

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

**Communications Letter**

**June 30, 2018**



**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, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial statements, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows: reasonably possible – the change of the future event or events occurring is more than remote but less than likely; probable – the future event or events are likely to occur. The material weaknesses identified 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.

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 Entity's written response to the material weakness identified in our audit has not been subjected to audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 26, 2018, 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 26, 2018

**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**  
**Other Deficiency**

**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. Class reconciliations should be submitted to the business office for review. 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, 2018. Professional standards require that we advise you of the following matters related to our audit.

**OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT**

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

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.

**COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE**

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

**QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES**

Management has the responsibility to select and use of appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2018. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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.

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

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

**QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)**

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.

**SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT**

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

**UNCORRECTED AND CORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transaction, account balances or disclosures, and the financial statements as a whole. We identified the following uncorrected misstatement of the financial statements. Management has determined its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- State aid receivables and revenues are overstated

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

- Contracts payable, capital outlay expenditures, and capital assets

**DISAGREEMENTS WITH MANAGEMENT**

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

**REPRESENTATIONS REQUESTED FROM MANAGEMENT**

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

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

**MANAGEMENT’S CONSULTATIONS WITH OTHER ACCOUNTANTS**

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

**OTHER SIGNIFICANT MATTERS, FINDINGS, OR ISSUES**

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

**OTHER MATTERS**

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

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Independent School District No. 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>
2009	\$ 5,124.00	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%

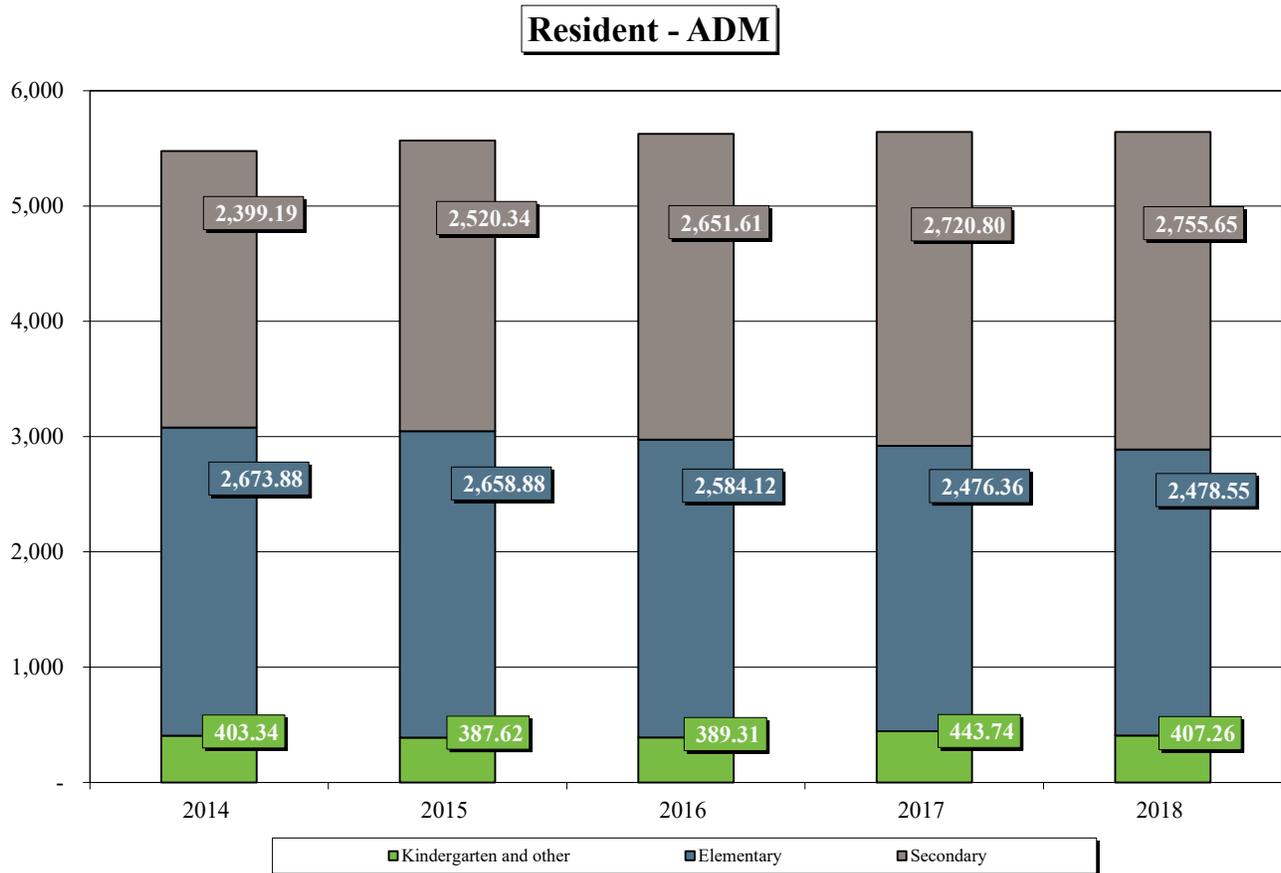
\* General Education Aid - Of the \$529 increase over 2014, \$105 is for inflation at 1.9%; the remaining \$424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes, and other restructuring.

## Independent School District No. 885 Financial Analysis

### AVERAGE DAILY MEMBERSHIP

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

Resident ADM	2014	2015	2016	2017	2018
Kindergarten and other	403.34	387.62	389.31	443.74	407.26
Elementary	2,673.88	2,658.88	2,584.12	2,476.36	2,478.55
Secondary	2,399.19	2,520.34	2,651.61	2,720.80	2,755.65
<b>Total Resident ADM</b>	<b>5,476.41</b>	<b>5,566.84</b>	<b>5,625.04</b>	<b>5,640.90</b>	<b>5,641.46</b>



\* Estimate

The chart and graph above demonstrate consistent increase of resident ADM in the years leading up to 2018, with 2018 reporting 5,641.46; an increase of 0.6 ADM from 2017 and an increase of 165.05 ADM from 2014.

