

INDEPENDENT SCHOOL DISTRICT NO. 877
Buffalo-Hanover-Montrose, Minnesota

COMMUNICATIONS LETTER

Year Ended June 30, 2015



INDEPENDENT SCHOOL DISTRICT NO. 877

TABLE OF CONTENTS

REPORT ON MATTERS IDENTIFIED AS A RESULT OF THE AUDIT OF THE FINANCIAL STATEMENTS	1
REQUIRED COMMUNICATION	3
FINANCIAL ANALYSIS.....	7
LEGISLATIVE SUMMARY.....	18
EMERGING ISSUES	22



**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 Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2015 in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. 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 12, 2015, on such statements.

BerganKDV, Ltd.

Cedar Falls
602 Main Street
Suite 100
P.O. Box 489
Cedar Falls, IA
50613-0026
T 319.268.1715
F 319.268.1720

Cedar Rapids
2720 1st Avenue NE
Suite 300
P.O. Box 10200
Cedar Rapids, IA
52402-0200
T 319.294.8000
F 319.294.9003

Coralville
2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
T 319.248.0367
F 319.248.0582

Des Moines
9207 Northpark Drive
Johnston, IA
50131-2933
T 515.727.5700
F 515.727.5800

Minneapolis
3800 American Blvd W
Suite 1000
Bloomington, MN
55431-4420
T 952.563.6800
F 952.563.6801

St. Cloud
220 Park Avenue S
P.O. Box 1304
St. Cloud, MN
56302-3713
T 320.251.7010
F 320.251.1784

Waterloo
100 East Park Avenue
Suite 300
P.O. Box 2100
Waterloo, IA
50704-2100
T 319.234.6885
F 319.234.6287

bergankdv.com



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

BerganKDV Ltd.

BerganKDV, Ltd.
St. Cloud, Minnesota
October 12, 2015

INDEPENDENT SCHOOL DISTRICT NO. 877

REQUIRED COMMUNICATION

June 30, 2015

We have audited the financial statements of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota for the year ended June 30, 2015, and have issued our report dated October 12, 2015. Professional standards require that we provide you with the following information related to our audit.

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 877

REQUIRED COMMUNICATION June 30, 2015

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 Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015. 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.

Net 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.

The financial statement disclosures are neutral, consistent and clear.

INDEPENDENT SCHOOL DISTRICT NO. 877

REQUIRED COMMUNICATION

June 30, 2015

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 misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

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.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

OTHER AUDIT FINDINGS OR ISSUES

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

INDEPENDENT SCHOOL DISTRICT NO. 877

REQUIRED COMMUNICATION

June 30, 2015

OTHER MATTERS

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

INDEPENDENT SCHOOL DISTRICT NO. 877

FINANCIAL ANALYSIS June 30, 2015

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance.

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.

ADM	2011	2012	2013	2014	2015
Early Childhood	50.33	51.89	49.65	50.74	51.11
Kindergarten	473.36	404.41	453.79	422.95	448.24
Elementary	2,777.28	2,823.81	2,845.57	2,829.01	2,839.51
Secondary	2,700.07	2,721.82	2,731.65	2,832.26	2,871.58
Total Resident ADM	6,001.04	6,001.93	6,080.66	6,134.96	6,210.44



* Estimate as of September 14, 2015

INDEPENDENT SCHOOL DISTRICT NO. 877

**FINANCIAL ANALYSIS
June 30, 2015**

RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

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 3.5% since 2011 and increased 1.2% from 2014 to 2015, a majority of this increase was in secondary ADM.

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.

Pupil Units Weighting				
	Pre-Kindergarten and Handicapped Kindergarten	Part-time and All-Day Kindergarten	Elementary Grades 1-3/4-6	Secondary
2011-2014	1.250/1.000	0.612	1.115/1.060	1.300
2015	1.000	0.612	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.

