

**Independent School District No. 877  
Buffalo-Hanover-Montrose, Minnesota**

**Communications Letter**

**June 30, 2017**



**Independent School District No. 877**  
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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. 877  
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, 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.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated October 16, 2017, on such statements.

This communication is intended solely for the information and use of the School Board, management, and others within the District and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in dark ink that reads 'BerganKDV Ltd.' followed by a period.

St. Cloud, Minnesota  
October 16, 2017

**Independent School District No. 877**  
**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 supplement(s) the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

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

**Independent School District No. 877**  
**Required Communication**

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

Our responsibility with respect to the other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information was not audited and we do not express an opinion or provide any assurance on it.

**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 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 funds and complex formulas that are finalized after reporting deadlines.

**Independent School District No. 877  
Required Communication**

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

Net Other Post Employment Benefit (OPEB) Assets – 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.

**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 did not identify and we did not notify them of any uncorrected financial statement misstatements.

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

**DISAGREEMENTS WITH MANAGEMENT**

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

**MANAGEMENT REPRESENTATIONS**

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

**Independent School District No. 877**  
**Required Communication**

**MANAGEMENT CONSULTATIONS WITH OTHER ACCOUNTANTS**

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

**OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**OTHER MATTERS**

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

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

We were not engaged to report on the other information accompanying the financial statements, but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



## Independent School District No. 877 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.

### AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

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

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

## **RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS**

Approximately 85% of the District's General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District's population trends is critical to overall budgeting plans. The following table and graph summarizes resident average daily membership (ADM) of the District for the past five years ended June 30.

<b>ADM</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>
Early Childhood	49.65	50.74	51.40	56.34	57.57
Kindergarten	453.79	422.95	448.33	418.54	404.13
Elementary	2,845.57	2,829.01	2,840.59	2,846.98	2,838.91
Secondary	2,731.65	2,832.26	2,871.68	2,884.11	2,949.22
<b>Total Resident ADM</b>	<b>6,080.66</b>	<b>6,134.96</b>	<b>6,212.00</b>	<b>6,205.97</b>	<b>6,249.83</b>



\* Estimate as of September 11, 2017

**Independent School District No. 877**  
**Financial Analysis**

**RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)**

The chart and graph on the previous page illustrate the steady increase in resident ADM experienced by the District over the past five years. Total resident ADM increased 2.8% since 2013 and increased 0.7% from 2016. A majority of the increase from 2013 was in secondary ADM, increasing 217.57 units over that timeframe.

To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting, based on the student's grade level. These weighting factors are presented in the table below.

<b>Pupil Units Weighting</b>				
	<b>Pre-Kindergarten and Handicapped Kindergarten</b>	<b>Part-time and All-Day Kindergarten</b>	<b>Elementary Grades 1-3/4-6</b>	<b>Secondary</b>
<b>2013-2014</b>	1.250/1.000	0.612	1.115/1.060	1.300
<b>2015-2017</b>	1.000	0.612/1.000	1.000	1.200

The total pupil units are converted to adjusted pupil units, which also may be used to calculate the District's education aids. Adjusted pupil units are calculated by multiplying 77% of current year pupil units and 23% of prior year, or 100% of current year, whichever is greater. The adjusted pupil unit data is used for districts with declining enrollment to lessen the negative impact.

The pupil units weighting (PUN) served table below and graph on the following page, 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.

