

**Independent School District No. 885
Albertville, Minnesota**

Communications Letter

June 30, 2017



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 the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 885, Albertville, Minnesota, as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. 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 21, 2017, on such statements.

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.

Minneapolis, Minnesota
November 21, 2017

Independent School District No. 885
Material Weakness

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

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 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, on a timely basis. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**Independent School District No. 885
Other Deficiencies**

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.

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**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2017. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS* AND THE UNIFORM GUIDANCE

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

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 the Uniform Guidance.

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. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) 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.

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 audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

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

**Independent School District No. 885
Required Communication**

PLANNED SCOPE AND TIMING OF THE AUDIT

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

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

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the notes to financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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.

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.

**Independent School District No. 885
Required Communication**

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

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 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

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. 885
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>
2008	5,074	2.0%
2009	5,124	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%

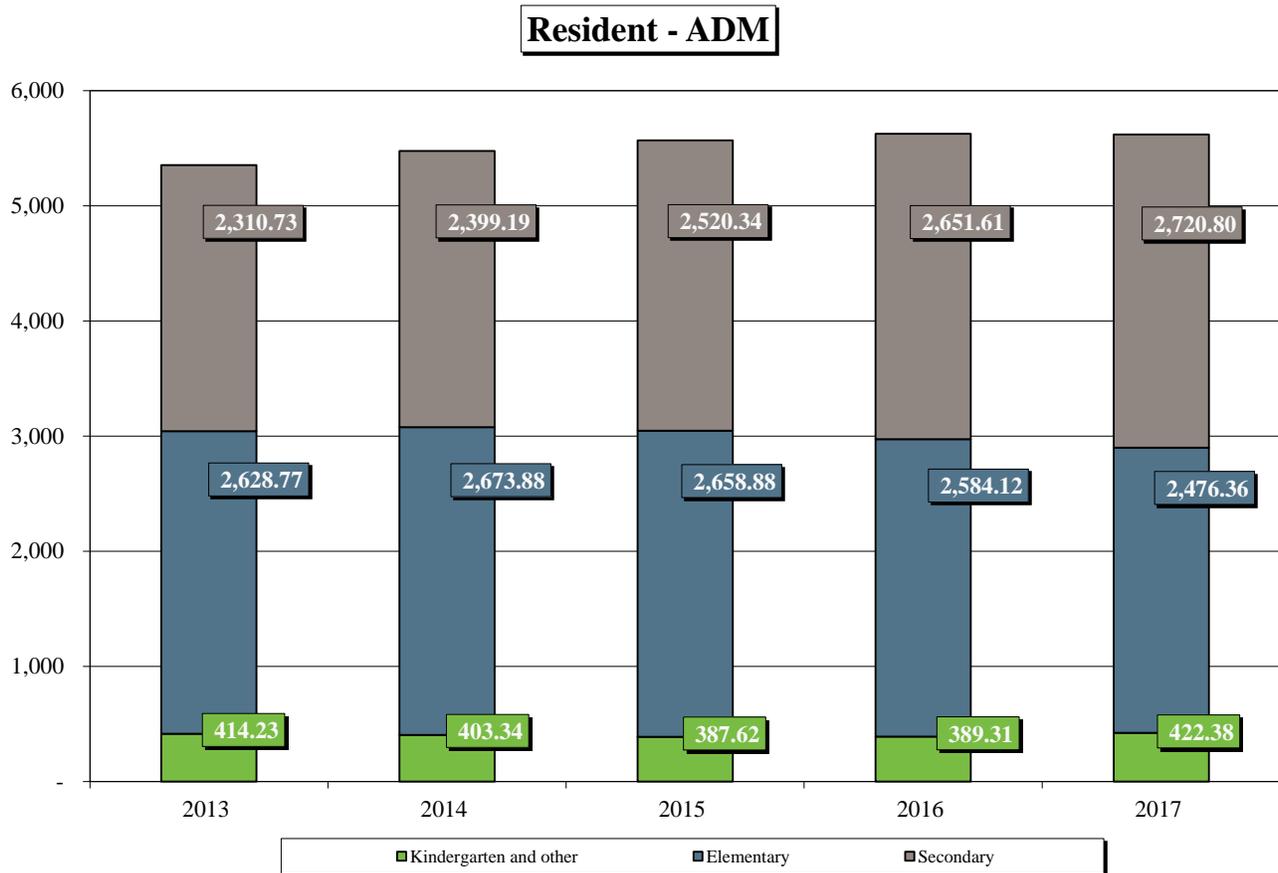
* General Education Aid - Of the \$529 increase over 2014, \$105 is for inflation at 1.9%; the remaining \$424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes, and other restructuring.

**Independent School District No. 885
Financial Analysis**

AVERAGE DAILY MEMBERSHIP

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

Resident ADM	2013	2014	2015	2016	2017
Kindergarten and other	414.23	403.34	387.62	389.31	422.38
Elementary	2,628.77	2,673.88	2,658.88	2,584.12	2,476.36
Secondary	2,310.73	2,399.19	2,520.34	2,651.61	2,720.80
Total Resident ADM	5,353.73	5,476.41	5,566.84	5,625.04	5,619.54



* Estimate

The chart and graph above demonstrate consistent increase of resident ADM in the years leading up to 2017, with 2017 reporting 5,619.54; a decrease of 5.5 ADM from 2016 and an increase of 265.81 ADM from 2013.