PUN	2011	2012	2013	2014	2015
Residents	6,891.87	6,934.05	6,991.53	7,090.53	6,780.18
Resident PUN Loss	(617.96)	(678.76)	(716.17)	(786.50)	(800.24)
Nonresident PUN Gain	409.91	400.84	406.63	411.21	351.58
Total PUN Served	6,683.82	6,656.13	6,681.99	6,715.24	6,331.52

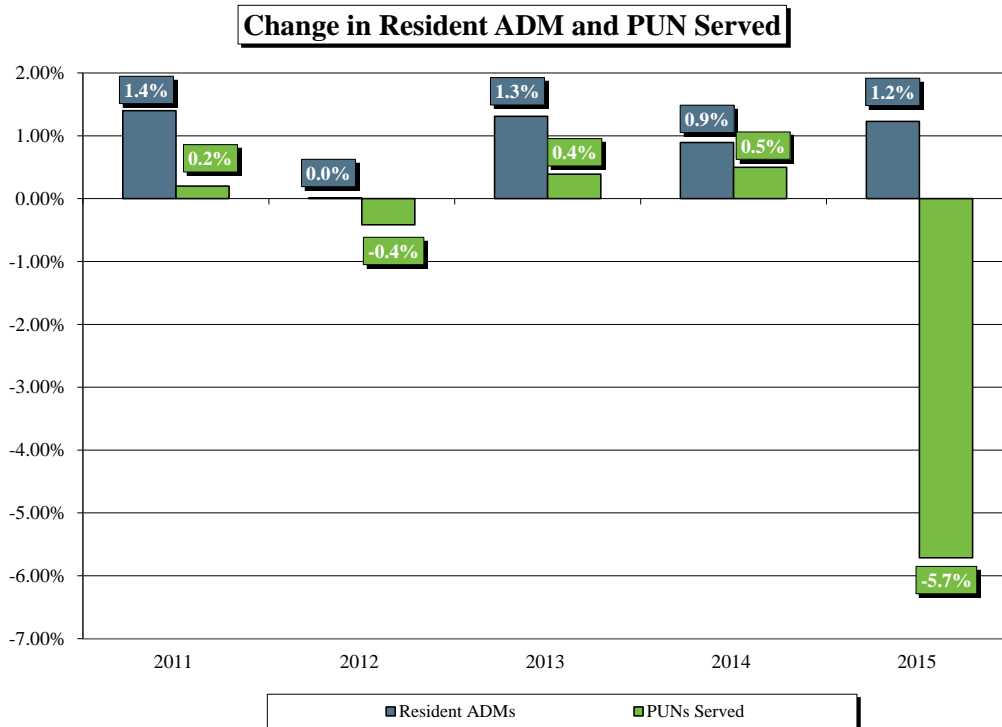
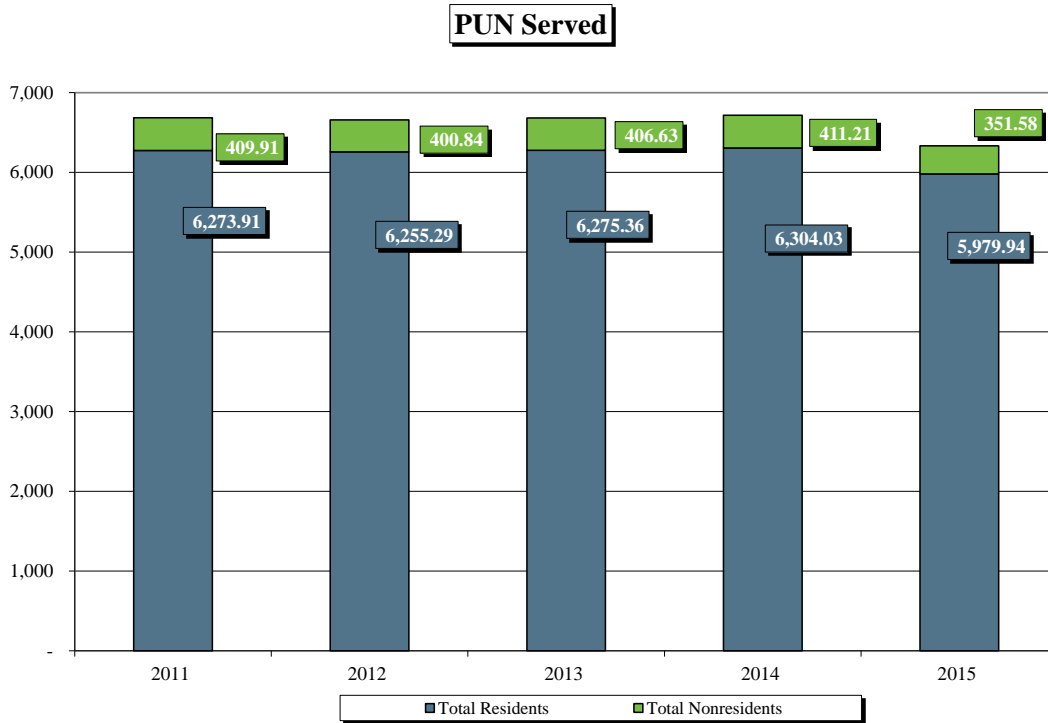
* Estimate as of September 14, 2015