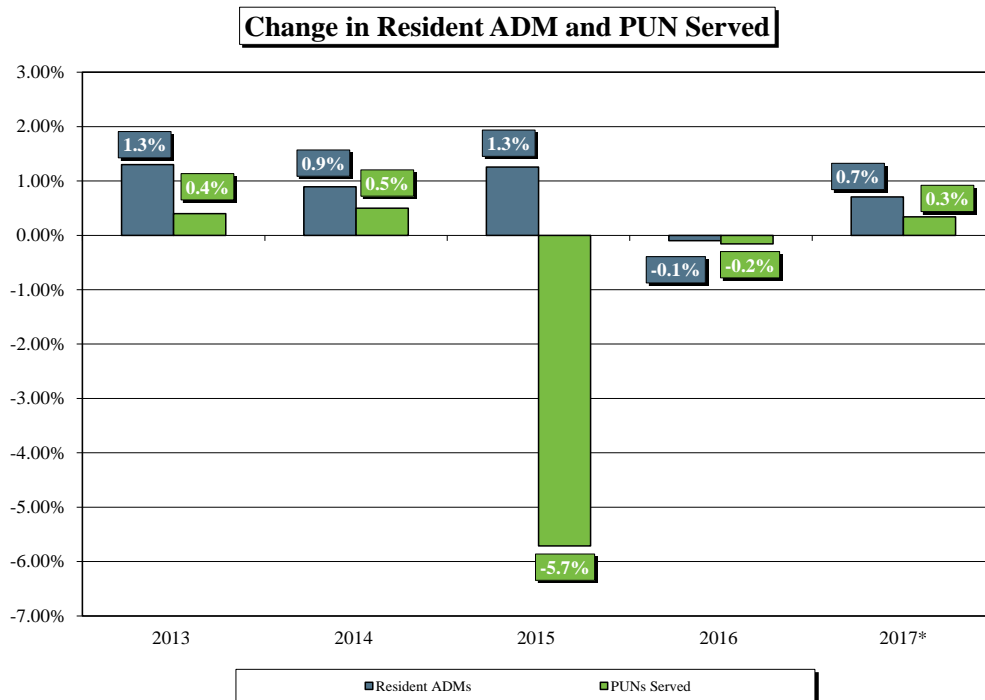
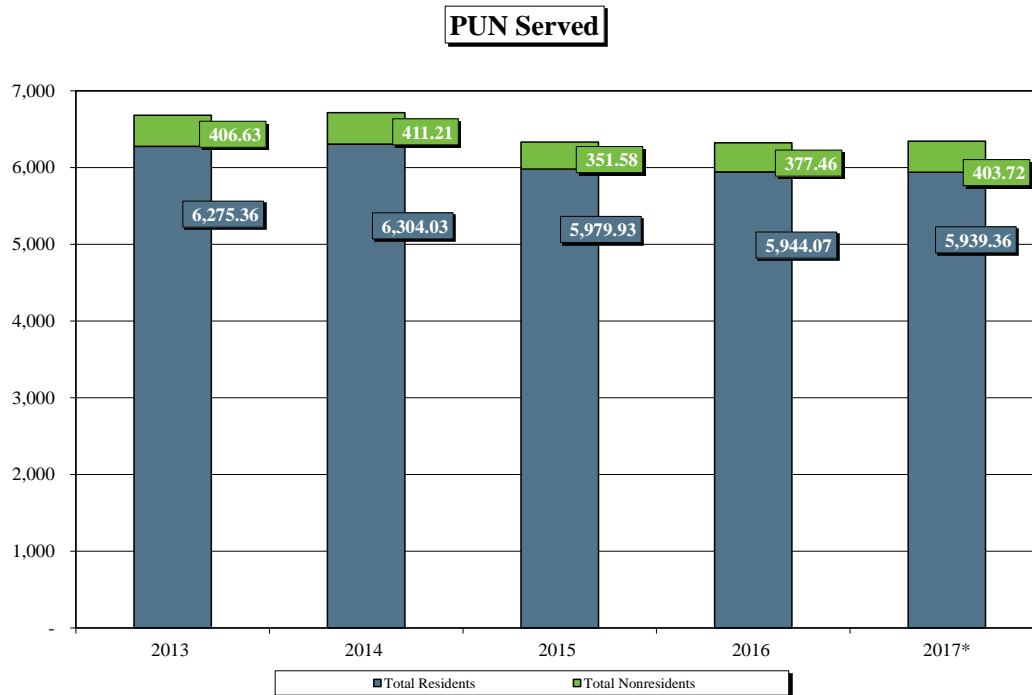
<b>PUN</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>
Residents	6,991.53	7,090.53	6,781.76	6,780.39	6,838.85
Resident PUN loss	(716.17)	(786.50)	(801.83)	(836.32)	(899.49)
Nonresident PUN gain	406.63	411.21	351.58	377.46	403.72
<b>Total PUN Served</b>	<b>6,681.99</b>	<b>6,715.24</b>	<b>6,331.51</b>	<b>6,321.53</b>	<b>6,343.08</b>

\* Estimate as of September 11, 2017

Resident PUN increased from 2016 by 58.46 units. PUN served has varied from year-to-year based on open enrollment. From 2016 to 2017, total PUN served increased 21.55 units.