**Independent School District No. 885
Financial Analysis**

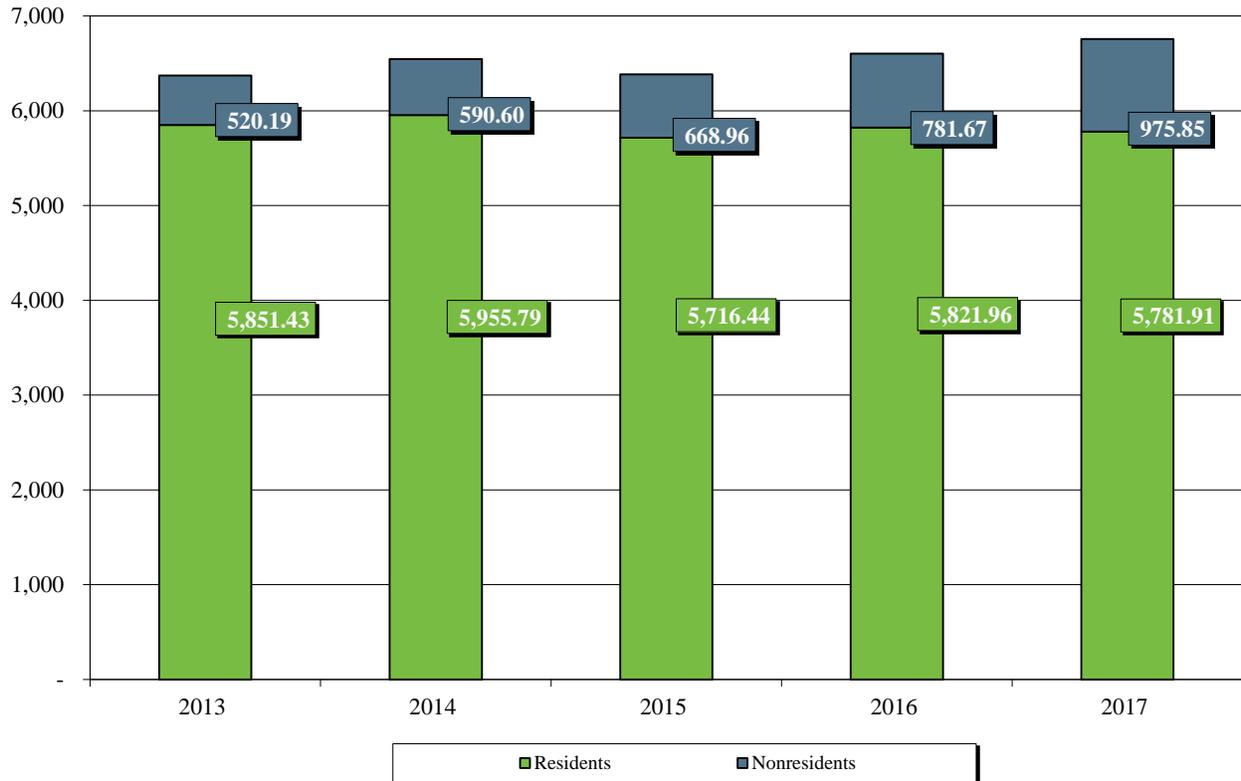
AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

	Kindergarten	Elementary (1-3/4-6)	Secondary
2013-2014	0.612	1.115/1.060	1.300
2015-2017	1.000	1.000	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.

Pupil Units	2013	2014	2015	2016	2017
Residents	6,139.86	6,293.07	6,070.45	6,155.22	6,162.21
Residents going elsewhere	(288.43)	(337.28)	(354.01)	(333.26)	(380.30)
Nonresidents coming in	520.19	590.60	668.96	781.67	975.85
Total Pupil Units Served	6,371.62	6,546.39	6,385.40	6,603.63	6,757.76

Students Served - PUN



* Estimate

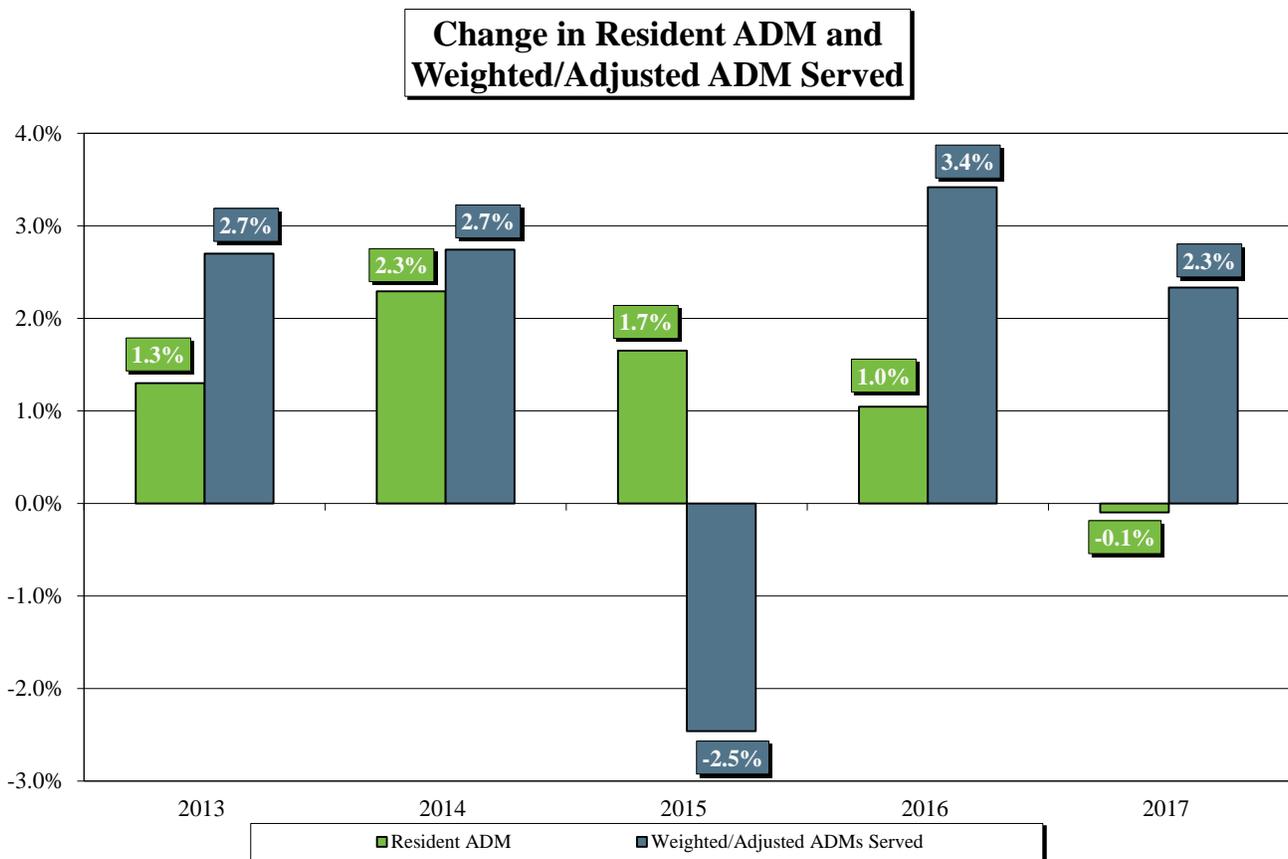
**Independent School District No. 885
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