Resident PUN decreased for the first time in 2015 over the five years presented due to the reduction in the weighting factors. PUN has varied from year-to-year based on open enrollment; from 2014 to 2015 there was a 383.72 PUN decrease. This decrease is primarily due to the change in weighting as shown above in the PUN chart. Using the same weighting as years prior, the total PUN served was 6,705.94 which would be a decrease of only 9.3 PUN from 2014.

INDEPENDENT SCHOOL DISTRICT NO. 877

FINANCIAL ANALYSIS June 30, 2015

PUPIL UNITS WEIGHTING SERVED



INDEPENDENT SCHOOL DISTRICT NO. 877

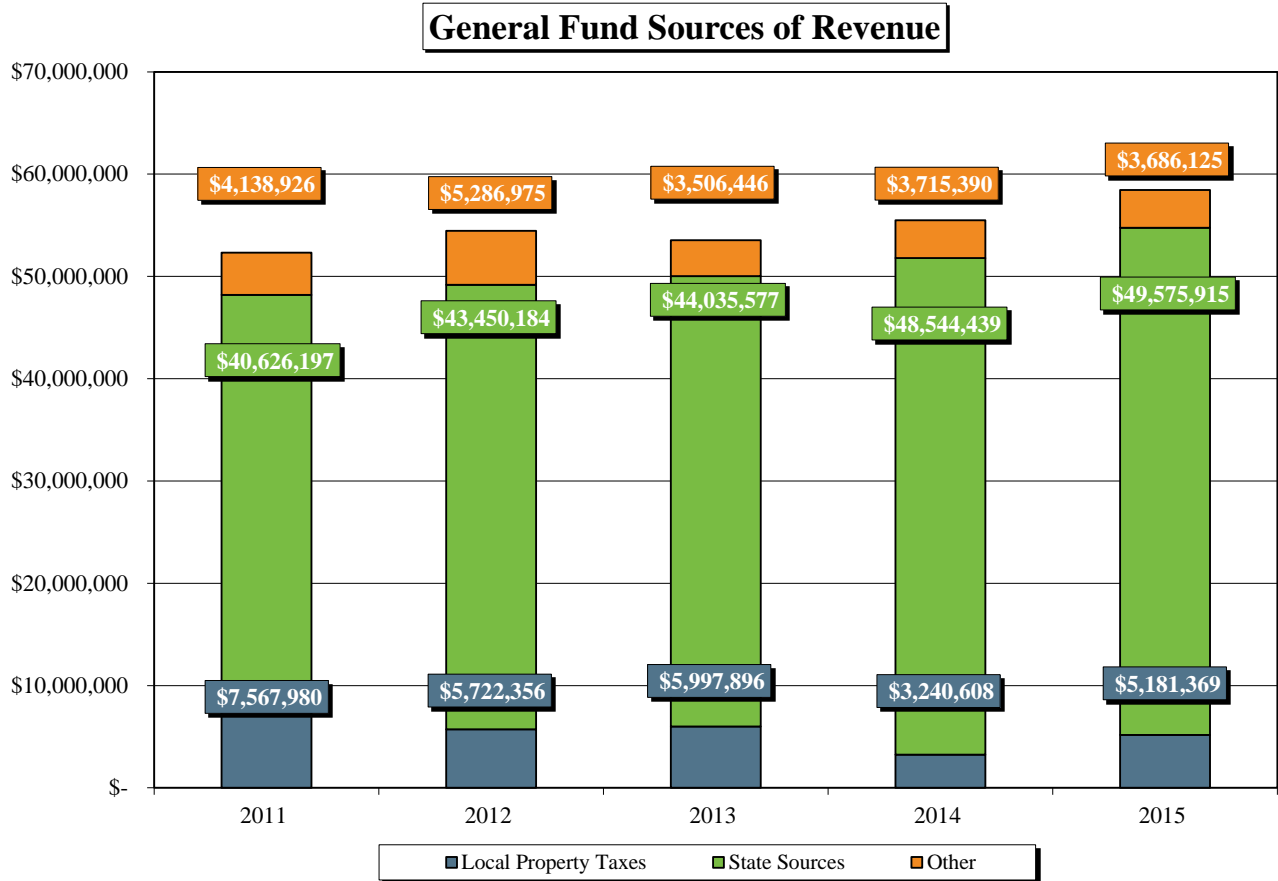
**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND SOURCES OF REVENUE