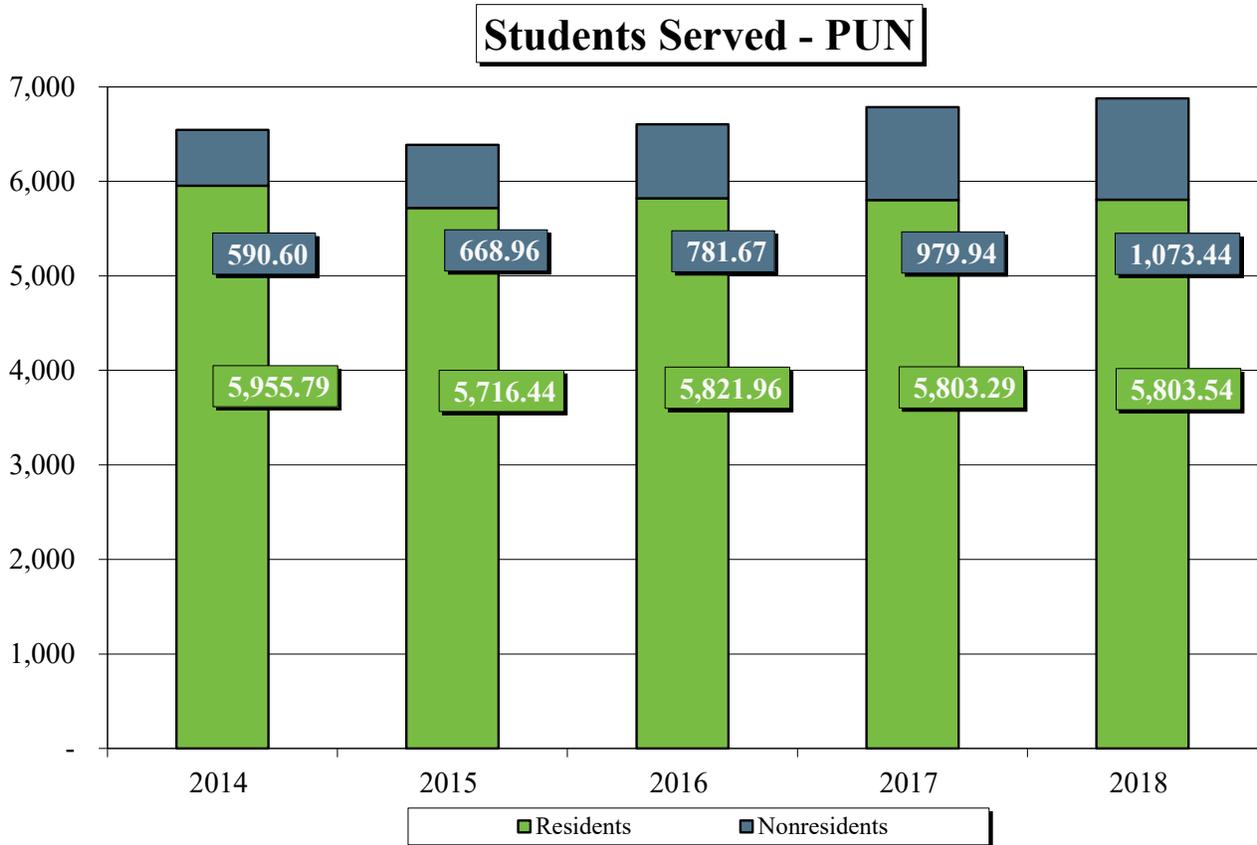
**Independent School District No. 885  
Financial Analysis**

**AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS**

	Kindergarten	Elementary (1-3/4-6)	Secondary
2014	0.612	1.115/1.060	1.300
2015-2018	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.

<b>Pupil Units</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Residents	6,293.07	6,070.45	6,155.22	6,183.57	6,192.14
Residents going elsewhere	(337.28)	(354.01)	(333.26)	(380.28)	(388.60)
Nonresidents coming in	590.60	668.96	781.67	979.94	1,073.44
<b>Total Pupil Units Served</b>	<b>6,546.39</b>	<b>6,385.40</b>	<b>6,603.63</b>	<b>6,783.23</b>	<b>6,876.98</b>



\* Estimate

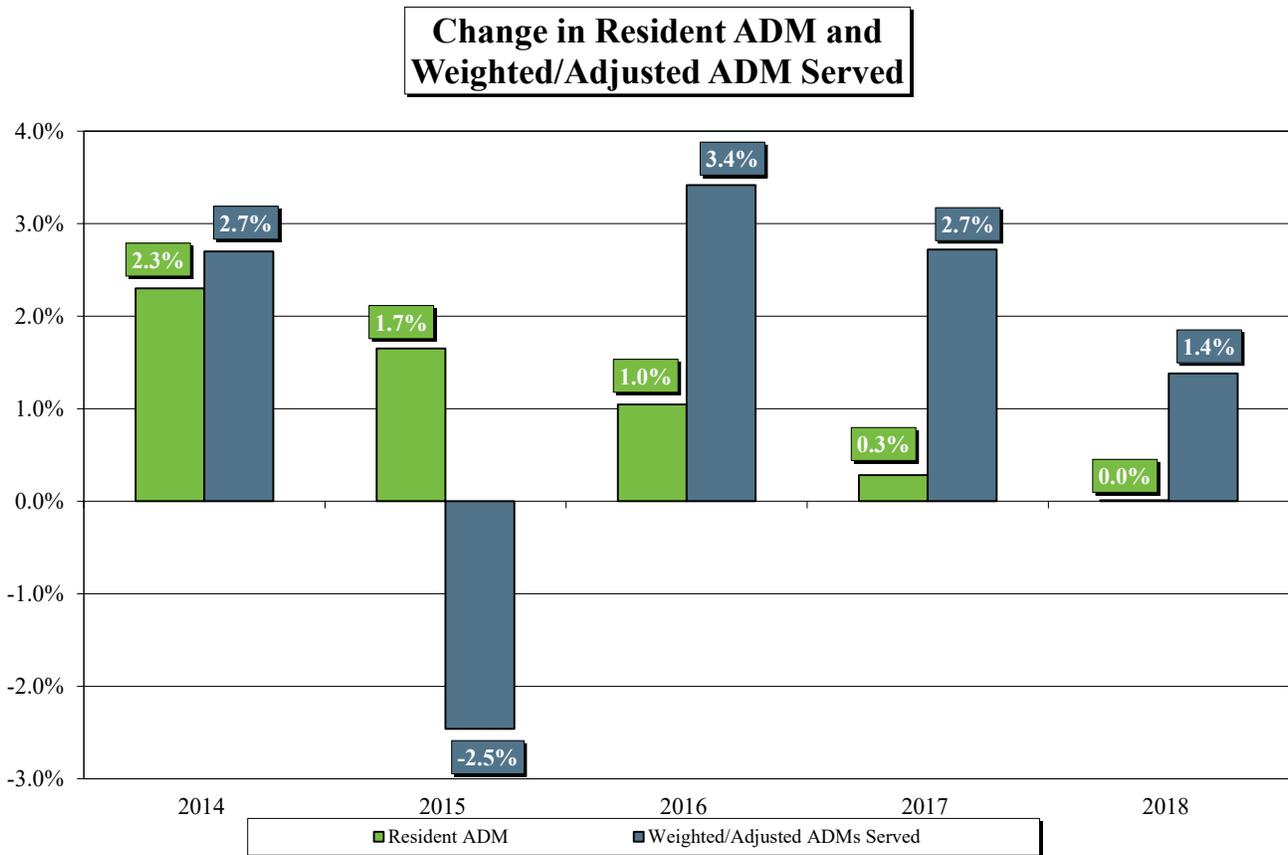
## Independent School District No. 885 Financial Analysis