# Independent School District No. 877 Financial Analysis

## PUPIL UNITS WEIGHTING SERVED



**Independent School District No. 877**  
**Financial Analysis**

**GENERAL FUND REVENUES BUDGET AND ACTUAL**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 6,044,687	\$ 6,057,053	\$ 6,083,981	\$ 26,928
Other local revenues	1,767,843	1,965,129	2,088,459	123,330
Revenue from state sources	50,726,388	53,221,151	52,807,294	(413,857)
Revenue from federal sources	1,551,915	1,583,370	1,445,880	(137,490)
Sales and other conversion of assets	38,200	38,775	36,989	(1,786)
Total revenues	<u>60,129,033</u>	<u>62,865,478</u>	<u>62,462,603</u>	<u>(402,875)</u>
<b>Expenditures</b>				
Administration	1,725,823	1,752,230	1,695,738	(56,492)
District support services	1,617,407	1,729,234	1,680,140	(49,094)
Regular instruction	29,568,487	30,071,487	29,209,900	(861,587)
Vocational instruction	1,628,139	1,563,872	1,550,780	(13,092)
Special education instruction	11,083,611	11,051,598	10,937,722	(113,876)
Instructional support services	4,557,413	4,646,948	4,270,119	(376,829)
Pupil support services	5,884,645	6,543,416	6,586,185	42,769
Sites and buildings	5,901,501	5,850,868	5,616,358	(234,510)
Fiscal and other fixed cost programs	219,797	219,708	216,178	(3,530)
Debt service	285,694	1,125,486	1,125,487	1
Total expenditures	<u>62,472,517</u>	<u>64,554,847</u>	<u>62,888,607</u>	<u>(1,666,240)</u>
Excess of revenues over (under) expenditures	<u>\$ (2,343,484)</u>	<u>\$ (1,689,369)</u>	<u>\$ (426,004)</u>	<u>\$ 1,263,365</u>

The District approved a final General Fund revenue budget of \$62,865,478. With actual revenues coming in at \$62,462,603, the final budget produced a variance of \$402,875, or 0.6%. The largest variance was in revenue from state sources which were over budget due to the TRA in-kind contributions which was budgeted based on prior year adjustment amount. The 2017 TRA in-kind adjustment amount was not known until April 2017 and the budget was not amended for the change.

In total, General Fund expenditures were \$1,666,240 under budget. The largest variance occurred in regular instruction, which was \$861,587 under budget. This variance was primarily due to the District budgeting for the TRA in-kind adjustment, however, this amount will be amortized and recognized over multiple years. Instructional support was under budget due to Q Comp and teacher development variances. Sites and buildings were under budget \$234,510 due to conservative budgets for fuel and capital expenditures.

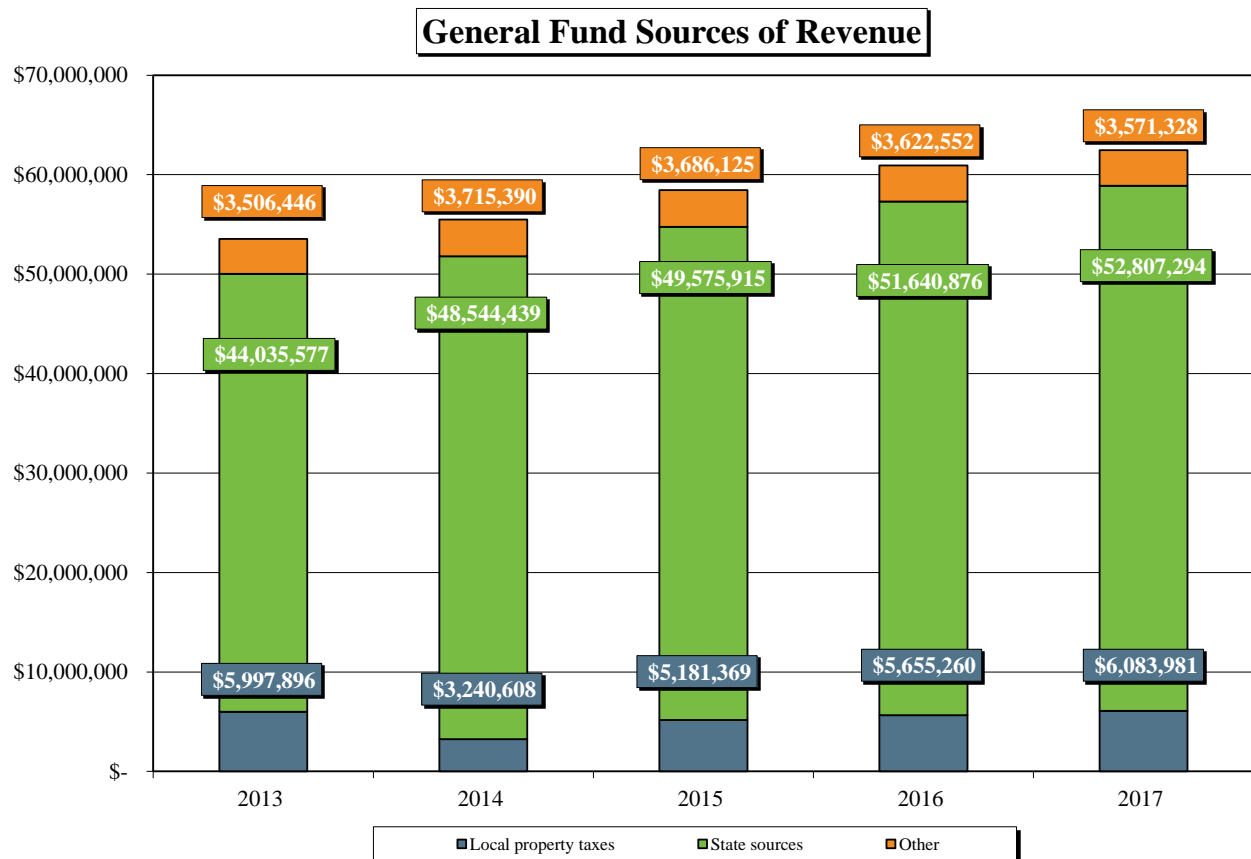
# **Independent School District No. 877** **Financial Analysis**