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

	2011	2012	2013	2014	2015
Local Property Taxes	\$ 7,567,980	\$ 5,722,356	\$ 5,997,896	\$ 3,240,608	\$ 5,181,369
State Sources	40,626,197	43,450,184	44,035,577	48,544,439	49,575,915
Other	4,138,926	5,286,975	3,506,446	3,715,390	3,686,125
Total	\$ 52,333,103	\$ 54,459,515	\$ 53,539,919	\$ 55,500,437	\$ 58,443,409

State revenue sources, which make up approximately 84.8% of total revenues, increased by \$ 1,031,476 for the year ended June 30, 2015, while local property taxes increased by \$ 1,940,761 and other sources decreased \$ 29,265. Included in other revenues are local, county and federal revenues. Factors contributing to these changes include effects of the prior year tax shift, where \$ 2,092,167 of property tax revenues was shifted from property taxes to state sources. Since there was not a shift in 2015, property tax revenues increased despite a decrease in the amount levied to the general fund. State aids increased due to an increase in the formula allowance. Other revenues stayed relatively consistent with the prior year.



INDEPENDENT SCHOOL DISTRICT NO. 877

**FINANCIAL ANALYSIS
June 30, 2015**

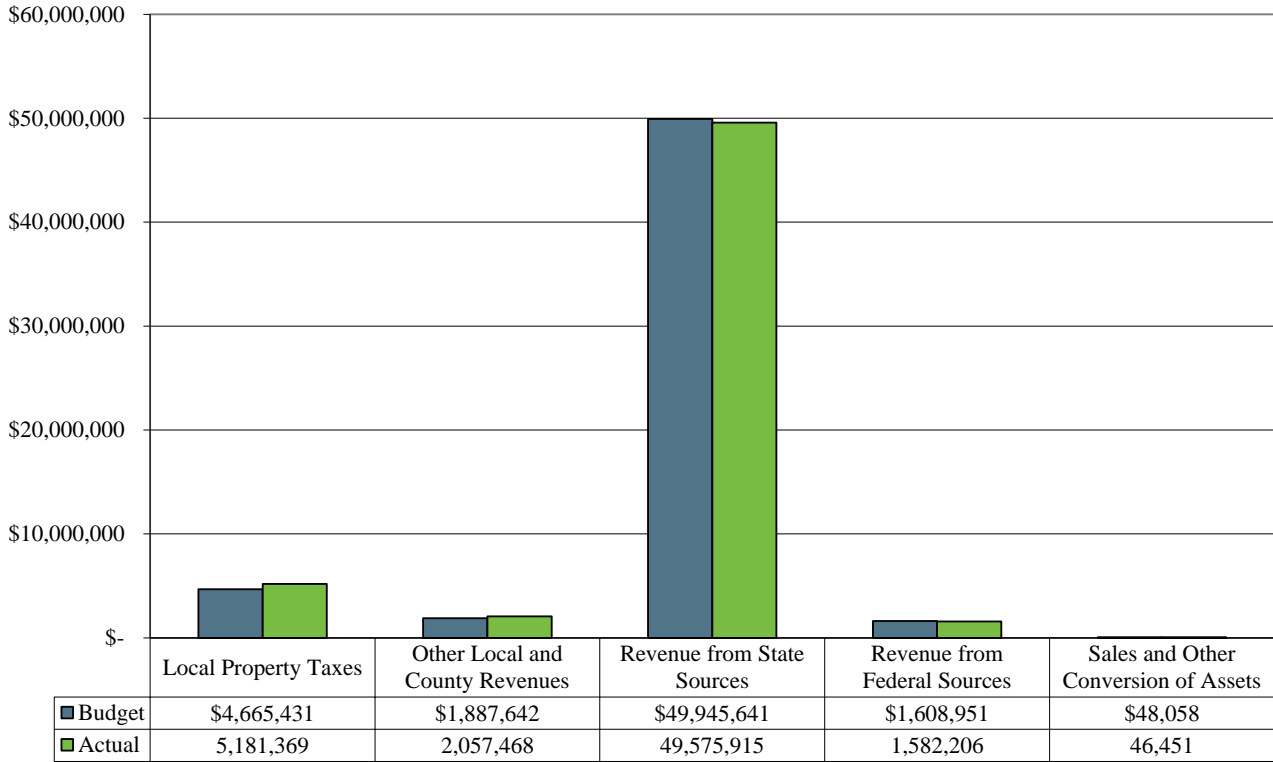
GENERAL FUND REVENUES BUDGET AND ACTUAL

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

The District approved a final General Fund revenue budget of \$ 58,155,723. With actual revenues coming in at \$ 58,443,409, the final budget produced a variance of \$ 287,686, or 0.5%.

The largest variance was in revenue from local property taxes, which was due to budgeting for a tax shift adjustment that did not occur. State revenues were under budgeted revenues due to the same tax shift adjustment. All other revenue categories budgets were in line with actual revenue.

