

INDEPENDENT SCHOOL DISTRICT NO. 885
Albertville, Minnesota

COMMUNICATIONS LETTER

Year Ended June 30, 2015



INDEPENDENT SCHOOL DISTRICT NO. 885

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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. 885
Albertville, Minnesota

In planning and performing our audit of the financial statements of Independent School District No. 885, Albertville, Minnesota, as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. The material weakness identified is 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. The significant deficiency identified is stated within this letter.

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 November 23, 2015, on such statements.

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

BerganKDV, Ltd.
Minneapolis, Minnesota
November 23, 2015

INDEPENDENT SCHOOL DISTRICT NO. 885

MATERIAL WEAKNESS

June 30, 2015

LACK OF SEGREGATION OF ACCOUNTING DUTIES

The District had 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.

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 Finance Director has access to all areas of the accounting system.
- The Finance Director prepares the bank reconciliations and also reviews receipts.
- The Administrative Assistant at each building can receipt cash, prepare deposit slips and reconcile the deposit.
- The Accounts Payable Clerk matches purchase orders to invoices, enters invoices into Skyward, runs, prints and mails checks.
- Journal entries are made without review or approval.

During the course of our audit, 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.

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.

INDEPENDENT SCHOOL DISTRICT NO. 885

SIGNIFICANT DEFICIENCY

June 30, 2015

PREPARATION OF FINANCIAL STATEMENTS AND RELATED NOTE DISCLOSURES

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

The District does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures being audited. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements. This circumstance is not unusual in a district of this size.

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

INDEPENDENT SCHOOL DISTRICT NO. 885

OTHER DEFICIENCIES

June 30, 2015

OFFSITE COLLECTIONS

Gate Receipts

During our audit, it was noted controls surrounding gate receipts are not effective. With few exceptions, the current process involves selling tickets at the gate and there is no way to ensure tickets are being issued. In fact, the tickets are not actually given to the spectator.

In order for the control to be effective, we recommend the tickets be sold at a point other than the gate entrance, a second person would be at the gate collecting the tickets to ensure each spectator was actually issued a ticket. After sales are done, a reconciliation should be done based on the number of tickets sold and the receipts collected.

Teacher/Coach Collections

During our audit, it was noted that at times, monies are collected by teachers or coaches and those monies are used to make cash payments.

It is recommended that all disbursements be run through the District Office and follow the normal District receipting and disbursement processes.

APPROVAL AND DOCUMENTATION OF JOURNAL ENTRIES

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

With the District having the material weakness relating to the lack of segregation of accounting duties, there is the risk that not all significant areas of the District's financial reporting process is protected by adequate internal control. However, this is one area we recommend an additional internal control could be implemented without adding significant cost. While implementing this control will not relieve the District of the material weakness, it is another control that reduces the risk that the financial statements are materially misstated. With this information, we recommend the Finance Director implement procedures that would support a journal entry review and approval process. One such procedure would be to require a person not involved with creating the journal entry, but versed in understanding financial statements to review the documentation and approve the journal entry. In addition, supporting documentation should be attached to all journal entries.

COMMUNITY EDUCATION REVENUE

During our audit, we reviewed the community education receipting process. We noted it was not possible to recalculate class revenue based on current procedures. We also noted that there were inconsistencies in the billing and that these accounts are not being reconciled.

We recommend the classes be coded in such a manner for it to be possible to reconcile participation to revenue recorded. We also suggest the adoption of a policy outlining the billing structure to state whether fees may be waived and if students are to be charged on a prorated scale.

INDEPENDENT SCHOOL DISTRICT NO. 885

REQUIRED COMMUNICATION

June 30, 2015

We have audited the financial statements of Independent School District No. 885, Albertville, Minnesota, for the year ended June 30, 2015, and have issued our report dated November 23, 2015. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS* AND *OMB CIRCULAR A-133*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

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

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. 885

REQUIRED COMMUNICATION

June 30, 2015

PLANNED SCOPE AND TIMING OF THE AUDIT

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2014. 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.

General Education and Special Education Aid – General Education Aid is an estimate until final 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 dependent on the availability of monies and complex formulas that are finalized after reporting deadlines.

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

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

The financial statement disclosures are neutral, consistent and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

INDEPENDENT SCHOOL DISTRICT NO. 885

REQUIRED COMMUNICATION

June 30, 2015

CORRECTED AND UNCORRECTED MISSTATEMENTS

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

- State aids and revenues are overstated
- Property tax revenue allocations are off by fund

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

- Reallocate levy components affecting equity balances
- Adjust food service revenues and unearned revenues

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

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

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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.

INDEPENDENT SCHOOL DISTRICT NO. 885

REQUIRED COMMUNICATION

June 30, 2015

OTHER MATTERS

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in 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. 885

FINANCIAL ANALYSIS

June 30, 2015

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

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

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

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

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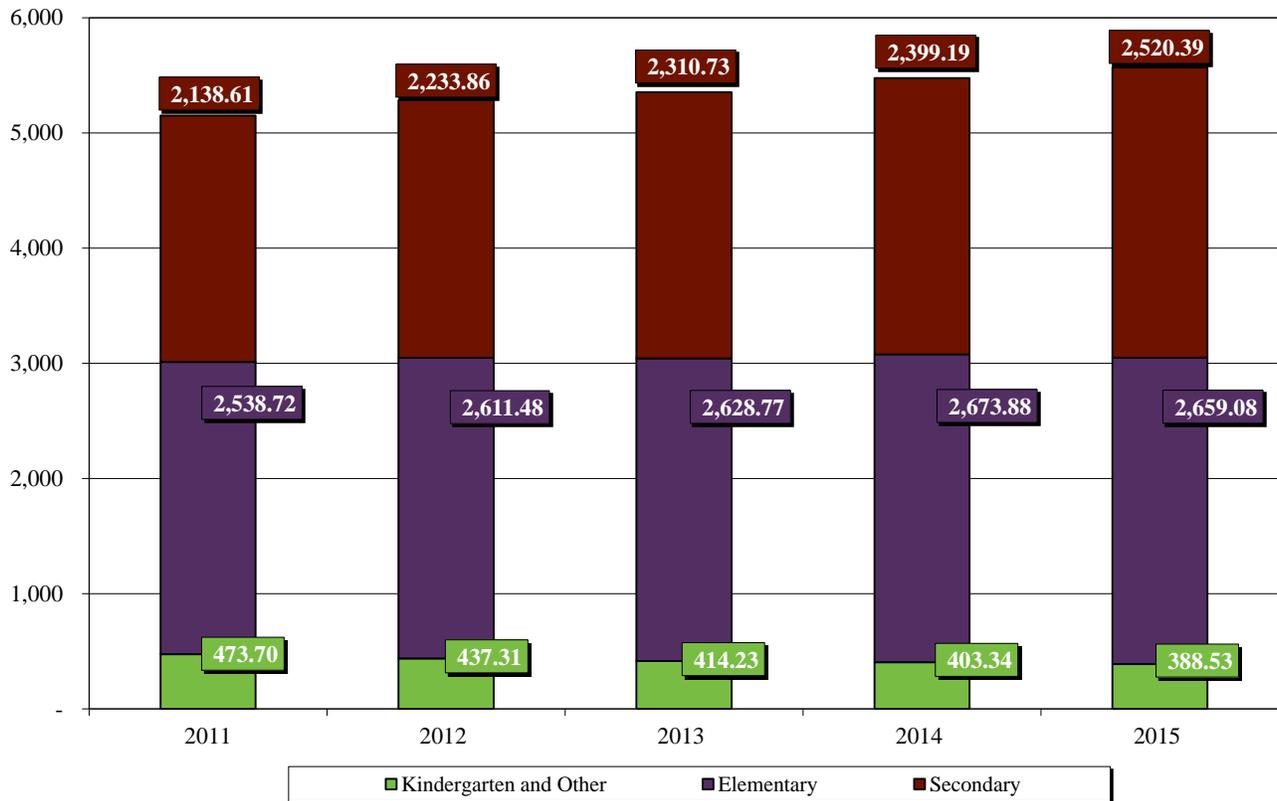
**FINANCIAL ANALYSIS
June 30, 2015**

AVERAGE DAILY MEMBERSHIP

The following chart and graph summarizes resident ADM of the District over the past five years:

Resident ADM	2011	2012	2013	2014	2015
Kindergarten and Other	473.70	437.31	414.23	403.34	388.53
Elementary	2,538.72	2,611.48	2,628.77	2,673.88	2,659.08
Secondary	2,138.61	2,233.86	2,310.73	2,399.19	2,520.39
Total Resident ADM	5,151.03	5,282.65	5,353.73	5,476.41	5,568.00

Resident Students - ADM



* Estimate as of October 26, 2015

The chart and graph above demonstrate consistent increase of resident ADM over the past five years with 2015 reporting 5568.00; an increase of 91.59 ADM from 2014.