## **GENERAL FUND SOURCES OF REVENUE**

General Fund sources of revenue are summarized as follows for the last five years:

	2013	2014	2015	2016	2017
Local property taxes	\$ 5,997,896	\$ 3,240,608	\$ 5,181,369	\$ 5,655,260	\$ 6,083,981
State sources	44,035,577	48,544,439	49,575,915	51,640,876	52,807,294
Other	3,506,446	3,715,390	3,686,125	3,622,552	3,571,328
<b>Total</b>	<b>\$ 53,539,919</b>	<b>\$ 55,500,437</b>	<b>\$ 58,443,409</b>	<b>\$ 60,918,688</b>	<b>\$ 62,462,603</b>

State revenue sources, which make up approximately 84.5% of total revenues, increased by \$1,166,418 for the year ended June 30, 2017, while local property taxes increased by \$428,721 and other sources decreased \$51,224. Included in other revenues are local, county, and federal revenues. Factors contributing to these changes include increases in pupil units, the formula allowance per students, special education revenues and an increase in the amounts levied during the year. Other revenues stayed relatively consistent with the prior year.



# Independent School District No. 877

## Financial Analysis

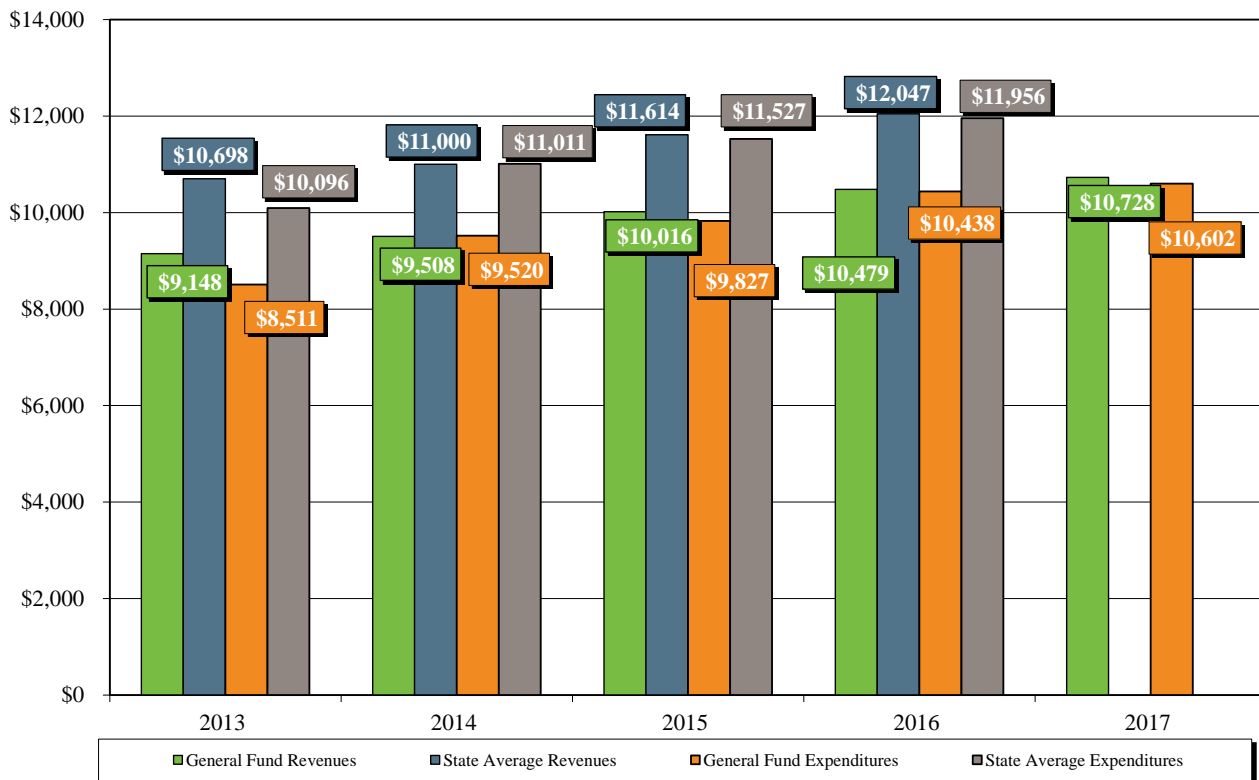
### REVENUES AND EXPENDITURES PER ADM SERVED

General Fund revenues per students (ADM) served, are summarized in the following table, and graph:

	2013	2014	2015	2016	2017
General Fund	\$ 9,148	\$ 9,508	\$ 10,016	\$ 10,479	\$ 10,728
General Fund state average	10,698	11,000	11,614	12,047	N/A

General Fund expenditures per students (ADM) served, not including capital outlay, are summarized in the following table, and graph.

	2013	2014	2015	2016	2017
General Fund	\$ 8,511	\$ 9,520	\$ 9,827	\$ 10,438	\$ 10,602
General Fund state average	10,096	11,011	11,527	11,956	N/A



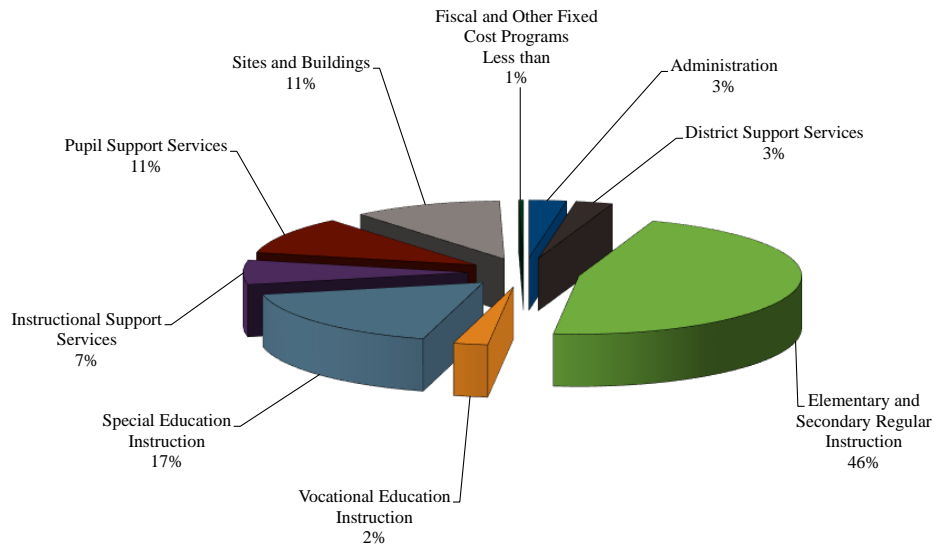
Revenues per ADM have consistently been below the state average, the largest variance is in property tax revenue per ADM. The District also receives less General Education Aid and federal aids per ADM. In relation to this, as a result of bringing in less revenue per ADM, the District is spending less per ADM than the state average.