**General Fund Revenues
Budget and Actual**



INDEPENDENT SCHOOL DISTRICT NO. 877

**FINANCIAL ANALYSIS
June 30, 2015**

REVENUES AND EXPENDITURES PER ADM SERVED

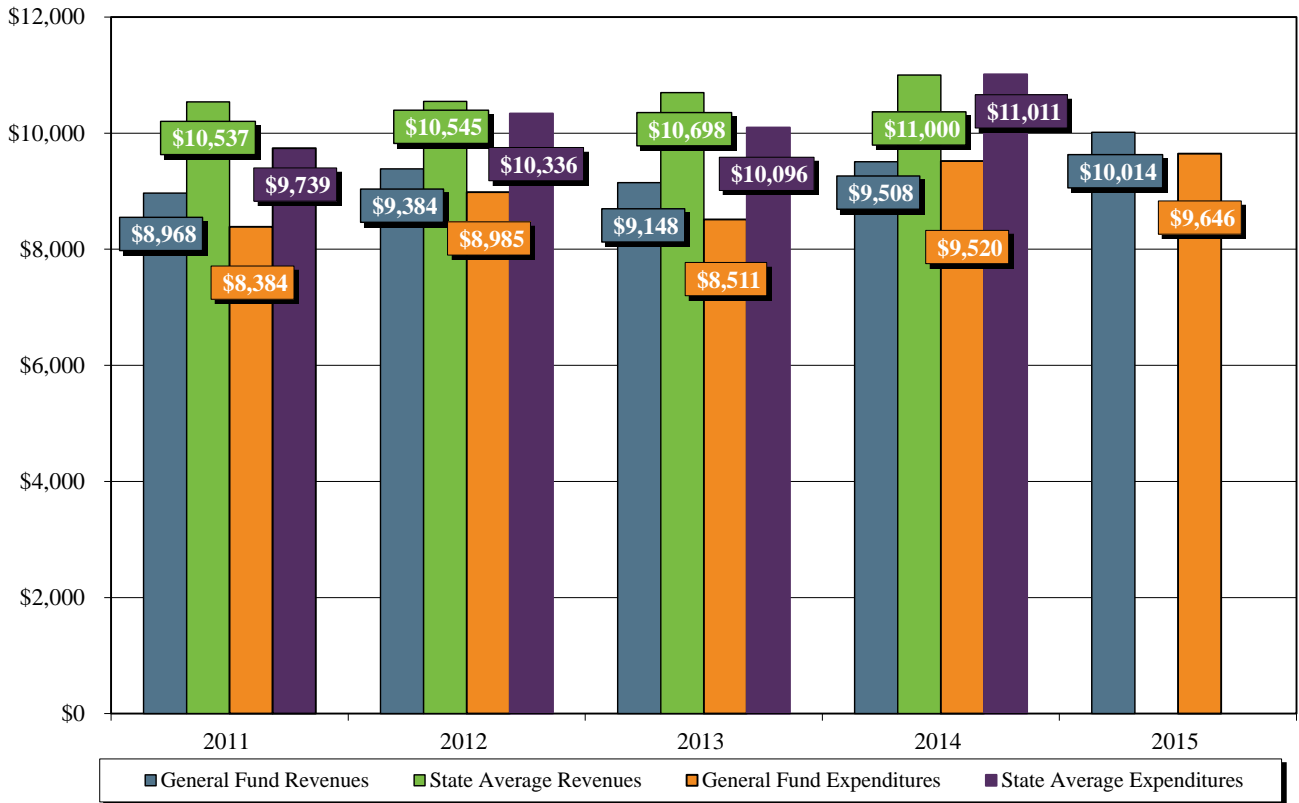
General Fund revenues per students (ADM) served, are summarized in the following table and graph:

	2011	2012	2013	2014	2015
General Fund	\$ 8,968	\$ 9,384	\$ 9,148	\$ 9,508	\$ 10,014
General Fund State Average	10,537	10,545	10,698	11,000	N/A

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

	2011	2012	2013	2014	2015
General Fund	\$ 8,384	\$ 8,985	\$ 8,511	\$ 9,520	\$ 9,646
General Fund State Average	9,739	10,336	10,096	11,011	N/A

Revenues and Expenditures Per Student ADM Served



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.