Pupil units 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 pupil unit fluctuation. For each of the five years shown, the District has experienced a net gain of pupil units. This net gain has grown from 231.76 pupil units in 2013 to 595.55 in 2017. 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

**Independent School District No. 885
Financial Analysis**

GENERAL FUND BUDGET AND ACTUAL

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 3,942,778	\$ 3,953,702	\$ 3,885,797	\$ (67,905)
Revenue from state sources	49,827,342	50,534,826	51,951,553	1,416,727
Revenue from federal sources	505,129	428,449	402,058	(26,391)
Other local and county revenues	1,537,930	1,546,410	1,859,113	312,703
Sales and other conversion of assets	350,550	302,800	295,791	(7,009)
Total revenues	56,163,729	56,766,187	58,394,312	1,628,125
Expenditures				
Administration	1,784,211	1,807,384	1,794,471	(12,913)
District support services	1,160,842	1,166,540	1,109,216	(57,324)
Elementary and secondary regular instruction	30,086,266	30,140,938	30,178,952	38,014
Vocational education instruction	921,187	937,956	972,367	34,411
Special education instruction	6,011,553	6,325,667	6,313,855	(11,812)
Instructional support services	5,544,578	5,470,292	5,623,771	153,479
Pupil support services	3,817,525	4,115,739	4,255,459	139,720
Sites and buildings	6,257,363	6,304,167	6,698,623	394,456
Fiscal and other fixed cost programs	300,000	250,000	243,159	(6,841)
Total expenditures	55,883,525	56,518,683	57,189,873	671,190
Excess of revenues over expenditures	\$ 280,204	\$ 247,504	\$ 1,204,439	\$ 956,935

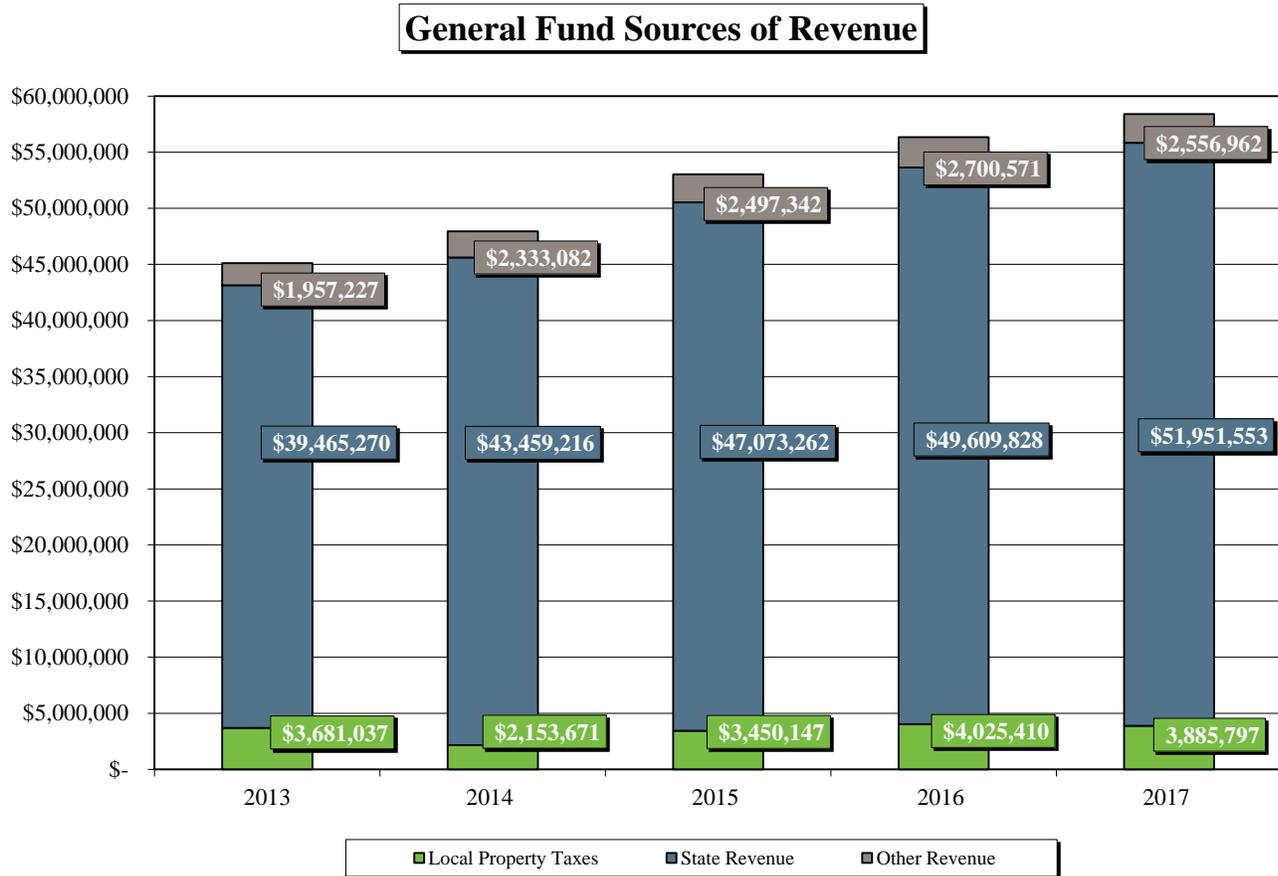
The table above outlines the District's final budget and actual results for the General Fund. Revenues were over budget \$1,628,125, or 2.9%. State revenues were over budget as a result of higher than anticipated student counts and higher than anticipated special education revenues. Other local and county revenues were over budget due to budgeting conservatively for student activities. All other sources of revenue were consistent with budgeted amounts.

Expenditures were over budget \$671,190, or 1.2%. The largest variance was in sites and buildings expenditures. This variance was due to district completing various projects, such as the pool project, nurses' office project, and addition of classrooms to the Middle School, that were not budgeted for.

Independent School District No. 885 Financial Analysis

GENERAL FUND SOURCES OF REVENUE

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



Total General Fund revenues of \$58,394,312 increased \$2,058,503 or 3.7%, from 2016, and increased \$13,290,778, or 29.5%, over the course of the five years presented.

State revenue, which makes up the largest percentage of the District's revenue at 88.9%, increased \$2,341,725 due to an increase in General Education Aid as a result of increases in ADM served and an increase in the formula allowance, as well as a new long-term facilities maintenance aid funding and an increase in special education entitlement. Local property taxes, which represent 6.7% of the District's revenues, decreased \$139,613 in 2017. Other revenue decreased \$143,609 from 2016 to 2017.