## Independent School District No. 877 Financial Analysis

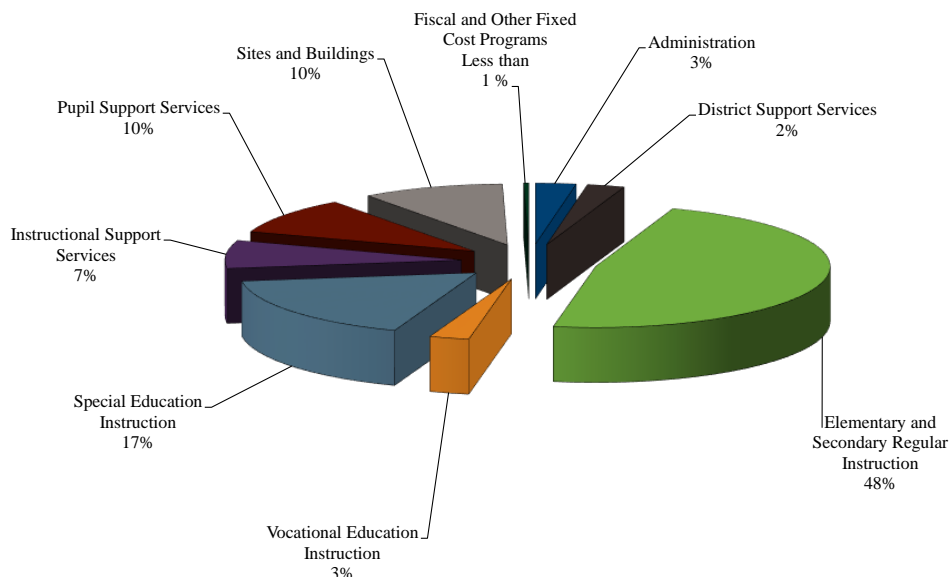
### GENERAL FUND EXPENDITURES

The graphs below depict the percentage of expenditures by function in the General Fund for years 2016 and 2017. Expenditures increased by \$2,209,421, or 3.6%, from 2016 to 2017, and the allocation of expenditures remained very consistent. Education programs and instructional support made up 72% and 75% of the District's expenditures, respectively for 2017 and 2016. Only 6% of expenditures were attributable to Administration and District support services for 2017.

**General Fund Expenditures 2017**



**General Fund Expenditures 2016**





**Independent School District No. 877**  
**Financial Analysis**

**GENERAL FUND OPERATIONS**

The following table presents five years of comparative operating results for the District's General Fund:

	2013	2014	2015	2016	2017
Revenues	\$ 53,539,919	\$ 55,500,437	\$ 58,443,409	\$ 60,918,688	\$ 62,462,603
Expenditures	52,105,504	55,968,551	57,341,009	60,679,186	62,888,607
Excess of revenues over (under) expenditures	1,434,415	(468,114)	1,102,400	239,502	(426,004)
Transfers/other financing sources and uses	(13,556)	183,186	-	105,637	840,233
Fund balance, July 1	14,373,264	15,794,123	15,509,195	16,611,595	16,956,734
<b>Fund Balance, June 30</b>	<b>\$ 15,794,123</b>	<b>\$ 15,509,195</b>	<b>\$ 16,611,595</b>	<b>\$ 16,956,734</b>	<b>\$ 17,370,963</b>

<b>Components</b>					
Unassigned	\$ 8,361,633	\$ 9,209,451	\$ 9,943,213	\$ 9,739,003	\$ 9,973,930
Nonspendable	312,765	335,791	331,689	262,877	369,130
Reserved/restricted for					
Staff development	74,801	74,801	67,063	62,695	10,569
Teacher development and evaluations	-	-	110,131	103,247	103,247
Deferred maintenance	13	883	730	-	-
Operating capital	368,212	233,458	624,963	614,500	698,826
Health and safety	(65,661)	14,272	(137,329)	(64,860)	(16,495)
Long-term facility maintenance	-	-	-	-	104,729
Medical Assistance	-	-	-	-	89,096
Committed/assigned for					
Separation benefits	4,689,661	4,075,012	4,062,933	4,165,436	3,495,768
Student activities	143,576	211,361	317,704	356,604	399,325
3rd party special education	501,964	522,502	493,734	560,353	560,353
Stimulus	66,543	66,543	-	-	-
Capital	775,750	405,534	385,973	654,758	1,058,630
Carryover	341,646	144,006	211,124	355,597	342,530
Dental insurance	223,220	215,581	199,667	146,524	181,325
<b>Total</b>	<b>\$ 15,794,123</b>	<b>\$ 15,509,195</b>	<b>\$ 16,611,595</b>	<b>\$ 16,956,734</b>	<b>\$ 17,370,963</b>