INDEPENDENT SCHOOL DISTRICT NO. 885

**FINANCIAL ANALYSIS
June 30, 2015**

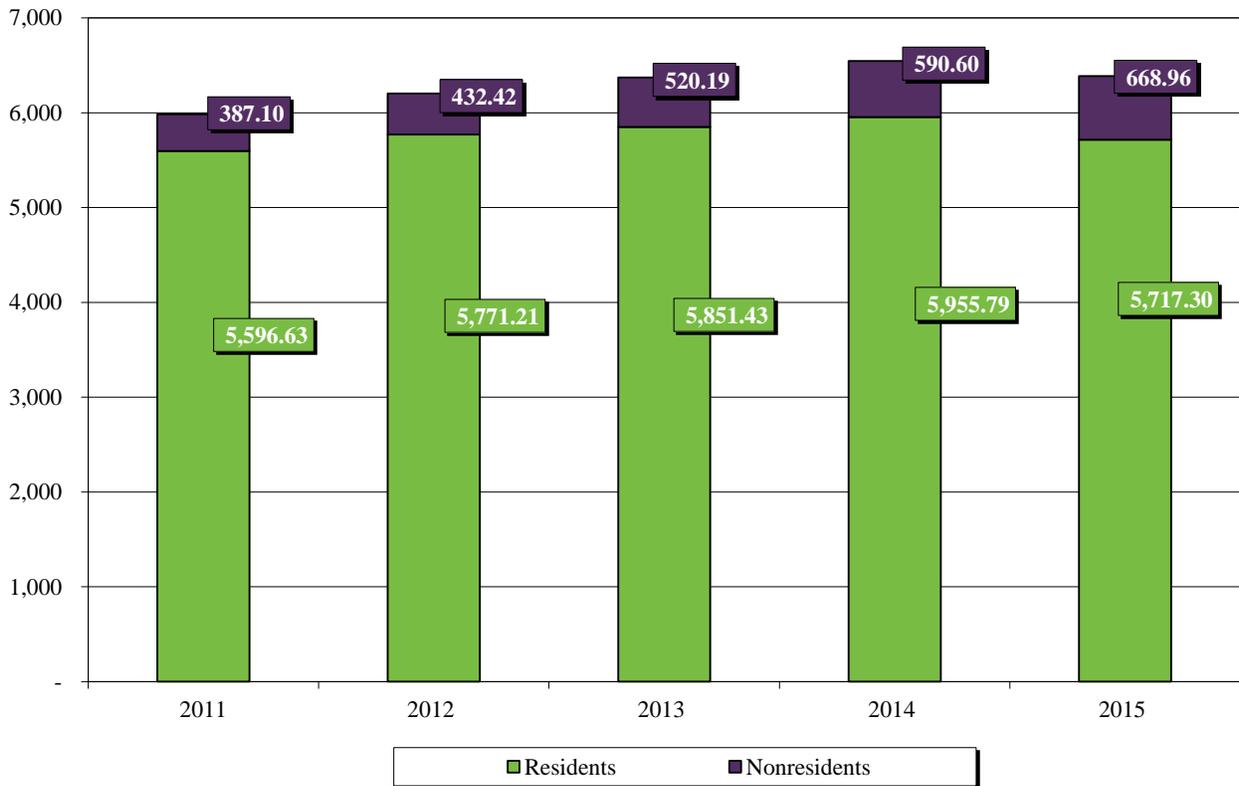
AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

	Kindergarten	Elementary (1-3/4-6)	Secondary	Secondary
2011-2014	0.612	1.115/1.060	1.300	1.300
2015	1.000	1.000	1.200	1.200

The weighted pupil unit (PUN) served table and graph below converts the resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

Weighted/Adjusted ADM	2011	2012	2013	2014	2015
Residents	5,862.82	6,040.49	6,139.86	6,293.07	6,071.62
Residents Going Elsewhere	(266.19)	(269.28)	(288.43)	(337.28)	(354.32)
Nonresidents Coming In	387.10	432.42	520.19	590.60	668.96
Total Weighted/Adjusted ADM Served	5,983.73	6,203.63	6,371.62	6,546.39	6,386.26

Students Served - PUN



* Estimate as of October 26, 2015

INDEPENDENT SCHOOL DISTRICT NO. 885

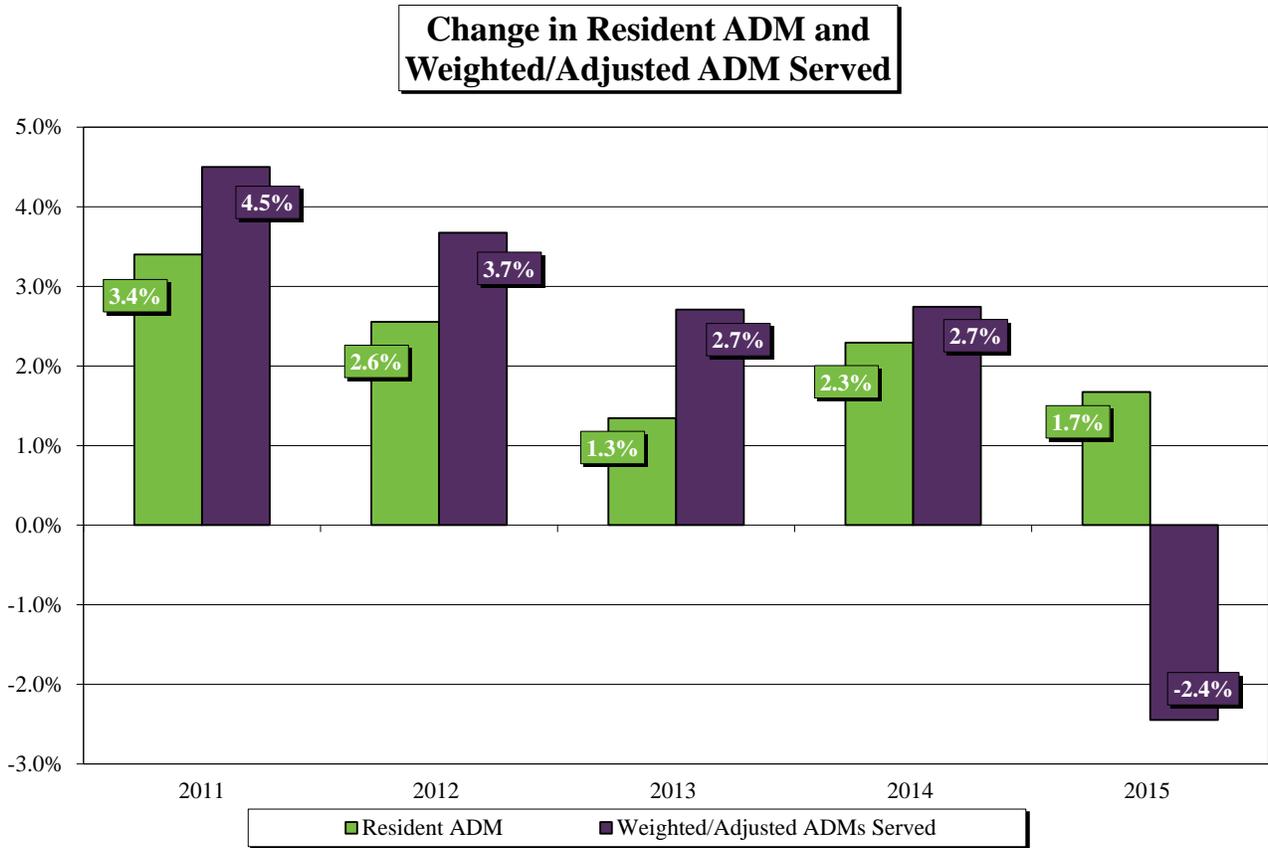
FINANCIAL ANALYSIS June 30, 2015

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

Weighted/adjusted ADM served has consistently increased each of the years presented, except for 2015. This decrease was a result of the changes in the weighting factors.