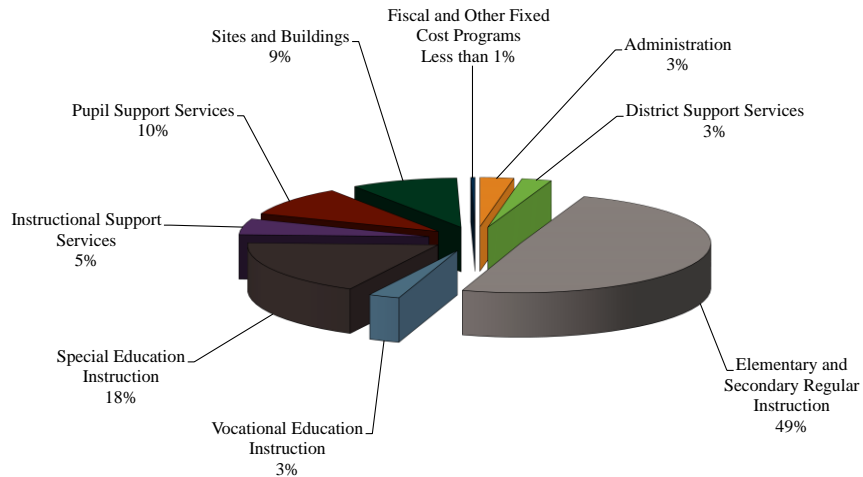
INDEPENDENT SCHOOL DISTRICT NO. 877

**FINANCIAL ANALYSIS
June 30, 2015**

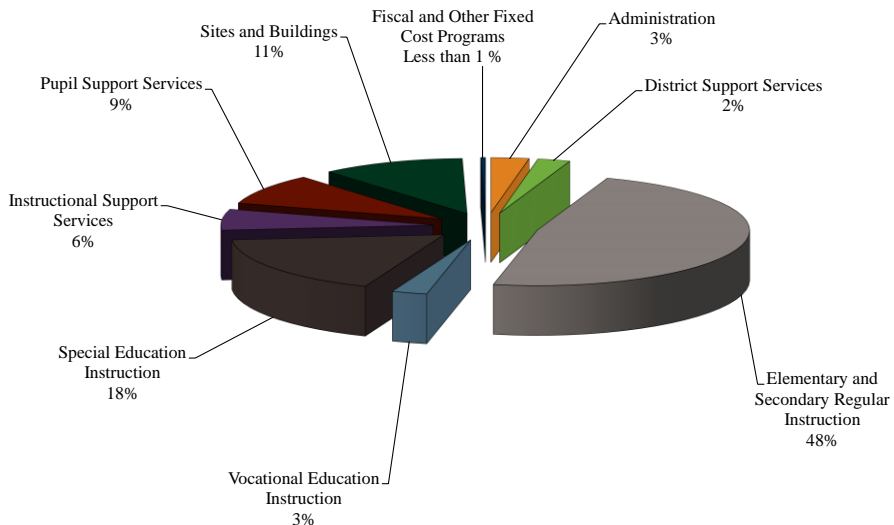
GENERAL FUND EXPENDITURES

The graphs below depict the percentage of expenditures by function in the General Fund for years 2014 and 2015. Expenditures increased by \$ 1,372,458, or 2.5%, from 2014 to 2015, and the allocation of expenditures remained very consistent. Education programs and instructional support made up approximately 75% of the District’s expenditures, and only 5% and 6% were attributable to Administration and District support services for 2014 and 2015, respectively.