### 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 253.32 pupil units in 2014 to 684.84 in 2018. 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		
<b>Revenues</b>				
Local property taxes	\$4,444,381	\$4,444,381	\$4,414,103	\$ (30,278)
Revenue from state sources	52,455,673	53,767,692	54,437,662	669,970
Revenue from federal sources	391,336	442,198	382,133	(60,065)
Other local and county revenues	1,701,614	1,800,399	2,137,131	336,732
Sales and other conversion of assets	319,765	320,565	310,628	(9,937)
<b>Total revenues</b>	<b>59,312,769</b>	<b>60,775,235</b>	<b>61,681,657</b>	<b>906,422</b>
<b>Expenditures</b>				
Administration	1,748,878	1,805,917	1,792,330	(13,587)
District support services	1,114,595	1,249,887	1,243,599	(6,288)
Elementary and secondary regular instruction	31,249,215	32,014,208	32,672,977	658,769
Vocational education instruction	800,610	779,514	757,897	(21,617)
Special education instruction	6,642,767	6,840,366	6,955,449	115,083
Instructional support services	6,016,184	6,007,434	5,929,752	(77,682)
Pupil support services	4,517,778	4,371,475	4,582,319	210,844
Sites and buildings	6,701,817	7,257,467	7,811,821	554,354
Fiscal and other fixed cost program	275,000	250,000	246,006	(3,994)
<b>Total expenditures</b>	<b>59,066,844</b>	<b>60,576,268</b>	<b>61,992,150</b>	<b>1,415,882</b>
Excess of revenues over (under) expenditures	245,925	198,967	(310,493)	(509,460)
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	-	-	35	35
Capital lease issuance	-	-	444,424	444,424
<b>Total other financing sources</b>	<b>-</b>	<b>-</b>	<b>444,459</b>	<b>444,459</b>
<b>Net change in fund balance</b>	<b>\$ 245,925</b>	<b>\$ 198,967</b>	<b>\$ 133,966</b>	<b>\$ (65,001)</b>

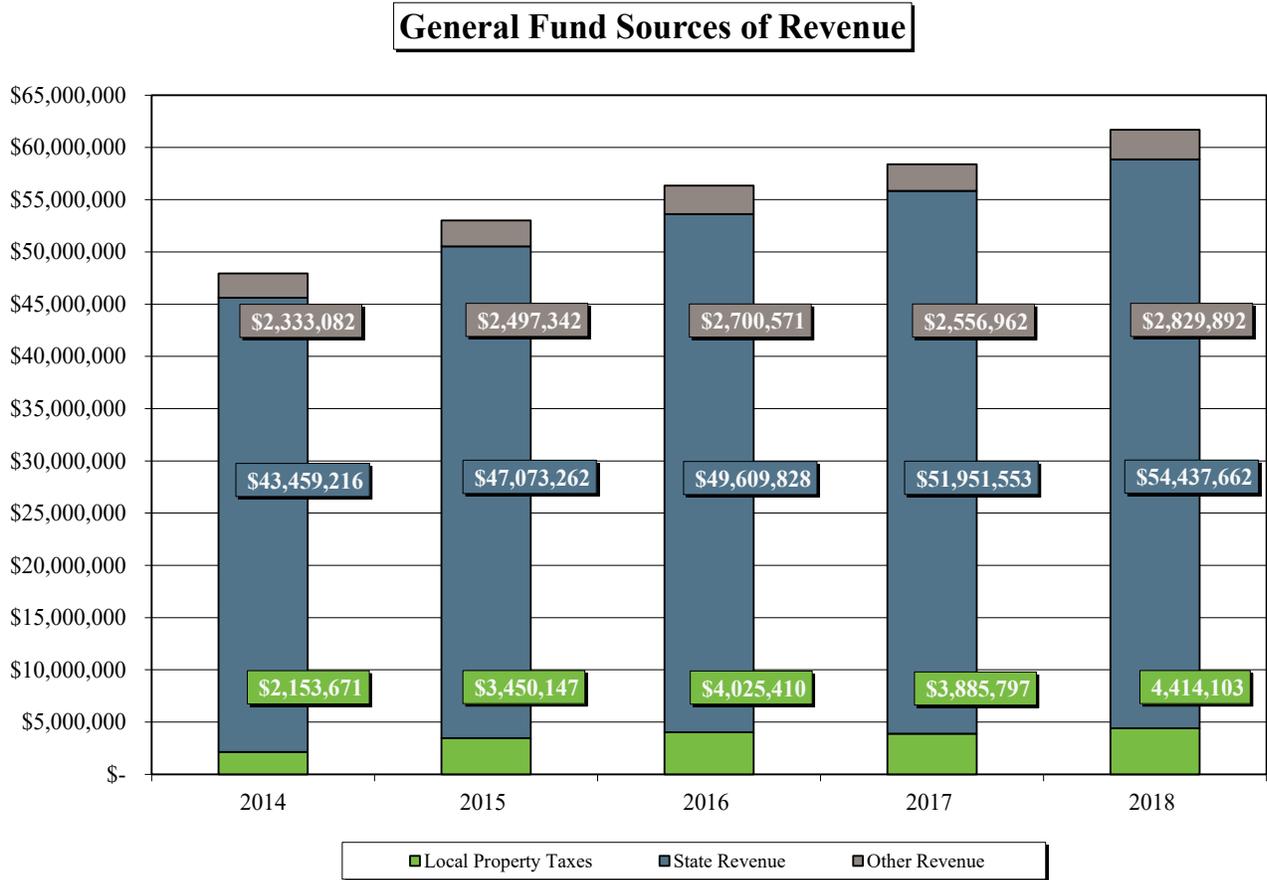
The table above outlines the District's final budget and actual results for the General Fund. Revenues were over budget \$906,422, or 1.5%. State revenues were over budget as a result of higher than anticipated student counts and higher than anticipated special education revenues. Other local and county 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 \$1,415,882, or 2.3%. The largest variance was in elementary and secondary regular instruction expenditures. This variance was due to scoreboard purchases, these items were not budgeted, the expenditures were offset with capital lease proceeds.

## 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 \$61,681,657 increased \$3,287,345 or 5.6%, from 2017, and increased \$13,735,688, or 28.6%, over the course of the five years presented.