Open enrollment is a large factor in the District's ADM fluctuation. For each of the five years shown, the District has experienced a net gain of WADM. This net gain has grown from 120.91 pupil units in 2011 to 314.64 in 2015. These gains are due mainly to increases in nonresident students coming into the District through open enrollment.

The following graph illustrates the percentage change from year-to-year in resident ADM and WADM served.



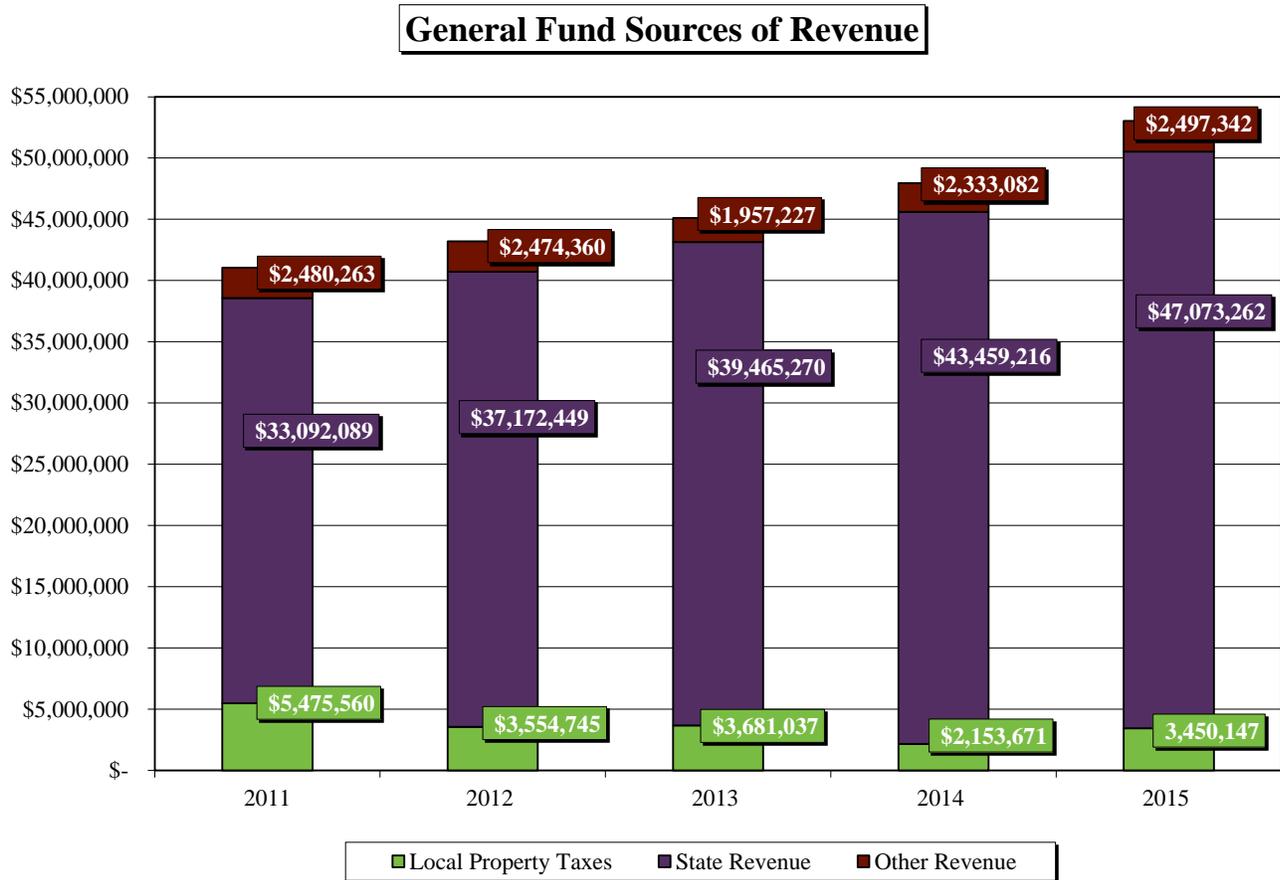
* Estimate as of October 26, 2015

INDEPENDENT SCHOOL DISTRICT NO. 885

**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND SOURCES OF REVENUE

The following table displays the sources of revenue for the General Fund.



Total General Fund revenues of \$ 53,020,751 increased \$ 5,074,782 or 10.6%, from 2014, and increased \$ 11,972,839, or 29.2%, over the course of the five years presented.

State revenue, which makes up the largest percentage of the District’s revenue at 88.8%, increased \$ 3,614,046 due to an increase in General Education Aid as a result of increases in ADM served and an increase in the formula allowance. Local property taxes, which represent 6.5% of the District’s revenues, increased \$ 1,296,476 in 2015, due to the tax shift adjustment in 2014. Other revenue increased \$ 164,260 from 2014 to 2015.

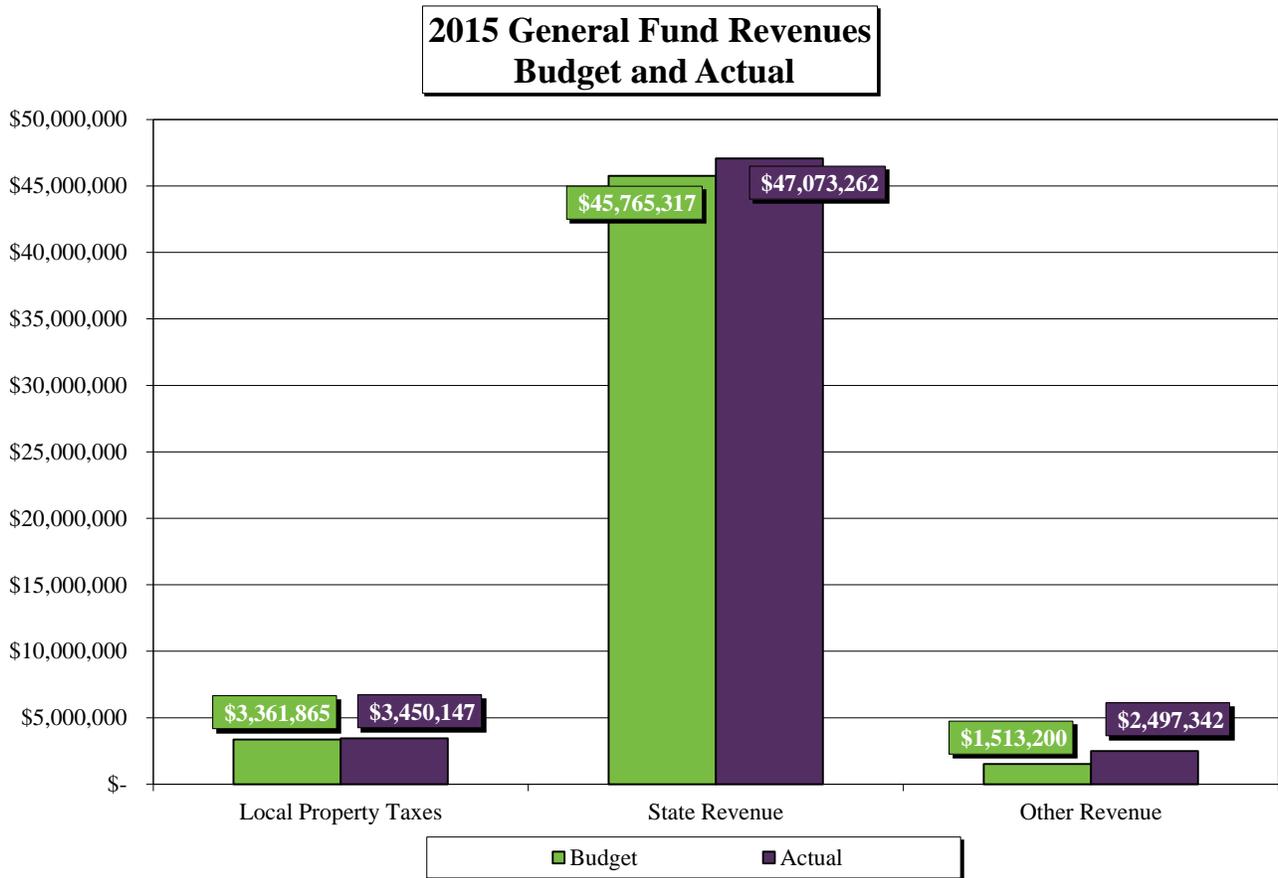
INDEPENDENT SCHOOL DISTRICT NO. 885

**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND BUDGET AND ACTUAL REVENUES

The graph below outlines the District’s final budget and actual results for the General Fund revenues.