**Independent School District No. 885
Financial Analysis**

**Independent School District No. 885
Financial Analysis**

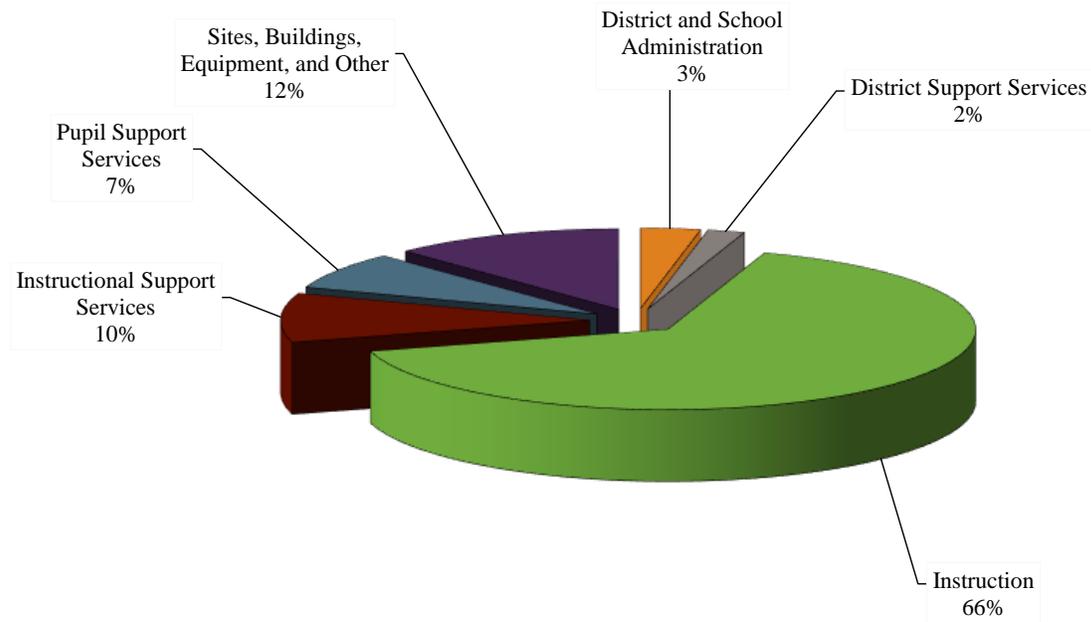
GENERAL FUND EXPENDITURES

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

General Fund Expenditures	2013	2014	2015	2016	2017
District and school administration	\$ 1,512,478	\$ 1,551,213	\$ 1,647,819	\$ 1,729,476	\$ 1,794,471
District support services	618,988	666,161	940,031	1,025,896	1,109,216
Instruction	29,078,692	30,134,328	32,693,060	35,558,080	37,465,174
Instructional support services	4,140,359	4,984,543	5,071,044	5,456,131	5,623,771
Pupil support services	3,377,040	3,281,395	3,272,091	3,809,196	4,255,459
Sites, buildings, equipment and other	5,804,401	6,193,213	6,579,388	6,132,078	6,941,782
Total	\$ 44,531,958	\$ 46,810,853	\$ 50,203,433	\$ 53,710,857	\$ 57,189,873

Total General Fund expenditures increased by \$3,479,016, or 6.5%, from 2016 to 2017. The increase in General Fund expenditures 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 2017 represents approximately 66% of total General Fund expenditures.

**Independent School District No. 885
Financial Analysis**

REVENUES AND EXPENDITURES PER ADM SERVED

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

District	2013	2014	2015	2016	2017
General fund	\$ 8,039	\$ 8,347	\$ 8,990	\$ 9,277	\$ 9,383
Food service	419	420	424	443	457
Community service	844	822	726	792	784
Building construction	-	-	1	-	-
Debt service	2,295	2,372	2,417	2,226	2,100
Total Revenues Per Student	\$ 11,597	\$ 11,961	\$ 12,558	\$ 12,738	\$ 12,724

State-Wide Average (All Districts) **	2013	2014	2015	2016	2017
General fund	\$ 10,698	\$ 11,000	\$ 11,614	\$ 12,047	N/A
Food service	493	499	517	543	N/A
Community service	530	531	525	562	N/A
Building construction	104	73	94	108	N/A
Debt service	1,099	1,034	1,002	991	N/A
Fund Balance, June 30	\$ 12,924	\$ 13,137	\$ 13,752	\$ 14,251	\$ -

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

District	2013	2014	2015	2016	2017
General fund	\$ 7,937	\$ 8,149	\$ 8,512	\$ 8,845	\$ 9,190
Food service	397	468	413	450	466
Community service	778	764	691	737	761
Building construction	16	8	1	-	-
Debt service	2,281	2,318	2,429	11,644	2,184
Total	\$ 11,409	\$ 11,707	\$ 12,046	\$ 21,676	\$ 12,601

State-Wide Average (Districts 4000 ADM +)	2013	2014	2015	2016	2017
General fund	\$ 10,968	\$ 11,266	\$ 11,821	\$ 11,956	N/A
Food service	495	509	523	539	N/A
Community service	619	633	612	550	N/A
Building construction	643	801	982	1,405	N/A
Debt service	1,223	1,540	1,465	1,433	N/A
Total	\$ 13,948	\$ 14,749	\$ 15,403	\$ 15,883	\$ -

Source: 2013 – 2016 – *School District Profiles*

Source: 2017 – Estimate, as final numbers are not available

Independent School District No. 885
Financial Analysis

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,	2013	2014	2015	2016	2017
Revenues	\$ 45,103,534	\$ 47,945,969	\$ 53,020,751	\$ 56,335,809	\$ 58,394,312
Expenditures	44,531,958	46,810,853	50,203,433	53,710,857	57,189,873
Excess of revenues over expenditures	571,576	1,135,116	2,817,318	2,624,952	1,204,439
Prior period adjustment	-	-	-	-	-
Less transfers out	-	-	(1,956)	-	-
Fund balance, July 1	8,541,461	9,113,037	10,248,153	13,063,515	15,688,467
Fund Balance, June 30	\$ 9,113,037	\$ 10,248,153	\$ 13,063,515	\$ 15,688,467	\$ 16,892,906