State revenue, which makes up the largest percentage of the District's revenue at 88.3%, increased \$2,486,109 due to an increase in General Education Aid as a result of increases in ADM served and an increase in the formula allowance, increased LTFM funding, as well as an increase in special education entitlement. Local property taxes, which represent 7.2% of the District's revenues, increased \$528,306 in 2018. Other revenue increased \$272,930 from 2017 to 2018.

## Independent School District No. 885 Financial Analysis

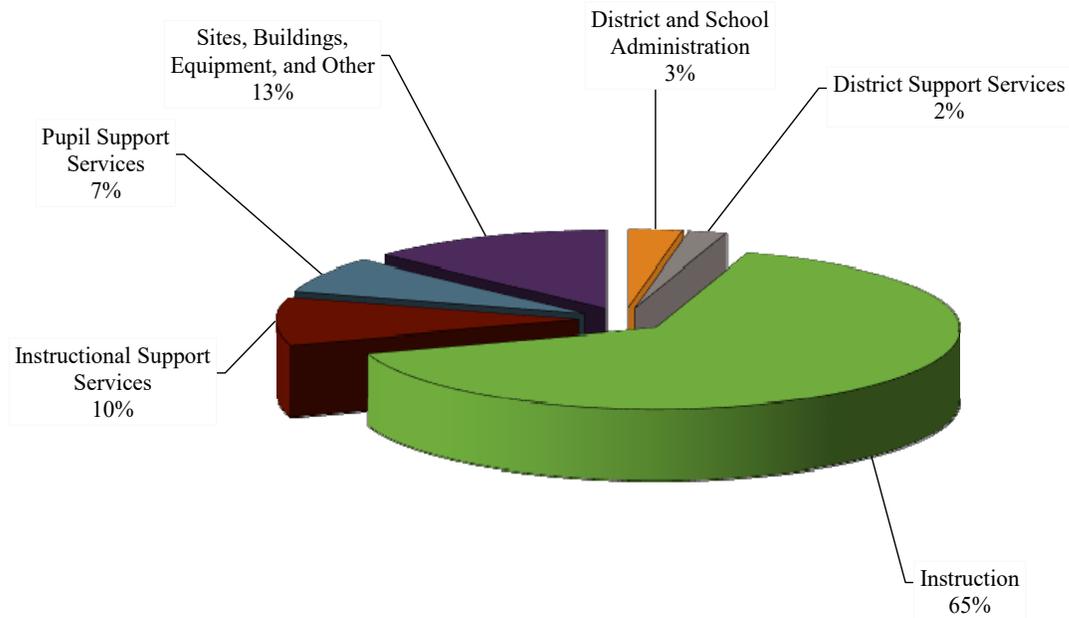
### GENERAL FUND EXPENDITURES

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

General Fund Expenditures	2014	2015	2016	2017	2018
District and school administration	\$ 1,551,213	\$ 1,647,819	\$ 1,729,476	\$ 1,794,471	\$ 1,792,330
District support services	666,161	940,031	1,025,896	1,109,216	1,243,599
Instruction	30,134,328	32,693,060	35,558,080	37,465,174	40,386,323
Instructional support services	4,984,543	5,071,044	5,456,131	5,623,771	5,929,752
Pupil support services	3,281,395	3,272,091	3,809,196	4,255,459	4,582,319
Sites, buildings, equipment and other	6,193,213	6,579,388	6,132,078	6,941,782	8,057,827
<b>Total</b>	<b>\$ 46,810,853</b>	<b>\$ 50,203,433</b>	<b>\$ 53,710,857</b>	<b>\$ 57,189,873</b>	<b>\$ 61,992,150</b>

Total General Fund expenditures increased by \$4,802,277, or 8.4%, from 2017 to 2018. 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 2018 represents approximately 65% 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	2014	2015	2016	2017	2018
General fund	\$ 8,347	\$ 8,990	\$ 9,277	\$ 9,346	\$ 9,745
Food service	420	424	443	457	458
Community service	822	726	792	782	785
Building construction	-	1	-	12	63
Debt service	2,372	2,417	2,226	2,106	2,195
<b>Total Revenues Per Student</b>	<b>\$ 11,961</b>	<b>\$ 12,558</b>	<b>\$ 12,738</b>	<b>\$ 12,703</b>	<b>\$ 13,246</b>

State-Wide Average (All Districts) **	2014	2015	2016	2017	2018
General fund	\$ 11,000	\$ 11,614	\$ 12,047	\$ 12,364	N/A
Food service	499	517	543	554	N/A
Community service	531	525	562	595	N/A
Building construction	73	94	108	66	N/A
Debt service	1,034	1,002	991	1,050	N/A
<b>Fund Balance, June 30</b>	<b>\$ 13,137</b>	<b>\$ 13,752</b>	<b>\$ 14,251</b>	<b>\$ 14,629</b>	<b>\$ -</b>

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

District	2014	2015	2016	2017	2018
General fund	\$ 8,149	\$ 8,512	\$ 8,845	\$ 9,153	\$ 9,794
Food service	468	413	450	465	523
Community service	764	691	737	759	802
Building construction	8	1	-	285	3,117
Debt service	2,318	2,429	11,644	2,183	8,226
<b>Total</b>	<b>\$ 11,707</b>	<b>\$ 12,046</b>	<b>\$ 21,676</b>	<b>\$ 12,845</b>	<b>\$ 22,462</b>

State-Wide Average (Districts 4000 ADM +)	2014	2015	2016	2017	2018
General fund	\$ 11,266	\$ 11,821	\$ 11,956	\$ 12,587	N/A
Food service	509	523	539	541	N/A
Community service	633	612	550	682	N/A
Building construction	801	982	1,405	1,848	N/A
Debt service	1,540	1,465	1,433	1,276	N/A
<b>Total</b>	<b>\$ 14,749</b>	<b>\$ 15,403</b>	<b>\$ 15,883</b>	<b>\$ 16,934</b>	<b>\$ -</b>

Source: 2014 – 2017 – *School District Profiles*

Source: 2018 – 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,	2014	2015	2016	2017	2018
Revenues	\$ 47,945,969	\$ 53,020,751	\$ 56,335,809	\$ 58,394,312	\$ 61,681,657
Expenditures	46,810,853	50,203,433	53,710,857	57,189,873	61,992,150
Excess of revenues over expenditures	1,135,116	2,817,318	2,624,952	1,204,439	(310,493)
Add Other Sources	-	-	-	-	444,459
Less transfers out	-	(1,956)	-	-	-
Fund balance, July 1	9,113,037	10,248,153	13,063,515	15,688,467	16,892,906
<b>Fund Balance, June 30</b>	<b>\$ 10,248,153</b>	<b>\$ 13,063,515</b>	<b>\$ 15,688,467</b>	<b>\$ 16,892,906</b>	<b>\$ 17,026,872</b>