In June 2014, the District approved a revenue budget of \$ 50,640,382. With actual revenues coming in at \$ 53,020,751, the budget produced a positive variance of \$ 2,380,369, or 4.7%. State revenues were over budget as a result of an increase in ADM. Other revenues were over budget due to federal special education revenues received through ISD Monticello as well as revenues from other districts not being budgeted.



INDEPENDENT SCHOOL DISTRICT NO. 885

FINANCIAL ANALYSIS

June 30, 2015

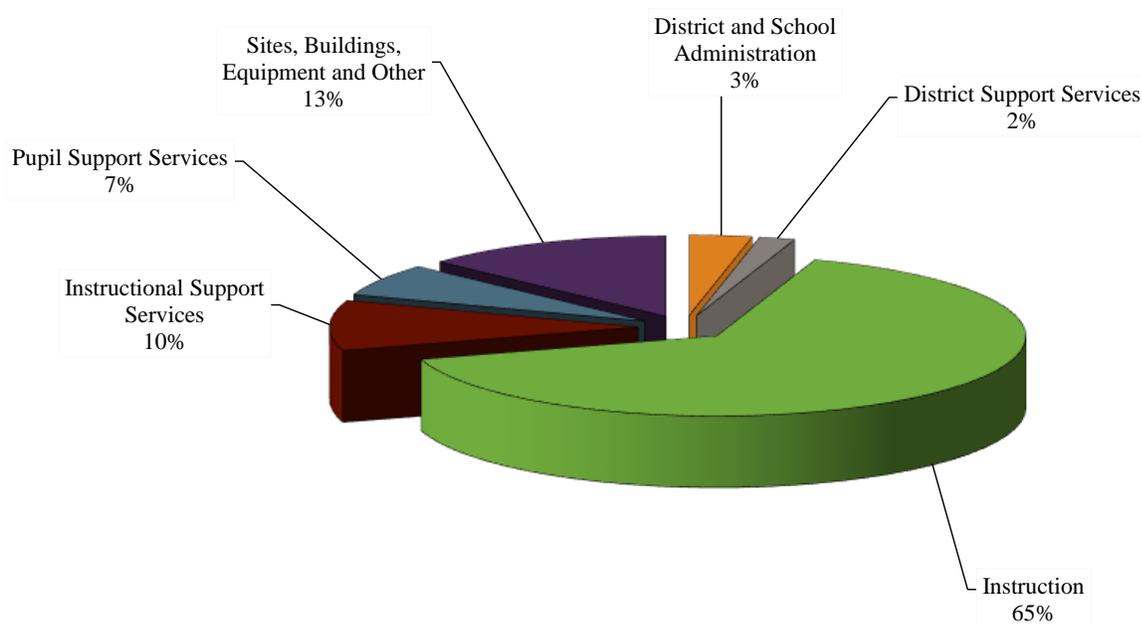
GENERAL FUND EXPENDITURES

General Fund expenditures by program for the past five years are summarized below.

General Fund Expenditures	2011	2012	2013	2014	2015
District and School Administration	\$ 1,659,954	\$ 1,648,054	\$ 1,512,478	\$ 1,551,213	1,647,819
District Support Services	579,658	584,867	618,988	666,161	940,031
Instruction	26,011,946	27,832,848	29,078,692	30,134,328	32,693,060
Instructional Support Services	3,711,468	4,192,479	4,140,359	4,984,543	5,071,044
Pupil Support Services	3,013,362	3,121,666	3,377,040	3,281,395	3,272,091
Sites, Buildings, Equipment and Other	5,739,228	5,544,732	5,804,401	6,193,213	6,579,388
Total	\$ 40,715,616	\$ 42,924,646	\$ 44,531,958	\$ 46,810,853	\$ 50,203,433

Total General Fund expenditures increased by \$ 3,392,580, or 7.3%, from 2014 to 2015. The increase in General Fund expenditures partially resulted from compensation increases, as well as an increase in salaries and wages due to additional new staff.

General Fund Expenditure Allocation



Total instruction expenditures (regular, special education and vocational) for year 2015 represents approximately 65% of total General Fund expenditures.

INDEPENDENT SCHOOL DISTRICT NO. 885

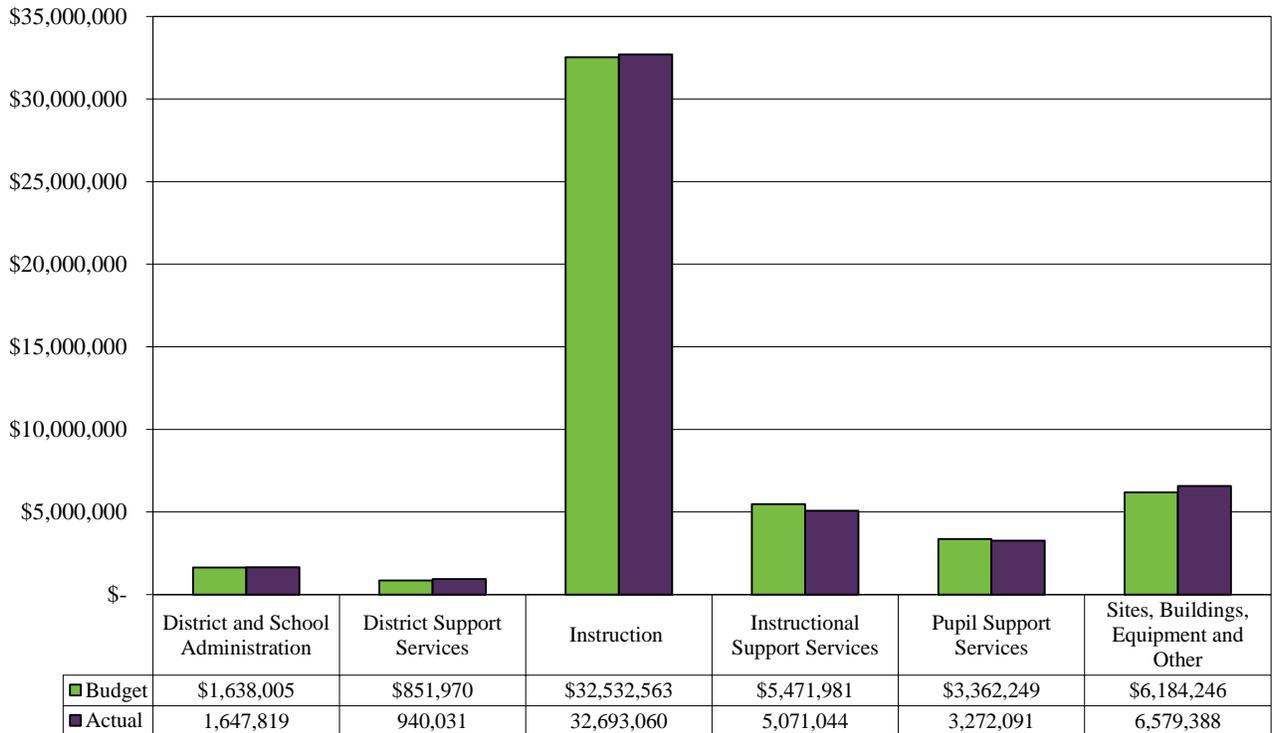
**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND BUDGET AND ACTUAL EXPENDITURES

The graph below outlines the District’s final budget and actual results for the General Fund expenditures.

