFM revenue may be used for remodeling and new construction for school security enhancements, and equipment and facility modifications related to violence prevention and facility security for projects in the LTFM plan approved in 2019 or 2020.

EQUITY REVENUE

Starting in 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.

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 growth 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.

VOLUNTARY PREKINDERGARTEN (VPK)/SCHOOL READINESS PLUS

This program changes the VPK cap from a limit on the total state aid entitlement to a limit on the number of participants. The cap for VPK and school readiness plus will be 7,160 for 2019. The new school readiness plus program continues for 2019. After 2019 the school readiness plus will be eliminated and the cap for VPK will be 3,160 participants.

EMERGENCY SCHOOL FUNDING

One-time additional school aid was approved effective for 2019 only. The aid equals \$57.73 per 2018 adjusted ADM for school districts and charter schools (\$50 million total). The aid will be paid out with the school endowment fund payment in September 2018. Aid may be used for student and staff safety or any other school-related purpose as deemed appropriate by the school board.

Independent School District No. 2396
Legislative Summary

STAFF DEVELOPMENT SET-ASIDE WAIVER

For 2019 only, school boards may waive the 2% staff development set aside requirement or establish a different percentage reserve by board resolution without a majority vote by the licensed teachers in the District.

COMMUNITY SERVICE FUND TRANSFER

For 2019, Districts may permanently transfer any amount approved by the Commissioner from the restricted/reserved for community education fund balance to its undesignated fund balance.

SAFE SCHOOLS REVENUE

Revenue is increased from \$36 to \$54/PU for 2019 and to \$41.50/PU for 2020 and later with a maximum revenue of \$30,000 per District for 2019 and later. Districts must annually report safe schools expenditures to MDE by area and any new staff positions hired beginning in 2019.

Q COMP

The cap on basic Q Comp aid remains at \$88,118,000 but allows the commissioner to prorate aid for existing districts and schools. Due to enrollment growth, proration is projected to be 98.8%. Districts will be able to levy for the projected basic aid shortfall.

SCHOOL SAFETY GRANTS

The house and senate approved \$25 million in total grants to be funded from the State General Fund in 2019. Grants will be awarded by MDE on a first-come, first-serve basis, in consultation with the Department of Public Safety's Minnesota School Safety Center. Grants may be used to predesign, design, construct, furnish, and equip school facilities including renovating and expanding existing buildings and facilities. Grant awards are limited to \$500,000 for each qualifying school building. At least half of the grants must be awarded to school districts outside the 11 county metro area.

Independent School District No. 2396
Legislative Summary

PENSION BILL

Augmentation has been eliminated for TRA members after 12/31/17, and early retirement subsidies have been phased out.

Post-retirement cost of living adjustments (COLAs) have been reduced –

- 1) TRA – lowers the COLA from 2% to 1% for 5 years; then the rate will increase by 0.1% each year until it reaches 1.5%
- 2) PERA – the increase will be 50% of the increase for Social Security announced January 1, but not less than 0.5% or more than 1.5%
- 3) Defers commencement of COLA for early retirees

The rate of interest paid on refunds of employee contributions to former employees has been reduced from 4% to 3%. TRA required contributions have increased to 7.75% for employees effective FY2024. Required employer contributions will increase 0.21% for FY 2019 to FY 2023 and 0.2% in FY2024 until a required contribution rate of 8.75% is reached.

Pension adjustment revenue will increase to match the required contribution increases.

Independent School District No. 2396 Emerging Issues

Executive Summary

The following is an executive summary of financial 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. 84 – Fiduciary Activities** – GASB has issued GASB Statement No. 84 relating to accounting and financial reporting for fiduciary activities. This new statement establishes clarity to determine when a government has fiduciary responsibility for a certain activity.
- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following are extensive summaries 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. 84 – *FIDUCIARY ACTIVITIES*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

GASB Statement No. 84 describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

Independent School District No. 2396
Emerging Issues

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 84 – *FIDUCIARY ACTIVITIES* (CONTINUED)

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB Statement No. 84 is effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – *LEASES*

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

Independent School District No. 2396
Emerging Issues

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – LEASES
(CONTINUED)

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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