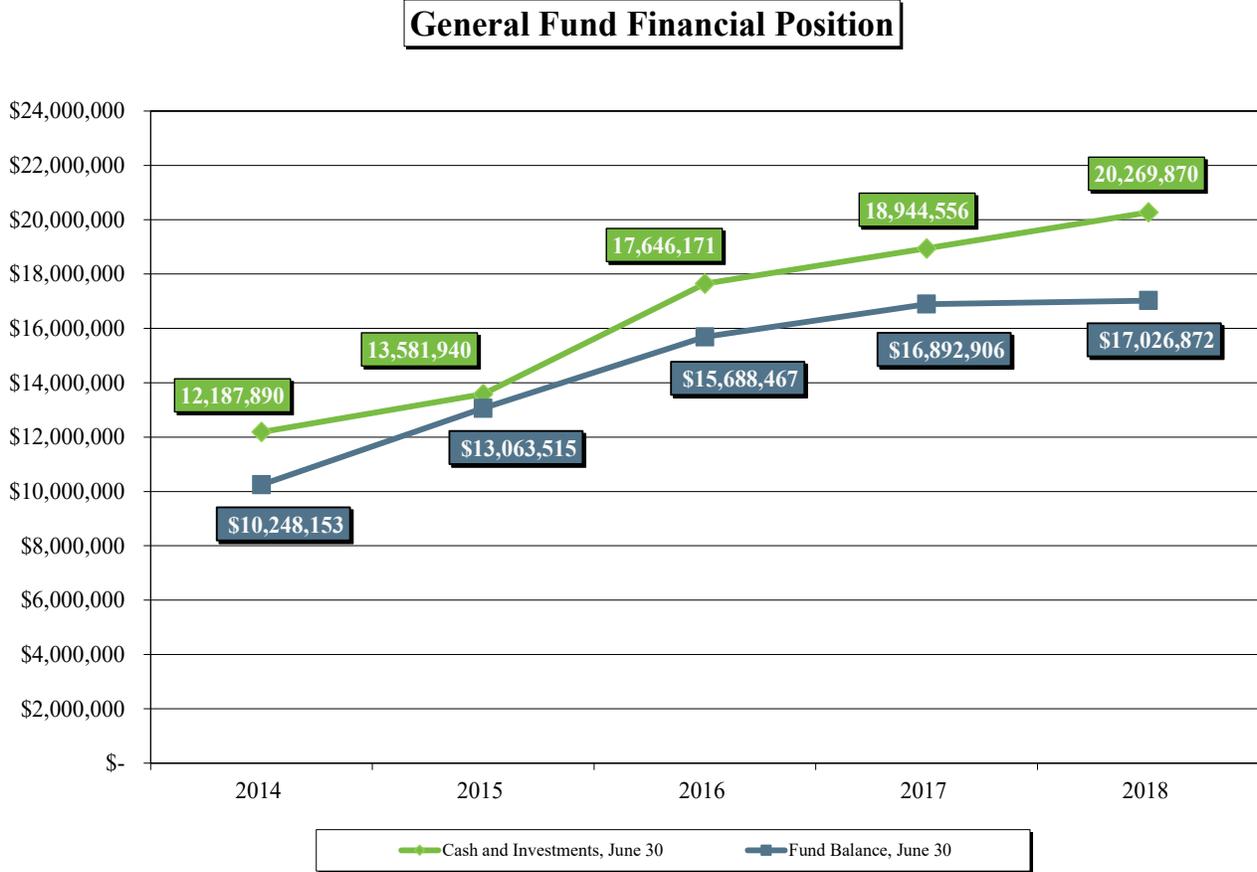
For the Year Ended June 30,	2014	2015	2016	2017	2018
Nonspendable for					
Prepaid items	\$ 112,231	\$ 83,780	\$ 90,505	\$ 81,378	\$ 83,903
Restricted for					
Staff development	-	255,279	519,157	770,557	968,535
Health and safety	(155,169)	(281,242)	-	-	-
Deferred maintenance	207,163	162,842	165,002	-	-
Operating capital	1,129,156	1,079,056	1,068,553	862,583	809,185
Safe school - crime	9,346	28,117	61,822	91,262	(24,076)
Long-term facilities maintenance	-	-	-	196,416	214,115
Medical assistance	-	-	-	252,215	294,251
Committed for					
Separation benefits	53,500	44,625	31,125	33,250	41,000
Assigned					
Student activities	291,183	313,595	336,370	327,582	279,871
Staff development	100,884	100,884	84,597	54,424	19,327
Q Comp	-	164,985	357,186	196,670	250,827
Medical assistance	-	126,585	185,753	-	-
Insurance claims	36,932	55,398	73,864	92,330	92,330
Unassigned	8,462,927	10,929,611	12,714,533	13,934,239	13,997,604
<b>Fund Balance, June 30</b>	<b>\$ 10,248,153</b>	<b>\$ 13,063,515</b>	<b>\$ 15,688,467</b>	<b>\$ 16,892,906</b>	<b>\$ 17,026,872</b>

From 2017 to 2018, revenues increased 5.6% and expenditures increased 8.4%. Revenues exceeded expenditures each year presented except for 2018.

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, 2018, unassigned General Fund balance was equal to 2.7 months of operating expenditures.