Actual expenditures were over the final budget by \$ 162,419, or 0.3%. The largest proportional variance was in sites, buildings, equipment and other which was over budget \$ 395,142, or 6.4%, due to various capital outlay expenditures incurred in fiscal year 2015 that were budgeted for in the prior year or not budgeted.. Instructional support services was under budget by \$ 400,937, or 7.3% across all areas, the largest being capital outlay and wages which were under budget related to Q Comp items.

**2015 General Fund Expenditures
Budget and Actual**



INDEPENDENT SCHOOL DISTRICT NO. 885

**FINANCIAL ANALYSIS
June 30, 2015**

REVENUES AND EXPENDITURES PER ADM SERVED

Revenues per ADM served for all funds are summarized as follows:

District	2011	2012	2013	2014	2015
General Fund	\$ 7,736	\$ 7,889	\$ 8,039	\$ 8,347	\$ 8,917
Food Service	422	431	419	420	421
Community Service	823	823	844	822	721
Building Construction	1	9	-	-	-
Debt Service	2,553	2,661	2,295	2,372	2,292
Total Revenues Per Student	\$ 11,535	\$ 11,813	\$ 11,597	\$ 11,961	\$ 12,350

State-Wide Average (All Districts) **	2011	2012	2013	2014	2015
General Fund	\$ 10,537	10,545	10,698	11,000	N/A
Food Service	472	486	493	499	N/A
Community Service	510	521	530	531	N/A
Building Construction	173	140	104	73	N/A
Debt Service	1,072	1,107	1,099	1,034	N/A
Fund Balance, June 30	\$ 12,764	\$ 12,799	\$ 12,924	\$ 13,137	\$ -

Expenditures per ADM served for all funds are summarized as follows:

District	2011	2012	2013	2014	2015
General Fund	\$ 7,657	\$ 7,838	\$ 7,937	\$ 8,149	\$ 8,443
Food Service	373	391	397	468	410
Community Service	755	761	778	764	685
Building Construction	152	159	16	8	8
Debt Service	2,531	2,535	2,281	2,318	2,409
Total	\$ 11,466	\$ 11,684	\$ 11,409	\$ 11,707	\$ 11,955

State-Wide Average (Districts 4000 ADM +)	2011	2012	2013	2014	2015
General Fund	\$ 10,519	\$ 10,553	\$ 10,968	\$ 11,266	N/A
Food Service	462	475	495	509	N/A
Community Service	597	608	619	633	N/A
Building Construction	786	717	643	801	N/A
Debt Service	1,198	1,371	1,223	1,540	N/A
Total	\$ 13,562	\$ 13,724	\$ 13,948	\$ 14,749	\$ -

Source: 2011 – 2014 – *School District Profiles*

Source: 2015 – Estimate as of October 26, 2015, as final numbers are not available

INDEPENDENT SCHOOL DISTRICT NO. 885

FINANCIAL ANALYSIS June 30, 2015

GENERAL FUND OPERATIONS

The chart below illustrates the General Fund revenue, expenditures and fund balances for the past five years.

For the Year Ended June 30,	2011	2012	2013	2014	2015
Revenues	\$ 41,047,912	\$ 43,201,554	\$ 45,103,534	\$ 47,945,969	\$ 53,020,751
Expenditures	40,715,616	42,924,646	44,531,958	46,810,853	50,203,433
Excess of Revenues Over Expenditures	332,296	276,908	571,576	1,135,116	2,817,318
Prior Period Adjustment	-	268,203	-	-	-
Less Transfers Out	-	-	-	-	(1,956)
Fund Balance, July 1	7,664,054	7,996,350	8,541,461	9,113,037	10,248,153
Fund Balance, June 30	\$ 7,996,350	\$ 8,541,461	\$ 9,113,037	\$ 10,248,153	\$ 13,063,515

From 2014 to 2015, revenues increased 10.6% and expenditures increased 7.3%. Included in this illustration are all the general activities of the District, including all categorical or reserved programs such as health and safety, operating capital, etc. All of these activities comprise the General Fund, per the Uniform Financial Accounting and Reporting Standards (UFARS) definition.

Nonspendable fund balances are amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.

Restricted fund balances represent those resources legally restricted for a specific purpose or those resources that are not expendable for general operations. The State Legislature legally restricts different components of funding for specific purposes, such as operating capital and health and safety.

Committed fund balances are those balances set by the government's highest level of decision making authority, the School Board. The formal action to establish or modify a commitment must be made by the School Board.

Assigned fund balances are balances comprised of unrestricted funds constrained by the District's intent that they will be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed.

INDEPENDENT SCHOOL DISTRICT NO. 885

**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND OPERATIONS

Below are the components of fund balance over the same time period described on the previous page.

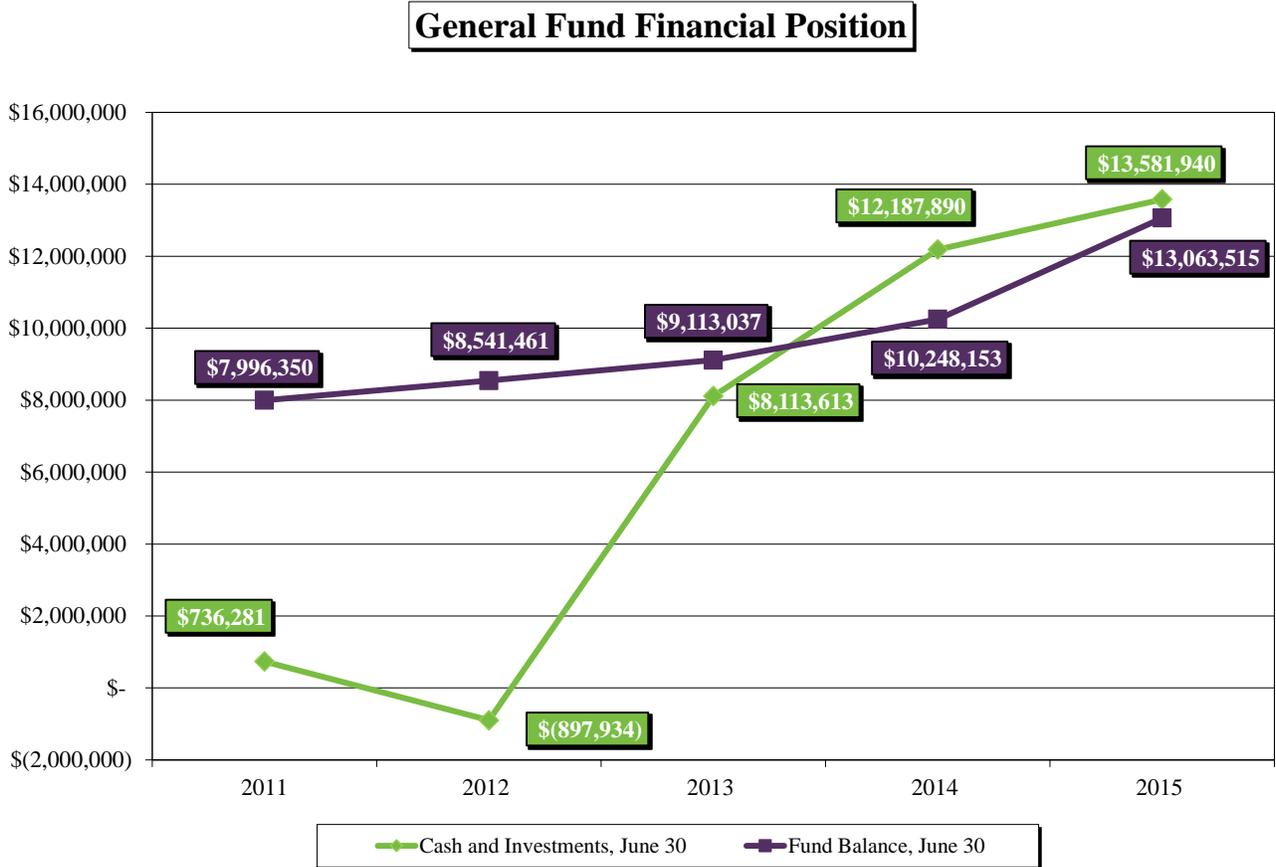
For the Year Ended June 30,	2011	2012	2013	2014	2015
Nonspendable for:					
Prepaid Items	\$ 81,130	\$ 65,302	\$ 213,165	\$ 112,231	\$ 83,780
Restricted for:					
Staff Development	202,647	-	-	-	255,279
Health and Safety	(36,050)	6,056	(70,803)	(155,169)	(281,242)
Deferred Maintenance	202,442	261,159	205,777	207,163	162,842
Operating Capital	1,970,218	1,563,144	1,689,872	1,129,156	1,079,056
Basic Skills	73	-	-	-	-
Safe School - Crime	46,692	7,715	-	9,346	28,117
Committed for:					
Separation Benefits	184,701	49,000	55,375	53,500	44,625
Assigned					
Student Activities	-	256,244	285,620	291,183	313,595
Staff Development	-	173,731	137,531	100,884	100,884
Q Comp	-	-	-	-	164,985
Medical Assistance	-	-	-	-	126,585
Insurance Claims	-	-	18,466	36,932	55,398
Unassigned	5,344,497	6,159,110	6,578,034	8,462,927	10,929,611
Fund Balance, June 30	\$ 7,996,350	\$ 8,541,461	\$ 9,113,037	\$ 10,248,153	\$ 13,063,515