General Fund Expenditures 2015



General Fund Expenditures 2014



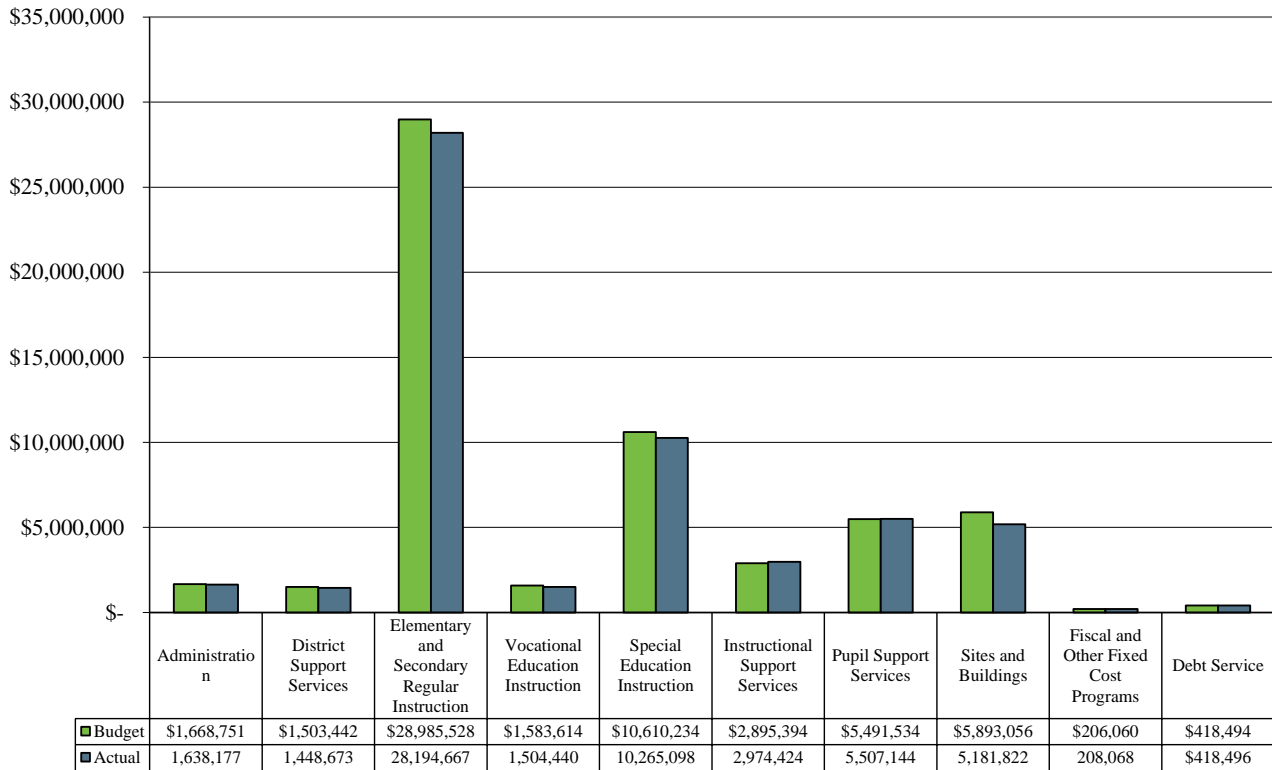
INDEPENDENT SCHOOL DISTRICT NO. 877

**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND BUDGET AND ACTUAL

In total, General Fund expenditures were \$ 1,915,098 under budget. As noted in the graph below, programs over budget included instructional support services, pupil support services and fiscal and other fixed cost programs. The largest variance occurred in elementary and secondary regular instruction, which was \$ 790,861 under budget. This variance was due to worker’s compensation coming in under what was originally anticipated. The District also budgets for potential contingency expenditures that were not needed in 2015. Sites and buildings was under budget \$ 711,234. This was due to the District budgeting for more capital projects for building improvements, which for some projects did not start until 2016. Special education was under budget \$ 345,136, mostly due to the District budgeting conservatively for benefits and using less substitute teachers than anticipated.

**General Fund Expenditures
Budget and Actual**



INDEPENDENT SCHOOL DISTRICT NO. 877

**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND OPERATIONS

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

	2011	2012	2013	2014	2015
Revenues	\$ 52,333,103	\$ 54,459,515	\$ 53,539,919	\$ 55,500,437	\$ 58,443,409