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

**GENERAL FUND FINANCIAL POSITION**



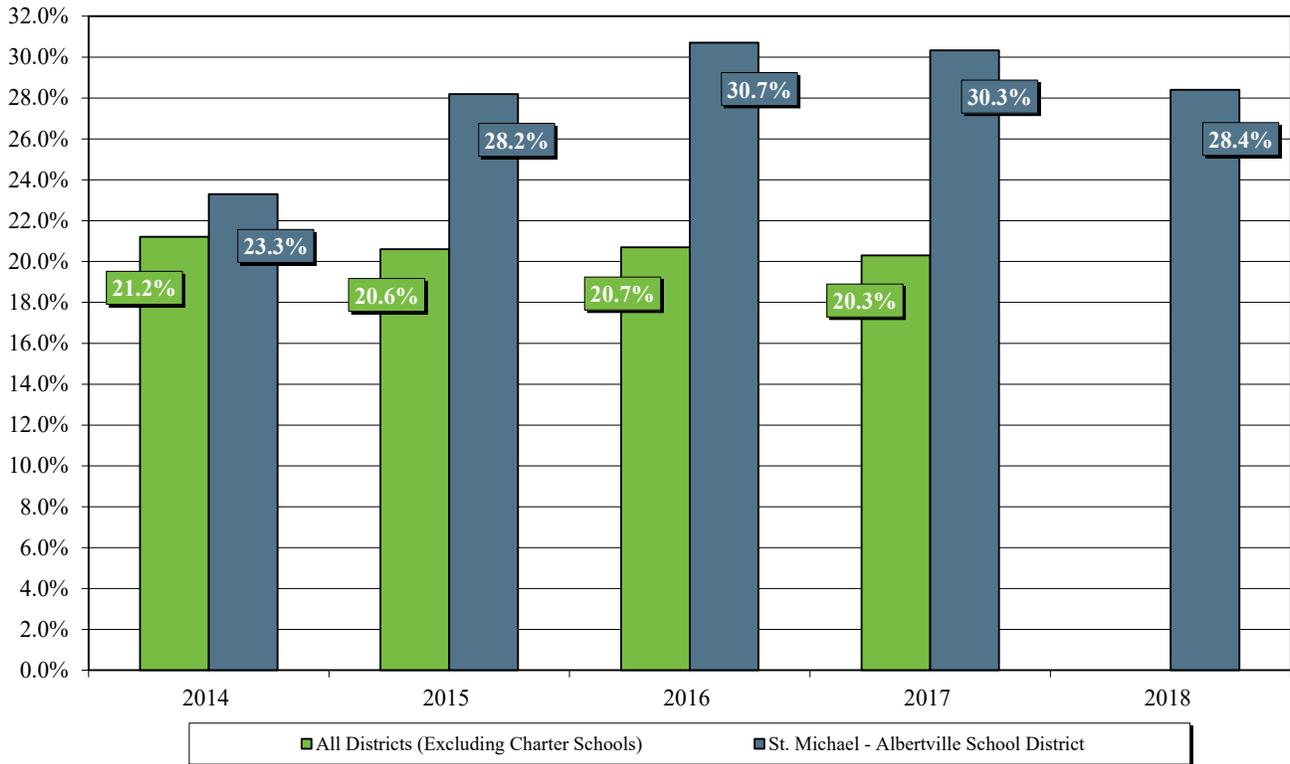
The graph above outlines the cash and investments (net of borrowing) and the fund balance for the General Fund for the past five years. A healthy fund balance allows the District to maintain a positive operating cash position when expenditures are timed prior to the receipt of significant revenues, including state aid and local property tax levies. The state paid aids 90% in 2014 through 2018.

## 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 2004-2017*. Fiscal year 2018 information is not available.

\*\* 2018 calculation based on 2018 UFARS Compliance Report.

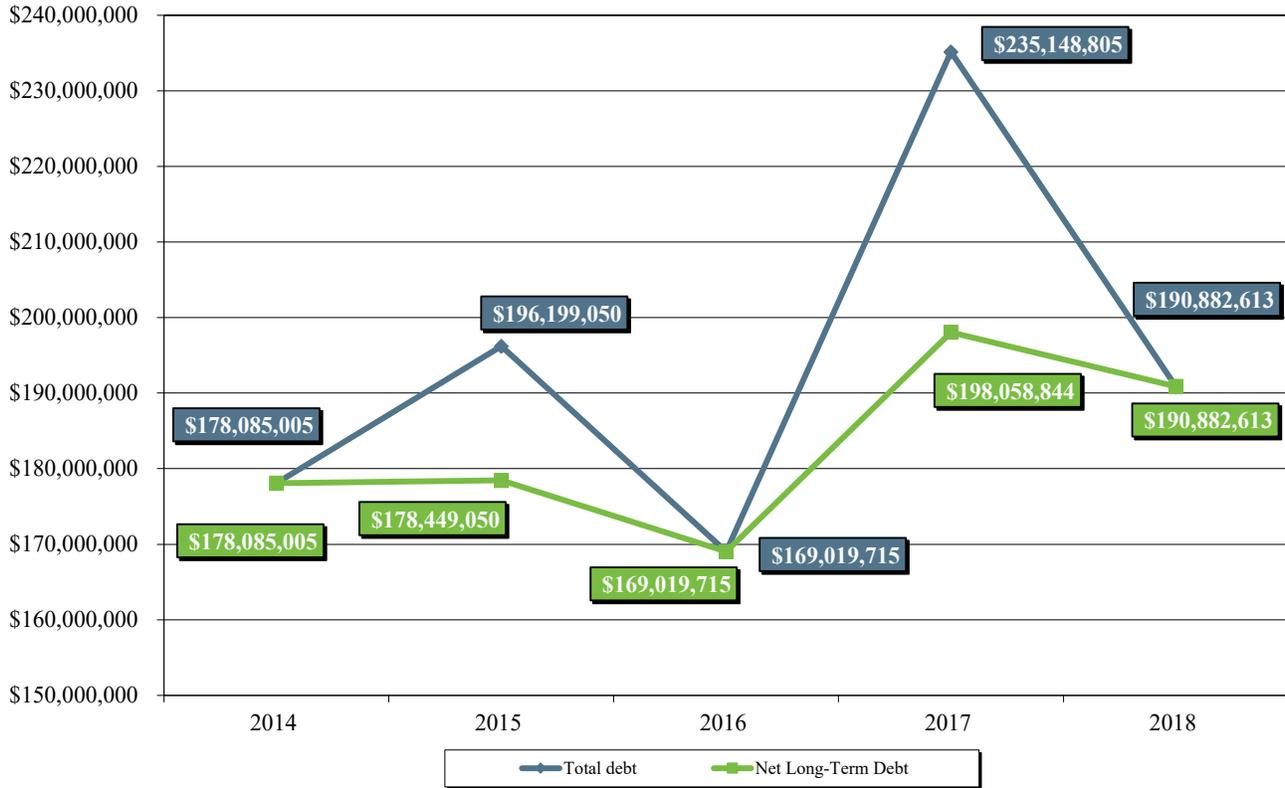
## Independent School District No. 885 Financial Analysis

### 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	2014	2015	2016	2017	2018
Bonds and leases payable	\$ 176,180,652	\$ 193,908,361	\$ 166,371,566	\$ 232,109,287	\$ 187,636,088
Severance benefits payable and net OPEB	1,904,353	2,290,689	2,648,149	3,039,518	3,246,525
Total debt	178,085,005	196,199,050	169,019,715	235,148,805	190,882,613
Escrow reserved for debt retirement	-	(17,750,000)	-	(37,089,961)	-
<b>Net Long-Term Debt</b>	<b>\$ 178,085,005</b>	<b>\$ 178,449,050</b>	<b>\$ 169,019,715</b>	<b>\$ 198,058,844</b>	<b>\$ 190,882,613</b>

**Long-Term Debt**



During the year, the District made payments of \$43,725,000 million in scheduled principal payments.