The District's fund balance policy states the District will strive to maintain a minimum unassigned General Fund balance equal to 1.5 months of operating expenditures. At June 30, 2015, unassigned General Fund balance was equal to 2.6 months of operating expenditures.

INDEPENDENT SCHOOL DISTRICT NO. 885

FINANCIAL ANALYSIS
June 30, 2015

GENERAL FUND FINANCIAL POSITION



The graph above outlines the cash and investments (net of borrowing) and the fund balance for the General Fund for the past five years. A healthy fund balance allows the District to maintain a positive operating cash position when expenditures are timed prior to the receipt of significant revenues, including state aid and local property tax levies. The state paid aids 70% in 2011, 64% in 2012, 86% in 2013 and 90% in 2014 and 2015.

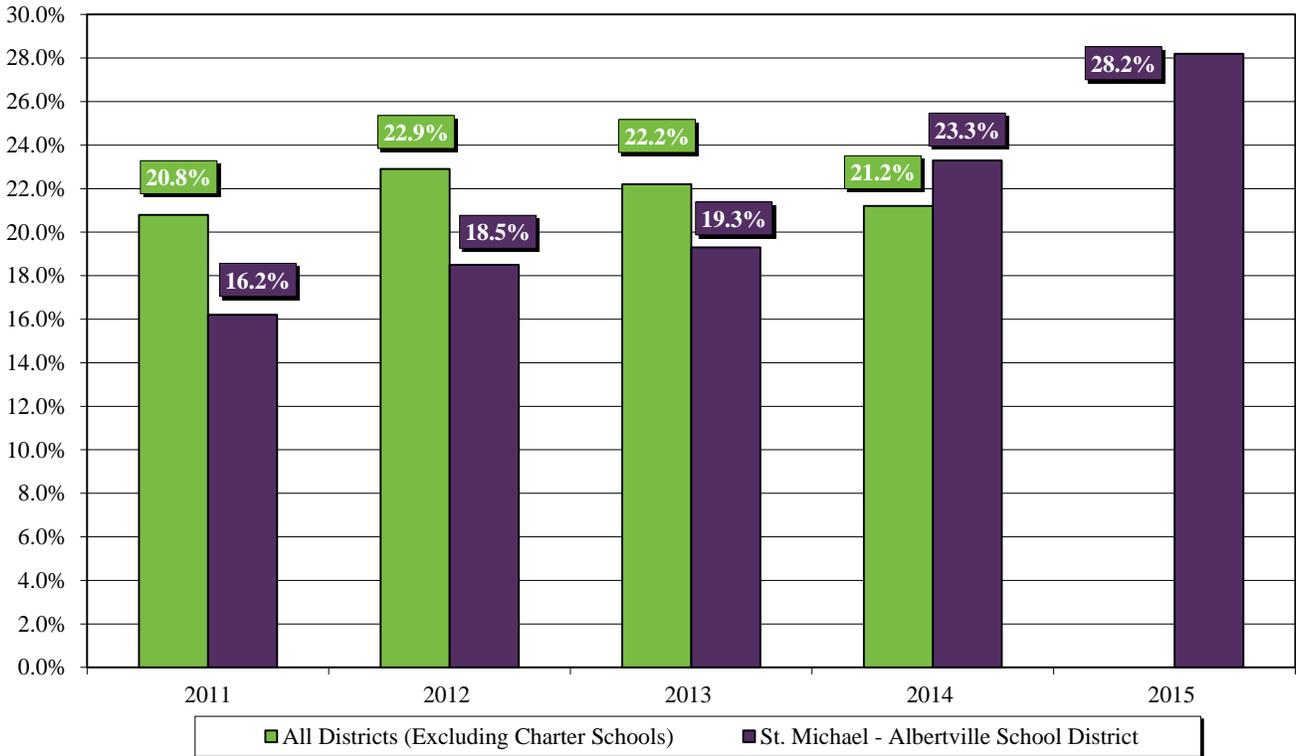
INDEPENDENT SCHOOL DISTRICT NO. 885

**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND FINANCIAL HEALTH

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

Unrestricted Fund Balance as a Percentage of Unrestricted Expenditures



* Information was obtained from the Minnesota Department of Education (MDE) web site report *General Fund Unreserved Balance for Fiscal Years 2003-2014*. Fiscal year 2015 information is not available.