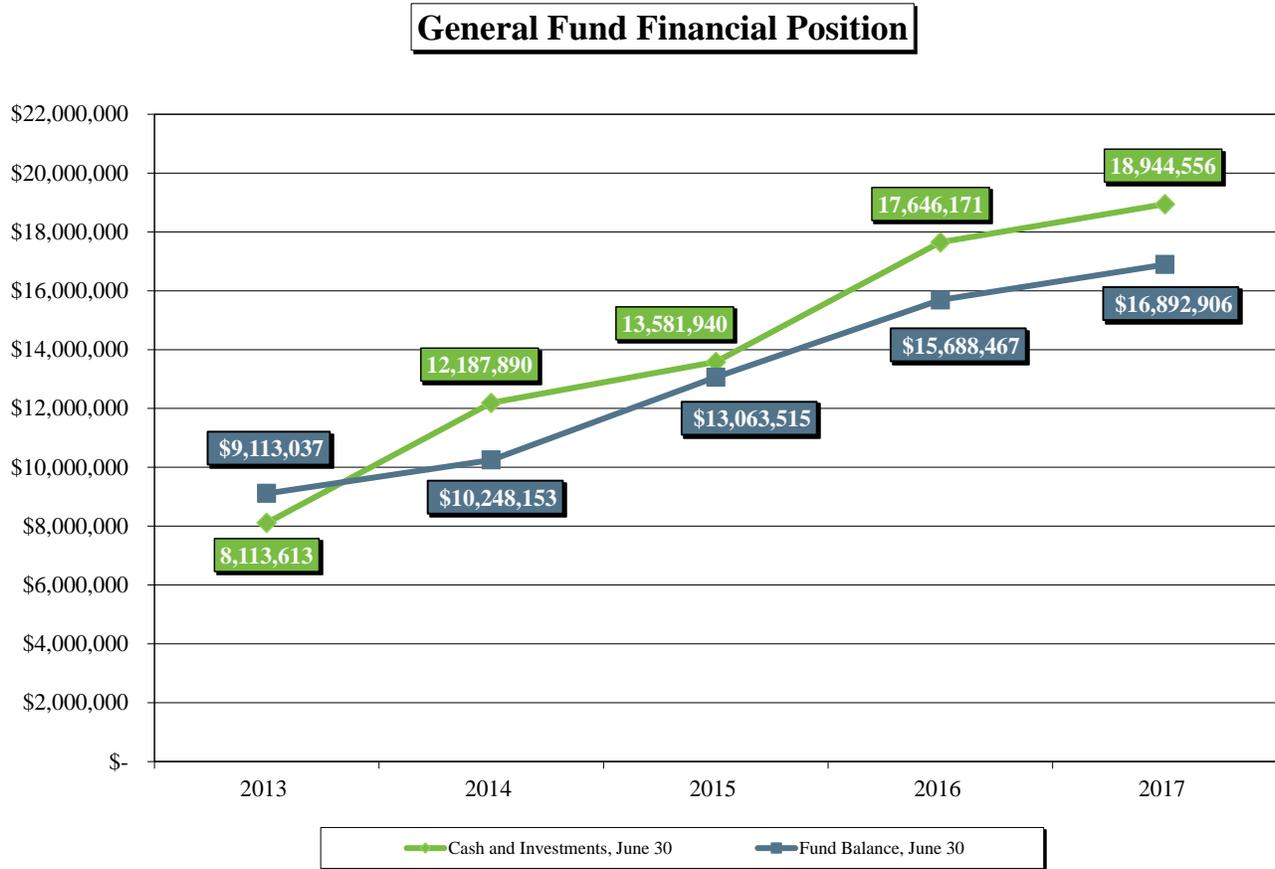
For the Year Ended June 30,	2013	2014	2015	2016	2017
Nonspendable for					
Prepaid items	\$ 213,165	\$ 112,231	\$ 83,780	\$ 90,505	\$ 81,378
Restricted for					
Staff development	-	-	255,279	519,157	770,557
Health and safety	(70,803)	(155,169)	(281,242)	-	-
Deferred maintenance	205,777	207,163	162,842	165,002	-
Operating capital	1,689,872	1,129,156	1,079,056	1,068,553	862,583
Safe school - crime	-	9,346	28,117	61,822	91,262
Long-term facilities maintenance	-	-	-	-	196,416
Medical assistance	-	-	-	-	252,215
Committed for					
Separation benefits	55,375	53,500	44,625	31,125	33,250
Assigned					
Student activities	285,620	291,183	313,595	336,370	327,582
Staff development	137,531	100,884	100,884	84,597	54,424
Q Comp	-	-	164,985	357,186	196,670
Medical assistance	-	-	126,585	185,753	-
Insurance claims	18,466	36,932	55,398	73,864	92,330
Unassigned	6,578,034	8,462,927	10,929,611	12,714,533	13,934,239
Fund Balance, June 30	\$ 9,113,037	\$ 10,248,153	\$ 13,063,515	\$ 15,688,467	\$ 16,892,906

From 2016 to 2017, revenues increased 3.7% and expenditures increased 6.5%. Revenues exceeded expenditures each year presented allowing the fund balance to increase.

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, 2017, unassigned General Fund balance was equal to 2.9 months of operating expenditures.