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

**TAX LEVIES AND TAX CAPACITY RATES**

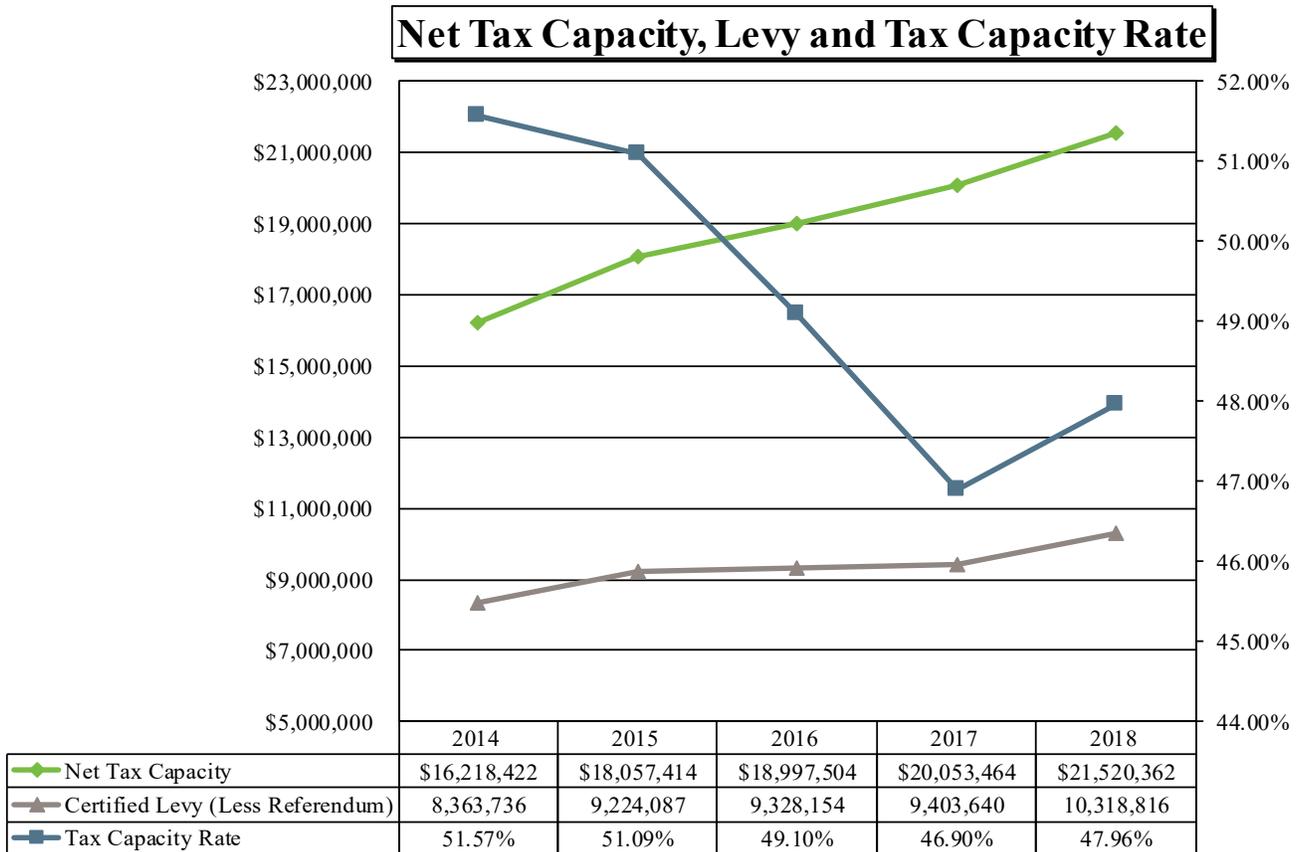
The following tables present the District's tax levies for the levy certified in 2013, payable in 2014 through the levy certified in 2017 and payable in 2018.

<b>Certified Levy Payable Year Recognized</b>	<b>2013 2014 2015</b>	<b>2014 2015 2016</b>	<b>2015 2016 2017</b>	<b>2016 2017 2018</b>	<b>2017 2018 2019</b>
Referendum	\$ 2,196,224	\$ 2,579,929	\$ 2,601,715	\$ 3,090,537	\$ 3,246,967
School maintenance	1,065,641	1,331,914	1,250,985	1,255,198	1,449,305
Community service	249,888	301,378	312,509	306,577	326,603
Debt service	7,048,207	7,590,795	7,764,660	7,841,865	8,542,908
<b>Total</b>	<b>\$ 10,559,960</b>	<b>\$ 11,804,016</b>	<b>\$ 11,929,869</b>	<b>\$ 12,494,177</b>	<b>\$ 13,565,783</b>

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

<b>Certified Levy Payable Year Recognized</b>	<b>2013 2014 2015</b>	<b>2014 2015 2016</b>	<b>2015 2016 2017</b>	<b>2016 2017 2018</b>	<b>2017 2018 2019</b>
School maintenance	6.57%	7.38%	6.59%	6.26%	6.74%
Community service	1.54%	1.67%	1.65%	1.53%	1.52%
Debt service	43.46%	42.04%	40.87%	39.11%	39.70%
<b>Total</b>	<b>51.57%</b>	<b>51.09%</b>	<b>49.10%</b>	<b>46.90%</b>	<b>47.96%</b>