** 2015 calculation based on 2015 UFARS Compliance Report.

INDEPENDENT SCHOOL DISTRICT NO. 885

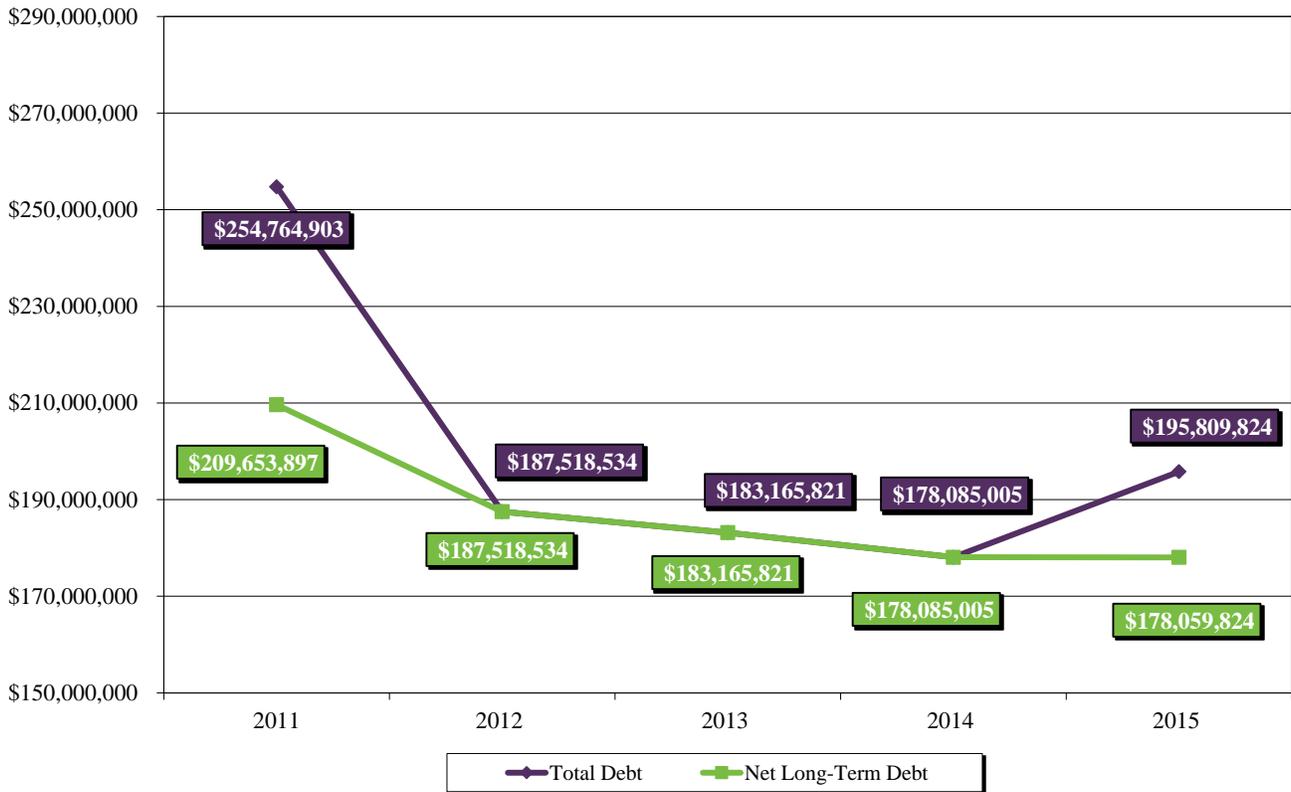
**FINANCIAL ANALYSIS
June 30, 2015**

LONG-TERM DEBT

The following chart and graph illustrate the District’s general long-term debt outstanding and reserved funds at June 30 of each of the past five years.

Long-Term Debt	2011	2012	2013	2014	2015
Bonds and Leases Payable	\$ 254,057,712	\$ 186,417,071	\$ 181,696,361	\$ 176,180,652	\$ 193,519,135
Severance Benefits Payable and Net OPEB	707,191	1,101,463	1,469,460	1,904,353	2,290,689
Total Debt	254,764,903	187,518,534	183,165,821	178,085,005	195,809,824
Escrow Reserved for Debt Retirement	(45,111,006)	-	-	-	(17,750,000)
Net Long-Term Debt	\$ 209,653,897	\$ 187,518,534	\$ 183,165,821	\$ 178,085,005	\$ 178,059,824

Long-Term Debt



During the year, the District made payments of \$ 6.3 million in scheduled principal payments. In addition, the district issued \$ 77.0 million in refunding bonds which defeased \$ 58.8 million of bond principal in the current year and will assist with another \$ 17,750,000 of redemptions in 2015.

INDEPENDENT SCHOOL DISTRICT NO. 885

FINANCIAL ANALYSIS June 30, 2015

TAX LEVIES AND TAX CAPACITY RATES

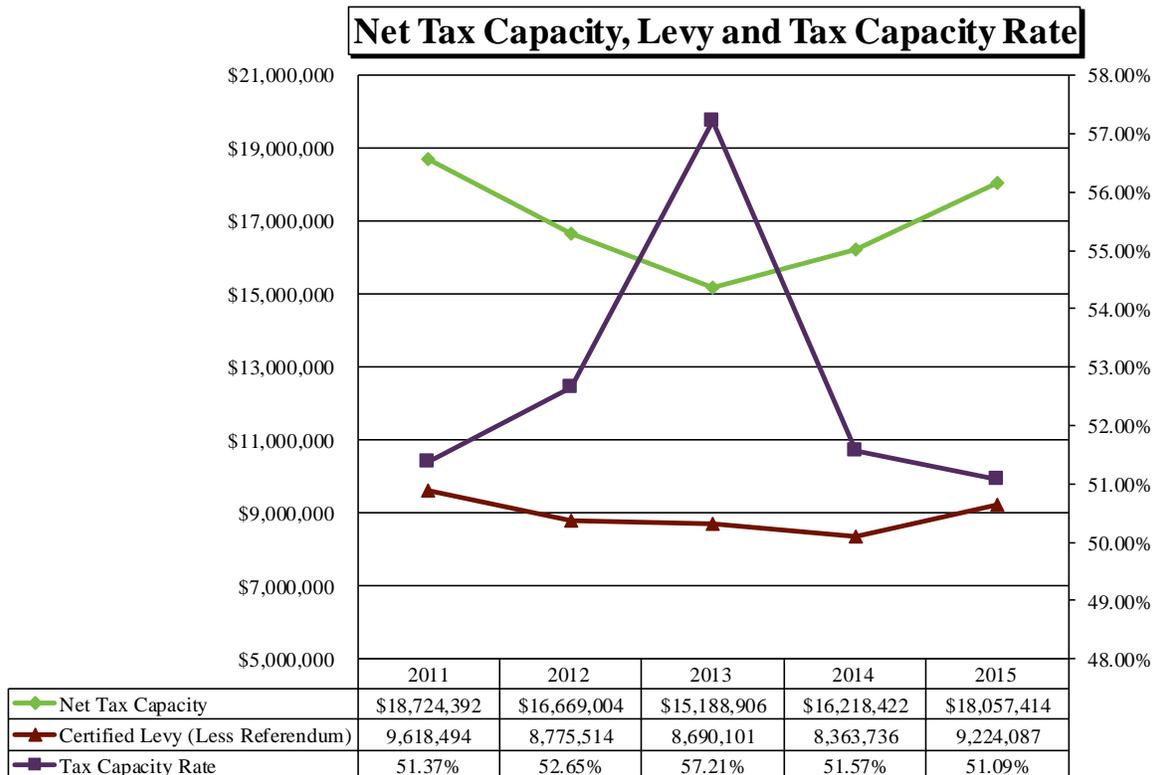
The following tables present the District's tax levies for the levy certified in 2010, payable in 2011 through the levy certified in 2014 and payable in 2015.

Certified	2010	2011	2012	2013	2014
Levy Payable	2011	2012	2013	2014	2015
Year Recognized	2012	2013	2014	2015	2016
Referendum	\$ 2,361,887	\$ 2,827,574	\$ 2,736,726	\$ 2,196,224	\$ 2,579,929
School Maintenance	984,720	853,997	901,368	1,065,641	1,331,914
Community Service	241,010	251,488	273,105	249,888	301,378
Debt Service	8,392,764	7,670,029	7,515,628	7,048,207	7,590,795
Total	\$ 11,980,381	\$ 11,603,088	\$ 11,426,827	\$ 10,559,960	\$ 11,804,016

The District's tax capacity rate for the similar time period is illustrated in the following chart and graph:

Certified	2010	2011	2012	2013	2014
Levy Payable	2011	2012	2013	2014	2015
Year Recognized	2012	2013	2014	2015	2016
School Maintenance	5.26%	5.12%	5.93%	6.57%	7.38%
Community Service	1.29%	1.51%	1.80%	1.54%	1.67%
Debt Service	44.82%	46.01%	49.48%	43.46%	42.04%
Total	51.37%	52.65%	57.21%	51.57%	51.09%

Rates do not include the referendum rate which is spread on referendum market value. The referendum rate is shown on the following page.