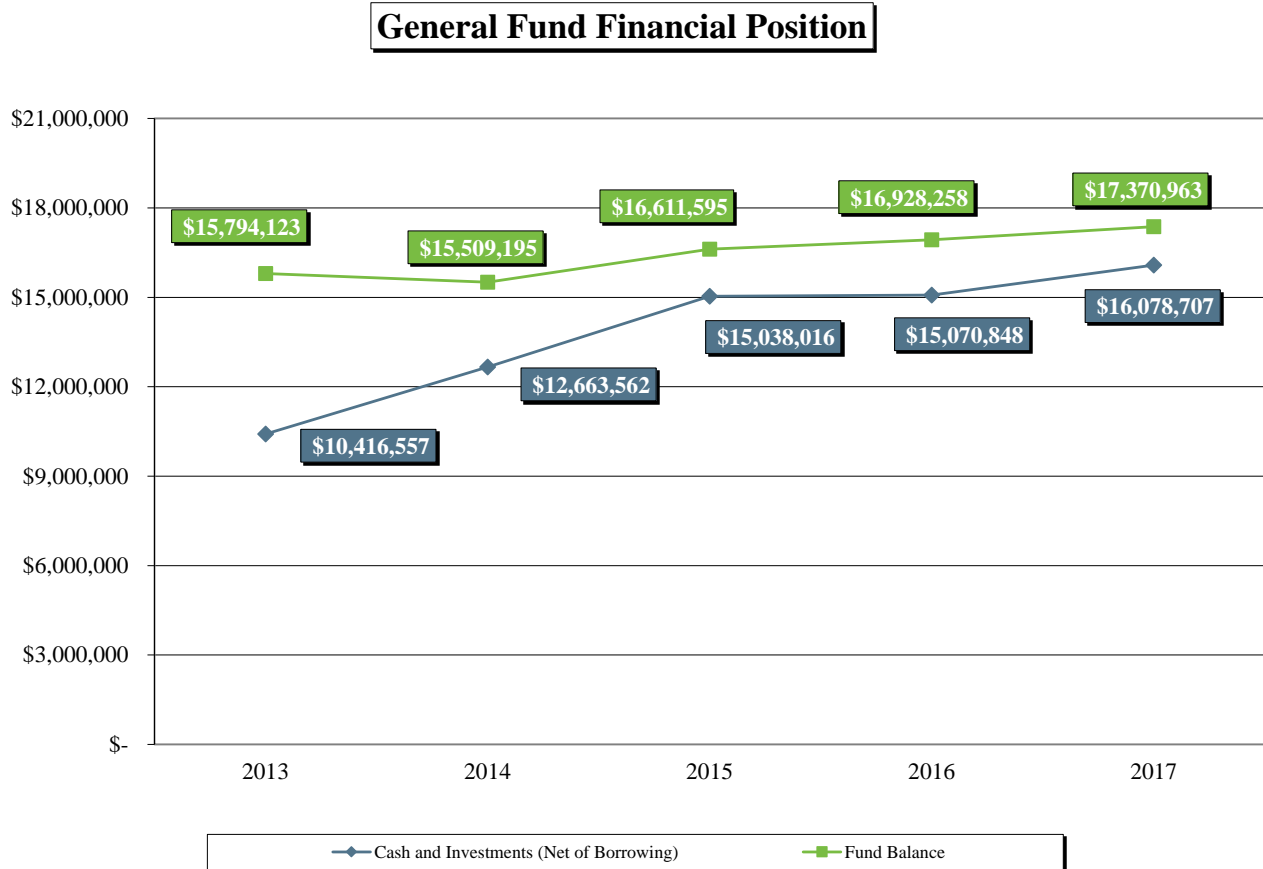
Total General Fund revenue increased 2.5% from 2016 to 2017 as a result of an increase in state aids due to the increase in enrollment and the formula allowance.

Total General Fund expenditures increased 3.6% from 2016 to 2017. This increase was mostly due to the large increase in expenditures for increasing salaries and benefits for regular instruction and special education, increased transportation costs and the refinancing of a capital lease. The capital lease expenditures were offset with lease proceeds.