Independent School District No. 885 Financial Analysis

GENERAL FUND FINANCIAL POSITION



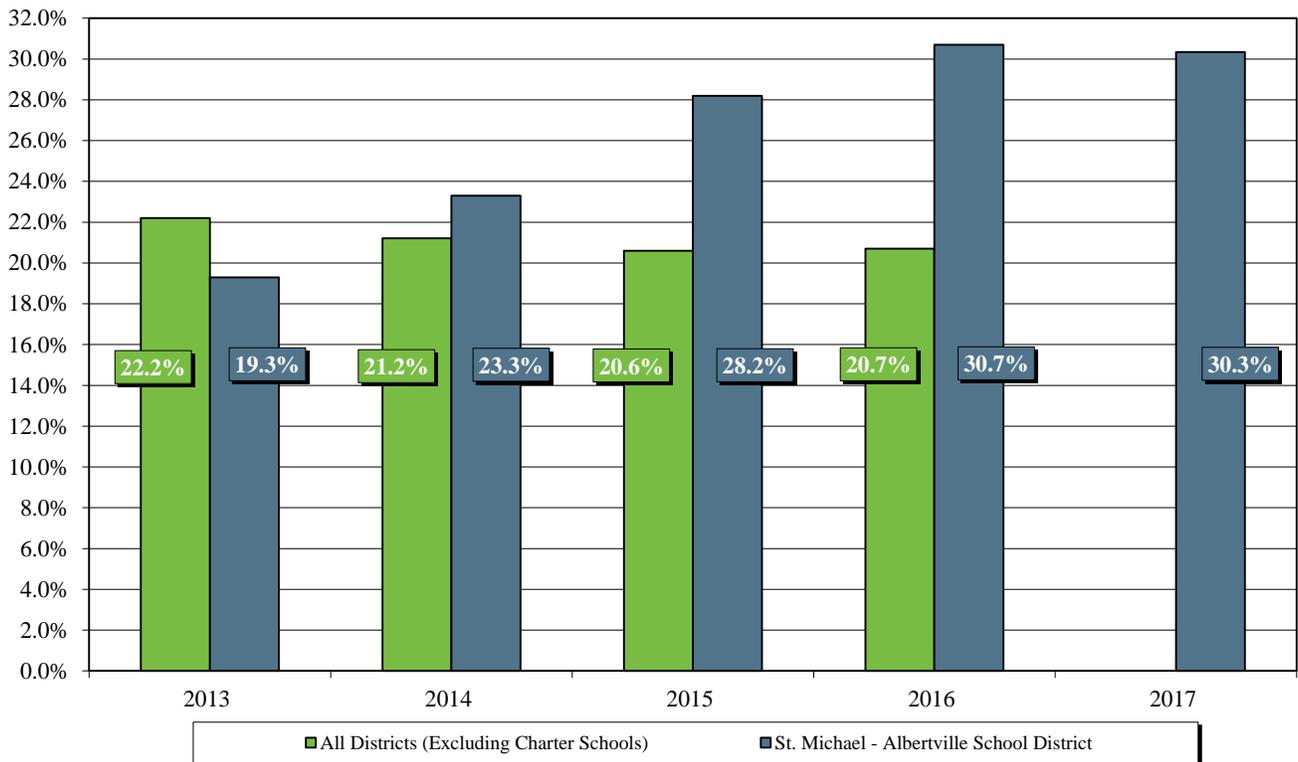
The graph above outlines the cash and investments (net of borrowing) and the fund balance for the General Fund for the past five years. A healthy fund balance allows the District to maintain a positive operating cash position when expenditures are timed prior to the receipt of significant revenues, including state aid and local property tax levies. The state paid aids 86% in 2013, and 90% in 2014 through 2017.

**Independent School District No. 885
Financial Analysis**

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 2003-2016*. Fiscal year 2017 information is not available.

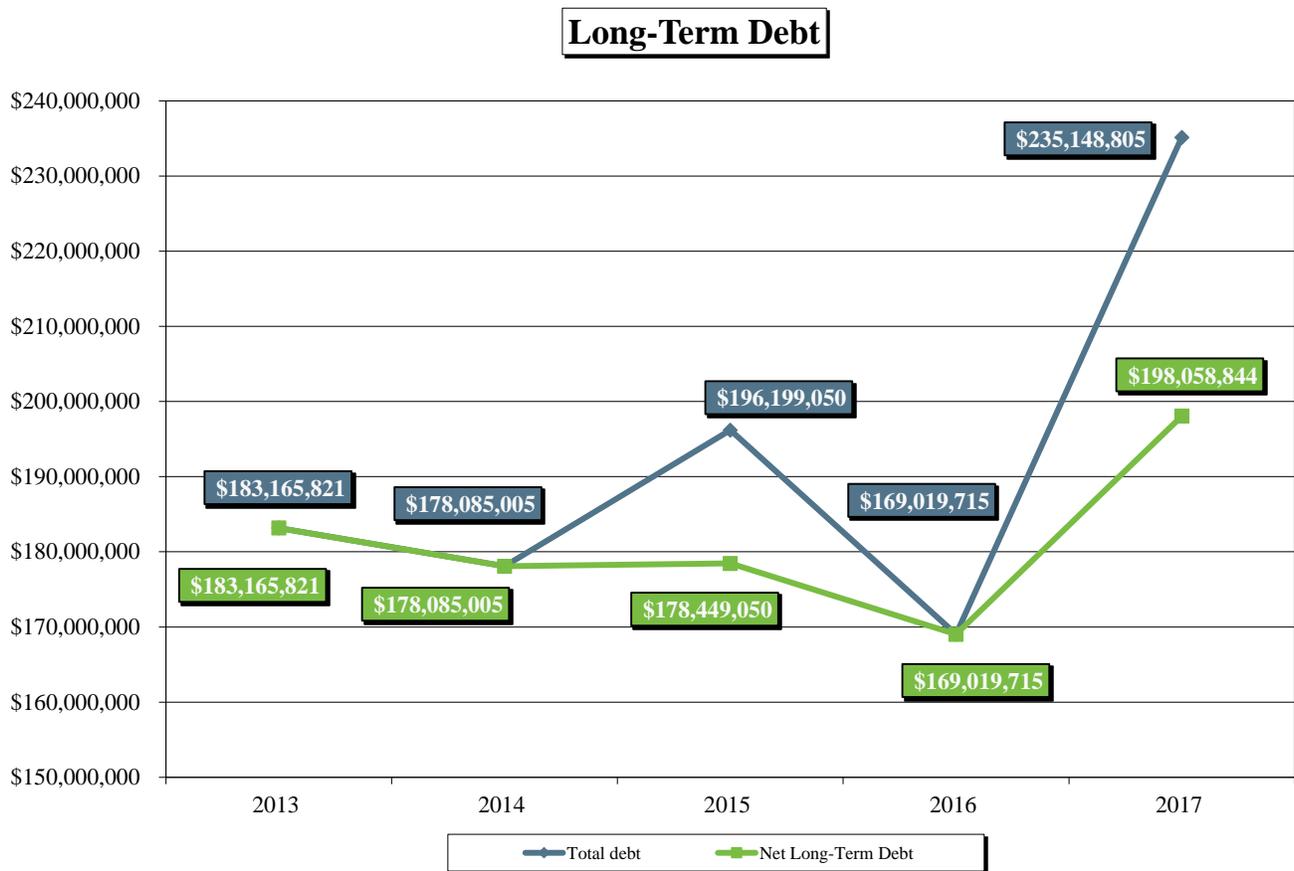
** 2017 calculation based on 2017 UFARS Compliance Report.