INDEPENDENT SCHOOL DISTRICT NO. 885

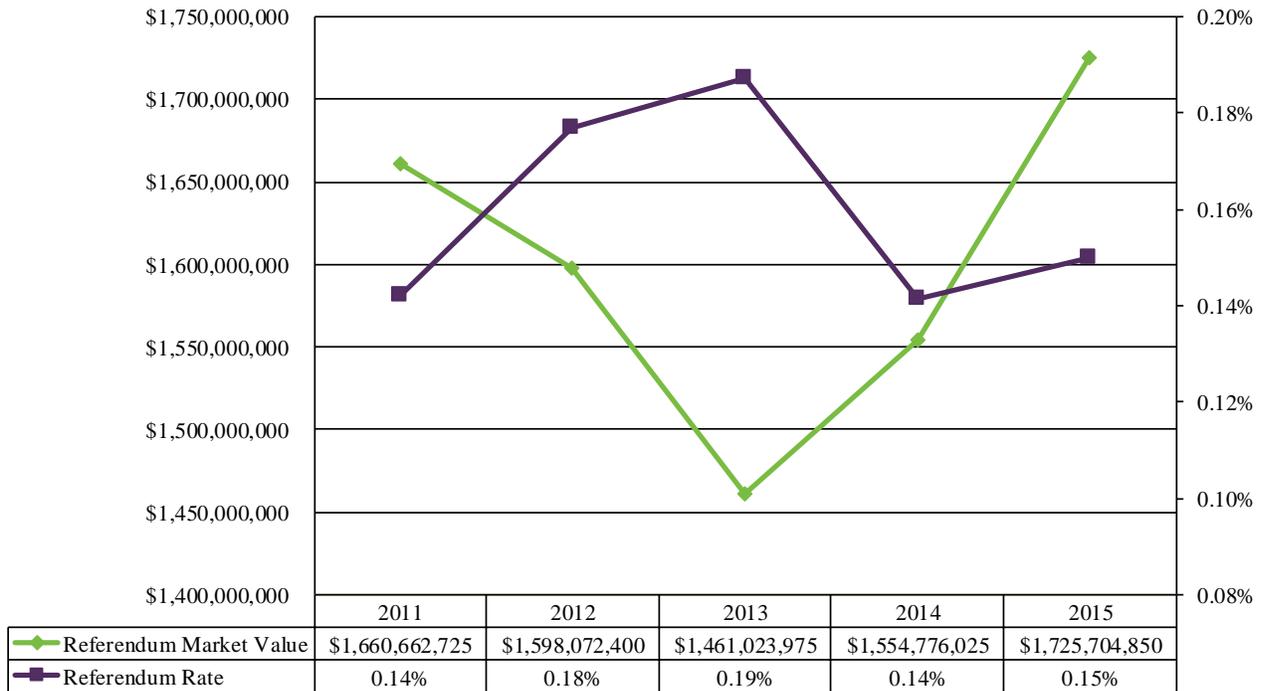
**FINANCIAL ANALYSIS
June 30, 2015**

REFERENDUM TAX RATE AND REFERENDUM MARKET VALUE

As shown in the table on the previous page, the certified property tax levy (excluding referendum) has decreased in each of the last five years. In 2014, the market value and tax capacity of overall properties in the District increased for the first time in several years, resulting in a decrease in the District's tax capacity rate. The market value showed another increase in 2015.

The following graph presents the District's referendum tax rate and referendum market value for tax levies for the levy certified in 2010, payable in 2011 through the levy certified in 2014 and payable in 2015.

Referendum Tax Rate and Referendum Market Value



INDEPENDENT SCHOOL DISTRICT NO. 885

FINANCIAL ANALYSIS

June 30, 2015

FOOD SERVICE FUND

The following table presents five years of comparative operating results for the Food Service Fund.

For the Year Ended June 30,	2011	2012	2013	2014	2015
Revenues	\$ 2,241,056	\$ 2,358,079	\$ 2,348,314	\$ 2,413,722	\$ 2,500,383
Expenditures	1,981,773	2,140,189	2,228,278	2,690,087	2,436,392
Excess of Revenues Over (Under) Expenditures	259,283	217,890	120,036	(276,365)	63,991
Fund Balance, July 1	991,788	1,251,071	1,468,961	1,588,997	1,312,632
Fund Balance, June 30	\$ 1,251,071	\$ 1,468,961	\$ 1,588,997	\$ 1,312,632	\$ 1,376,623

Overall, food service revenues increased 3.6% from 2014 to 2015, due to increased meals served with the increase in enrollment along with an increase in ala carte sales. Expenditures decreased 9.4% due to capital outlays for new service lines and remodeling in 2014. The fund finished the year with a 56.5% fund balance based on 2015 spending levels, as compared to 48.8% at the prior year-end.

COMMUNITY SERVICE FUND

The following table presents five years of comparative operating results for the Community Service Fund.

For the Year Ended June 30,	2011	2012	2013	2014	2015
Revenues	\$ 4,366,821	\$ 4,506,902	\$ 4,734,731	\$ 4,724,532	\$ 4,284,375
Expenditures	4,013,695	4,167,172	4,366,443	4,389,331	4,073,822
Excess of Revenues Over Expenditures	353,126	339,730	368,288	335,201	210,553
Fund Balance, July 1	82,395	435,521	775,251	1,143,539	1,478,740
Fund Balance, June 30	\$ 435,521	\$ 775,251	\$ 1,143,539	\$ 1,478,740	\$ 1,689,293

As the table indicates, 2015 fund revenues exceeded expenditures by \$ 210,553. The excess of revenues over expenditures resulted in the Community Service fund balance increasing by 14.2%, from \$ 1,478,740 at June 30, 2014 to \$ 1,689,293 at June 30, 2015.

Overall, community service revenues decreased \$ 440,175, or 9.3%, as a result of moving kindergarten activity to the general fund with the implementation of all-day kindergarten. Expenditures decreased \$ 315,509, or 7.2%, with moving kindergarten teachers to the General Fund as well as decreased salaries in Kids Play and the activity center relating to turnover.

Due to MDE regulations, the total Community Service Fund is segregated, or reserved, as follows: restricted for community education \$ 1,267,630, restricted for early childhood family and education \$ 171,101, restricted for school readiness \$ 12,902, and restricted for fund purpose \$ 237,660.

INDEPENDENT SCHOOL DISTRICT NO. 885

LEGISLATIVE SUMMARY

June 30, 2015

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

STATE AID APPROPRIATIONS

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

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

ENGLISH LEARNER REVENUE

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

COMPENSATORY REVENUE

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

STUDENT ACHIEVEMENT LEVY

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

OPERATING CAPITAL LEVY

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

LEARNING AND DEVELOPMENT

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

Q COMP

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

ALTERNATIVE TEACHER PAY

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

INDEPENDENT SCHOOL DISTRICT NO. 885

LEGISLATIVE SUMMARY

June 30, 2015

STAFF DEVELOPMENT

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

AMERICAN INDIAN EDUCATION AID

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

LONG-TERM FACILITIES MAINTENANCE REVENUE

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

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

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

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

MISCELLANEOUS LEVIES

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 885

LEGISLATIVE SUMMARY

June 30, 2015

LOCAL OPTIONAL REVENUE

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

ACCOUNTING

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

FINANCIAL REPORTING DATES

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

SPECIAL EDUCATION

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 885

LEGISLATIVE SUMMARY

June 30, 2015

CHARTER SCHOOLS

Charter Schools with extended time programs receive 25% of the state average per adjusted pupil unit beginning in 2016 – about \$19 per adjusted pupil unit.

Fee based Pre-K programs have been authorized. A school that provides a free Pre-K program may give enrollment preference to students in the program for the following years Kindergarten classes.

INDEPENDENT SCHOOL DISTRICT NO. 885

EMERGING ISSUES

June 30, 2015

Executive Summary

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

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

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

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

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

Effective Dates

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

Objective of OMB Grant Reform

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

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

INDEPENDENT SCHOOL DISTRICT NO. 885

EMERGING ISSUES

June 30, 2015

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

Objective of OMB Grant Reform (Continued)

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

Administrative Requirements – Subpart A-D of Federal Register

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

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

Internal Controls (Section 200.303)

Internal controls should comply with:

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

Internal controls must:

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

Procurement Standards (Sections 200.317 through 200.326)

Guidelines provide five different procurement methods

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

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

INDEPENDENT SCHOOL DISTRICT NO. 885

EMERGING ISSUES

June 30, 2015

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

Subrecipient Monitoring (Sections 200.330 through 200.332 and 200.521)

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

Cost Principles – Subpart E of Federal Register

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

Indirect/Direct Costs (Sections 200.413-200.414)

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

Time and Effort Reporting (Section 200.430)

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

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

Audit Requirements – Subpart F of Federal Register

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

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

INDEPENDENT SCHOOL DISTRICT NO. 885

EMERGING ISSUES

June 30, 2015

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

Other Items of Interest

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

Example of Strategy to Implement OMB Grant Reform Changes

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

Additional Resources on OMB Grant Reform

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 885

EMERGING ISSUES

June 30, 2015

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

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

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

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

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

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