Revenues and other financing sources exceeded expenditures during 2017, increasing fund balance by \$426,004.

**Independent School District No. 877**  
**Financial Analysis**

**GENERAL FUND OPERATIONS (CONTINUED)**



This graph 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. At year-end when expenditure needs are significant and revenue receipts are delayed until subsequent to year-end, an increased positive fund balance position reduces the reliance on short-term borrowing.

The state had previously been metering state aids at 90%; this dropped to 85% in 2013. In 2014, the state returned to metered payments at 90%. This change caused a significant improvement in the cash and investment position.

**Independent School District No. 877**  
**Financial Analysis**

**FOOD SERVICE FUND**

The following table presents five years of comparative operating results for the District's Food Service Fund:

<b>For the Year Ended June 30,</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Revenues	\$ 2,842,939	\$ 2,758,656	\$ 2,886,080	\$ 3,073,403	\$ 3,160,305
Expenditures, excluding OPEB	2,887,006	2,974,079	2,860,520	2,841,565	2,860,199
Excess of revenues over (under) expenditures	(44,067)	(215,423)	25,560	231,838	300,106
Transfers/other financing sources	16,677	215,423	-	-	-
Fund balance, July 1	27,390	-	-	25,560	257,398
<b>Fund Balance, June 30</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 25,560</b>	<b>\$ 257,398</b>	<b>\$ 557,504</b>

In 2017, the Food Service Fund posted a surplus for the third time since 2013. Revenues exceeded expenditures by \$300,106. Revenues increased \$86,902, the largest component of the increase was federal sources due to additional commodities received and increased participation in the free and reduced program. Expenditures stayed consistent with the prior year.

**COMMUNITY SERVICE FUND**

The following table presents five years of comparative operating results for the District's Community Service Fund:

<b>For the Year Ended June 30,</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Revenues	\$ 3,600,629	\$ 3,722,968	\$ 3,558,973	\$ 3,700,202	\$ 3,830,996
Expenditures, excluding OPEB	3,757,184	3,772,546	3,757,423	3,836,358	3,955,606
Excess of revenues under expenditures	(156,555)	(49,578)	(198,450)	(136,156)	(124,610)
Transfers/other financing sources	-	2,276	500	-	-
Fund balance, July 1	345,898	189,343	142,041	(55,909)	(192,065)
<b>Fund Balance, June 30</b>	<b>\$ 189,343</b>	<b>\$ 142,041</b>	<b>\$ (55,909)</b>	<b>\$ (192,065)</b>	<b>\$ (316,675)</b>

<b>Components</b>					
Unreserved/unassigned	\$ -	\$ -	\$ (20,203)	\$ (22,059)	\$ (38,646)
Nonspendable	-	-	13,252	7,572	15,623
Restricted/reserved for					
Community service	2	-	-	-	-
ECFE	28,276	34,442	(3,303)	(27,519)	28,167
Community education	138,066	103,280	(5,750)	(124,082)	(325,599)
School readiness	10,494	(8,186)	(47,669)	(38,190)	(8,565)
Adult basic education	12,505	12,505	7,764	12,213	12,345
<b>Total</b>	<b>\$ 189,343</b>	<b>\$ 142,041</b>	<b>\$ (55,909)</b>	<b>\$ (192,065)</b>	<b>\$ (316,675)</b>

Expenditures exceeded revenues in all five years presented. Revenues increased 3.5% due to increased participation in the Kid Kare program and in school readiness. Expenditures increased \$119,248, or 3.1%, due to more staff needed for the increased participation in those programs.

## **Independent School District No. 877**

### **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 percentage 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. 877**

### **Legislative Summary**

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

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

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

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

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

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

#### **NUTRITION CONTRACTS**

There is now an exception to the statute limiting school district contracts to two years with an option on the part of the district to renew for an additional two years. The exception states that a contract between a school board and a food service management company that complies with Code of Federal Regulations, title 7, section 210.16, may be renewed annually after its initial term for not more than four years.

#### **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.

## **Independent School District No. 877**

### **Legislative Summary**

#### **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.

#### **NONPUBLIC PUPIL AID**

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

#### **VOLUNTARY PREKINDERGARTEN/SCHOOL READINESS PLUS**

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

#### **HOME VISITING REVENUE**

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

#### **PUPIL TRANSPORTATION FUNDING**

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

#### **REVIEW AND COMMENT**

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

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

**Independent School District No. 877**  
**Legislative Summary**

**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.