Independent School District No. 885 Financial Analysis

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	2013	2014	2015	2016	2017
Bonds and leases payable	\$ 181,696,361	\$ 176,180,652	\$ 193,908,361	\$ 166,371,566	\$ 232,109,287
Severance benefits payable and net OPEB	1,469,460	1,904,353	2,290,689	2,648,149	3,039,518
Total debt	183,165,821	178,085,005	196,199,050	169,019,715	235,148,805
Escrow reserved for debt retirement	-	-	(17,750,000)	-	(37,089,961)
Net Long-Term Debt	\$ 183,165,821	\$ 178,085,005	\$ 178,449,050	\$ 169,019,715	\$ 198,058,844



During the year, the District made payments of \$7.38 million in scheduled principal payments.

**Independent School District No. 885
Financial Analysis**

TAX LEVIES AND TAX CAPACITY RATES

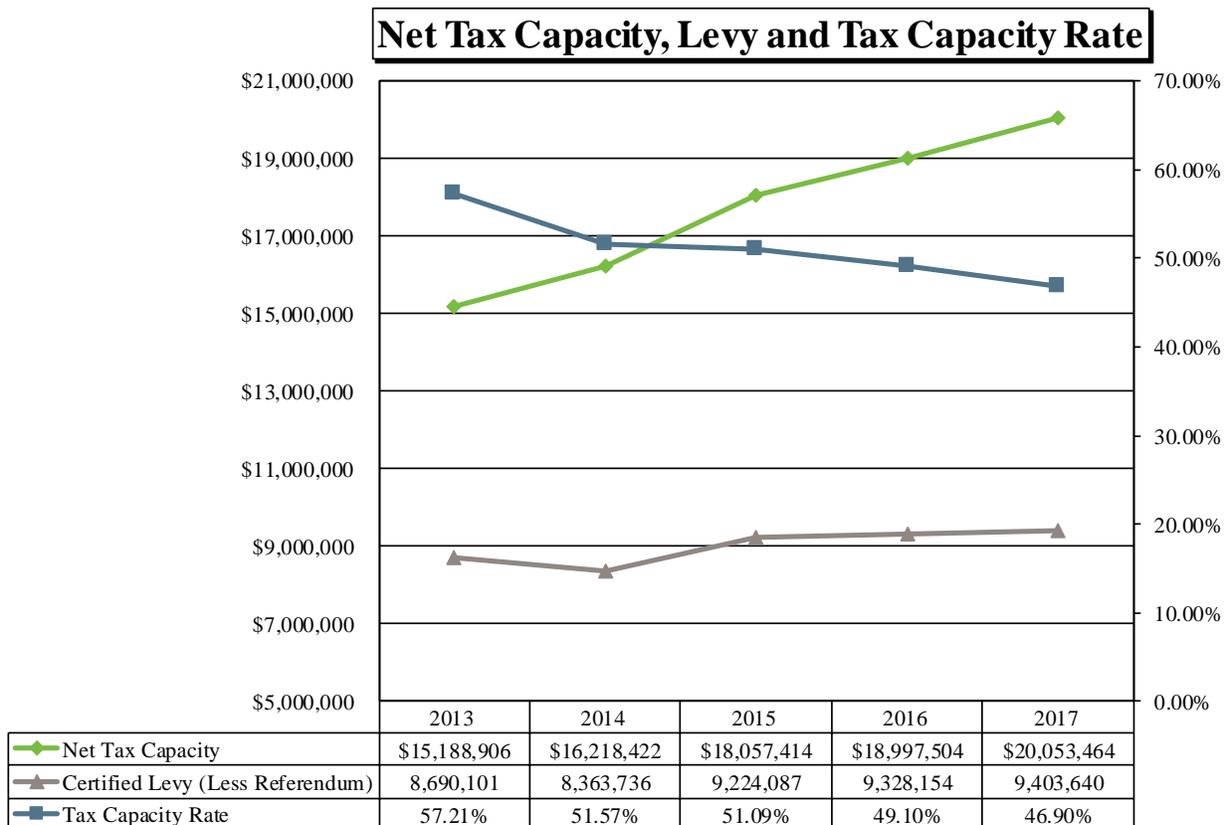
The following tables present the District's tax levies for the levy certified in 2012, payable in 2013 through the levy certified in 2016 and payable in 2017.

Certified Levy Payable Year Recognized	2012 2013 2014	2013 2014 2015	2014 2015 2016	2015 2016 2017	2016 2017 2018
Referendum	\$ 2,736,726	\$ 2,196,224	\$ 2,579,929	\$ 2,601,715	\$ 3,090,537
School maintenance	901,368	1,065,641	1,331,914	1,250,985	1,255,198
Community service	273,105	249,888	301,378	312,509	306,577
Debt service	7,515,628	7,048,207	7,590,795	7,764,660	7,841,865
Total	\$ 11,426,827	\$ 10,559,960	\$ 11,804,016	\$ 11,929,869	\$ 12,494,177

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

Certified Levy Payable Year Recognized	2012 2013 2014	2013 2014 2015	2014 2015 2016	2015 2016 2017	2016 2017 2018
School maintenance	5.93%	6.57%	7.38%	6.59%	6.26%
Community service	1.80%	1.54%	1.67%	1.65%	1.53%
Debt service	49.48%	43.46%	42.04%	40.87%	39.11%
Total	57.21%	51.57%	51.09%	49.10%	46.90%