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



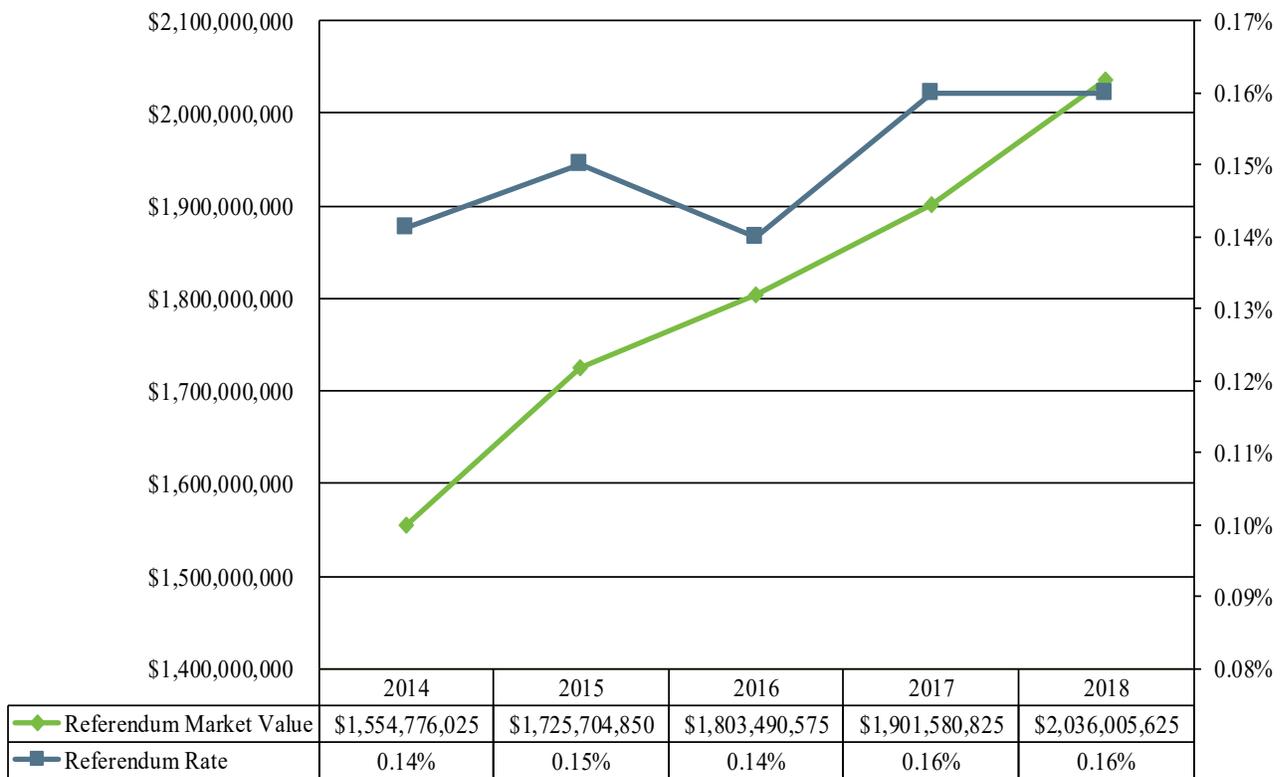
**Independent School District No. 885  
Financial Analysis**

**REFERENDUM TAX RATE AND REFERENDUM MARKET VALUE**

As shown in the table on the previous page, the certified property tax levy (excluding referendum) increased in all five years presented. The District's net tax capacity has increased each year presented.

The following graph presents the District's referendum tax rate and referendum market value for tax levies for the levy certified in 2013, payable in 2014 through the levy certified in 2017, payable in 2018.

**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,	2014	2015	2016	2017	2018
Revenues	\$ 2,413,722	\$ 2,500,383	\$ 2,689,045	\$ 2,844,894	\$ 2,895,758
Expenditures	2,690,087	2,436,392	2,735,230	2,898,668	3,309,914
Excess of revenues over (under) expenditures	(276,365)	63,991	(46,185)	(53,774)	(414,156)
Other Financing Sources	-	-	-	9,000	-
Fund balance, July 1	1,588,997	1,312,632	1,376,623	1,330,438	1,285,664
<b>Fund Balance, June 30</b>	<b>\$ 1,312,632</b>	<b>\$ 1,376,623</b>	<b>\$ 1,330,438</b>	<b>\$ 1,285,664</b>	<b>\$ 871,508</b>

Overall, food service revenues increased 1.8% from 2017 to 2018, due to increased meals served with the increase in enrollment. Expenditures increased 14.2% due to equipment purchases. The fund finished the year with a 26.3% fund balance based on 2018 spending levels, as compared to 44.4% 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,	2014	2015	2016	2017	2018
Revenues	\$ 4,724,532	\$ 4,284,375	\$ 4,811,198	\$ 4,876,268	\$ 4,967,271
Expenditures	4,389,331	4,073,822	4,474,038	4,735,453	5,075,343
Excess of revenues over (under) expenditures	335,201	210,553	337,160	140,815	(108,072)
Fund balance, July 1	1,143,539	1,478,740	1,689,293	2,026,453	2,167,268
<b>Fund Balance, June 30</b>	<b>\$ 1,478,740</b>	<b>\$ 1,689,293</b>	<b>\$ 2,026,453</b>	<b>\$ 2,167,268</b>	<b>\$ 2,059,196</b>

For the Year Ended June 30,	2014	2015	2016	2017	2018
Restricted for					
Community education	\$ 1,167,472	\$ 1,267,630	\$ 1,479,284	\$ 1,581,492	\$ 1,493,182
ECFE	74,759	171,101	277,785	348,864	362,978
School readiness	21,724	12,902	4,204	(33,752)	(57,942)
Community service	214,785	237,660	265,180	270,664	260,978
<b>Fund Balance, June 30</b>	<b>\$ 1,478,740</b>	<b>\$ 1,689,293</b>	<b>\$ 2,026,453</b>	<b>\$ 2,167,268</b>	<b>\$ 2,059,196</b>

As the table indicates, 2018 fund expenditures exceeded revenues by \$108,072. The excess of expenditures over revenues resulted in the Community Service fund balance decreasing by 0.5%, from \$2,167,268 at June 30, 2017 to \$2,059,196 at June 30, 2018.

Overall, community service revenues increased \$91,003, or 1.9%, as a result of increased participation in the daycare programming. Expenditures increased \$339,890, or 7.2%, with the increase in programming, including increases in staffing, supplies, and transportation.

## **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 2018 General Education Aid was increased \$121 (2%) to \$6,188. For 2019, the formula allowance is set at \$6,312, which is also an increase of 2%.

### **COMPENSATORY REVENUE**

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

### **STUDENT ACHIEVEMENT LEVY**

The Student Achievement Levy eliminated for 2019.

### **LEAD IN SCHOOL DRINKING WATER**

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

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

### **PAYMENTS TO NONOPERATING FUNDS**

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

### **SCHOOL BUILDING BOND AGRICULTURAL CREDIT**

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

### **LONG-TERM FACILITIES MAINTENANCE REVENUE**

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

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

**EQUITY REVENUE**

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

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

**SPECIAL EDUCATION**

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

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

**VOLUNTARY PREKINDERGARTEN (VPK)/SCHOOL READINESS PLUS**

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

**EMERGENCY SCHOOL FUNDING**

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

**STAFF DEVELOPMENT SET-ASIDE WAIVER**

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

**COMMUNITY SERVICE FUND TRANSFER**

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

**SAFE SCHOOLS REVENUE**

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

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

### **Q COMP**

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

### **SCHOOL SAFETY GRANTS**

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

### **PENSION BILL**

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

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

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

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

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

## **Independent School District No. 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 updates include:

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

The following is an extensive summary 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 this issue with you further and their applicability to your District.

### **ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 84 – *FIDUCIARY ACTIVITIES***

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

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

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

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

**Independent School District No. 885**  
**Emerging Issues**

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

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

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).

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

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

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

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

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

**Independent School District No. 885**  
**Emerging Issues**

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

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

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

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).