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



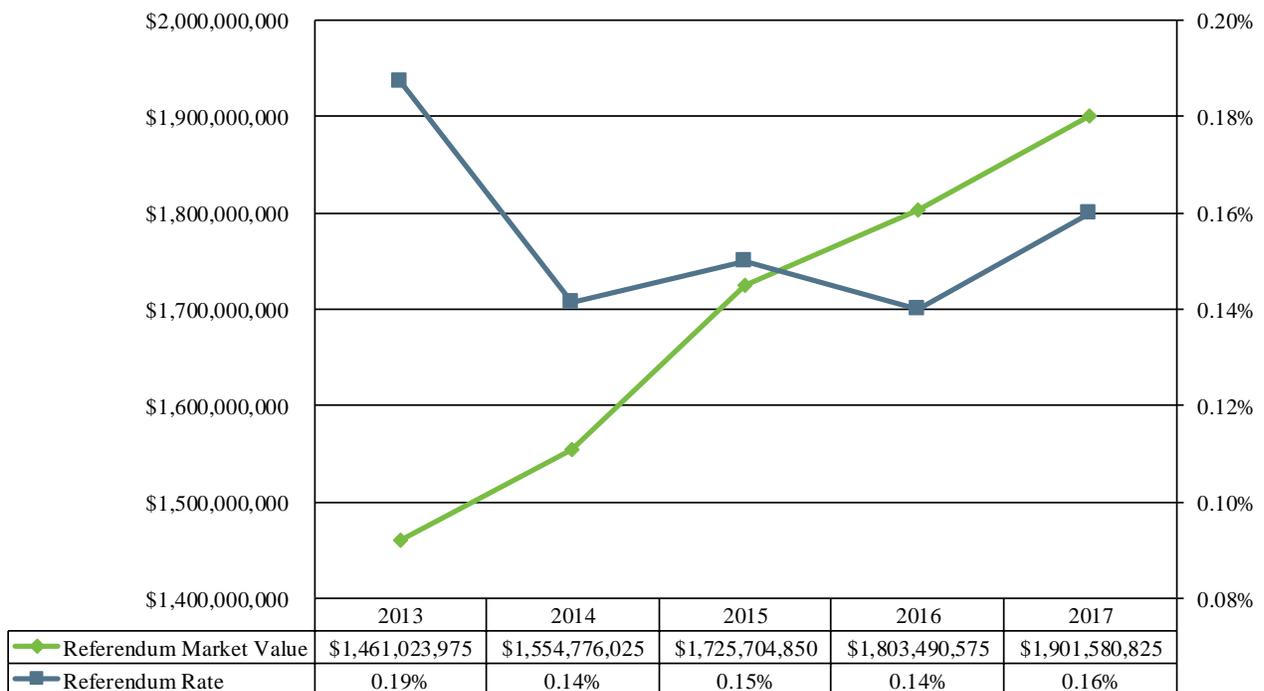
**Independent School District No. 885
Financial Analysis**

REFERENDUM TAX RATE AND REFERENDUM MARKET VALUE

As shown in the table on the previous page, the certified property tax levy (excluding referendum) decreased from 2013 to 2014 and increased in each of the last three 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 additional increases from 2015 to 2017.

The following graph presents the District's referendum tax rate and referendum market value for tax levies for the levy certified in 2012, payable in 2013 through the levy certified in 2016, payable in 2017.

Referendum Tax Rate and Referendum Market Value



**Independent School District No. 885
Financial Analysis**

FOOD SERVICE FUND

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

For the Year Ended June 30,	2013	2014	2015	2016	2017
Revenues	\$ 2,348,314	\$ 2,413,722	\$ 2,500,383	\$ 2,689,045	\$ 2,844,894
Expenditures	2,228,278	2,690,087	2,436,392	2,735,230	2,898,668
Excess of revenues over (under) expenditures	120,036	(276,365)	63,991	(46,185)	(53,774)
Other Financing Sources	-	-	-	-	9,000
Fund balance, July 1	1,468,961	1,588,997	1,312,632	1,376,623	1,330,438
Fund Balance, June 30	\$ 1,588,997	\$ 1,312,632	\$ 1,376,623	\$ 1,330,438	\$ 1,285,664

Overall, food service revenues increased 5.8% from 2016 to 2017, due to increased meals served with the increase in enrollment. Expenditures increased 6.0% due to increased kitchen staff and increased food costs with the additional meals served. The fund finished the year with a 44.4% fund balance based on 2017 spending levels, as compared to 48.6% 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,	2013	2014	2015	2016	2017
Revenues	\$ 4,734,731	\$ 4,724,532	\$ 4,284,375	\$ 4,811,198	\$ 4,876,268
Expenditures	4,366,443	4,389,331	4,073,822	4,474,038	4,735,453
Excess of revenues over expenditures	368,288	335,201	210,553	337,160	140,815
Fund balance, July 1	775,251	1,143,539	1,478,740	1,689,293	2,026,453
Fund Balance, June 30	\$ 1,143,539	\$ 1,478,740	\$ 1,689,293	\$ 2,026,453	\$ 2,167,268

For the Year Ended June 30,	2013	2014	2015	2016	2017
Nonspendable	\$ 400	\$ -	\$ -	\$ -	\$ -
Restricted for					
Community education	945,163	1,167,472	1,267,630	1,479,284	1,581,492
ECFE	(11,032)	74,759	171,101	277,785	348,864
School readiness	14,549	21,724	12,902	4,204	(33,752)
Community service	194,459	214,785	237,660	265,180	270,664
Fund Balance, June 30	\$ 1,143,539	\$ 1,478,740	\$ 1,689,293	\$ 2,026,453	\$ 2,167,268

As the table indicates, 2017 fund revenues exceeded expenditures by \$140,815. The excess of revenues over expenditures resulted in the Community Service fund balance increasing by 7.0%, from \$2,026,453 at June 30, 2016 to \$2,167,268 at June 30, 2017.

Overall, community service revenues increased \$65,070, or 1.4%, as a result of increased school readiness funding and participation in the daycare programming. Expenditures increased \$261,415, or 5.8%, with the increase in programming, primarily consisting of increases in staffing.

Independent School District No. 885 Legislative Summary

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

STATE AID APPROPRIATIONS

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

COMPENSATORY REVENUE

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

STUDENT ACHIEVEMENT LEVY

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

LEAD IN SCHOOL DRINKING WATER

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

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

PAYMENTS TO NONOPERATING FUNDS

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

SCHOOL BUILDING BOND AGRICULTURAL CREDIT

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

**Independent School District No. 885
Legislative Summary**

LONG-TERM FACILITIES MAINTENANCE REVENUE

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

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

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

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

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

EQUITY REVENUE

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

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

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

SPECIAL EDUCATION

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

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

FOUR DAY WEEKS

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

Independent School District No. 885 Legislative Summary

NONPUBLIC PUPIL AID

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

VOLUNTARY PREKINDERGARTEN

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

HOME VISITING REVENUE

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

PUPIL TRANSPORTATION FUNDING

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

REVIEW AND COMMENT

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

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

NEW FINANCE CODES

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

SPECIAL ELECTIONS

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

Independent School District No. 885
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 update includes:

- **Accounting Standard Update – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – GASB Statement No. 75 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 is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss this issue with you further and their applicability to your district.

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

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

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

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

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.

Independent School District No. 885
Emerging Issues

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

- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.
- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

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

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

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