Expenditures, Excluding OPEB	51,887,209	52,254,661	52,105,504	55,968,551	57,341,009
Excess of Revenues Over (Under) Expenditures	445,894	2,204,854	1,434,415	(468,114)	1,102,400
Transfers/Other Financing Sources and Uses	396,910	109,046	(13,556)	183,186	-
Fund Balance, July 1	11,216,560	12,059,364	14,373,264	15,794,123	15,509,195
Fund Balance, June 30	\$ 12,059,364	\$ 14,373,264	\$ 15,794,123	\$ 15,509,195	\$ 16,611,595
Components:					
Unassigned	\$ 6,277,042	\$ 7,719,781	\$ 8,361,633	\$ 9,209,451	\$ 9,943,213
Nonspendable	398,695	417,092	312,765	335,791	331,689
Reserved/Restricted for:					
Staff Development	74,801	74,801	74,801	74,801	67,063
Teacher Development & Evaluations	-	-	-	-	110,131
Deferred Maintenance	11,890	981	13	883	730
Operating Capital	61,415	111,840	368,212	233,458	624,963
Health and Safety	(77,456)	(112,811)	(65,661)	14,272	(137,329)
Committed/Assigned for:					
Separation Benefits	3,965,750	4,118,869	4,689,661	4,075,012	4,062,933
Student Activities	171,444	134,880	143,576	211,361	317,704
3rd Party Special Education	186,840	422,029	501,964	522,502	493,734
Stimulus	273,509	66,543	66,543	66,543	385,973
Capital	327,355	1,000,000	775,750	405,534	-
Carryover	138,181	171,929	341,646	144,006	211,124
Dental Insurance	249,898	247,330	223,220	215,581	199,667
Total	\$ 12,059,364	\$ 14,373,264	\$ 15,794,123	\$ 15,509,195	\$ 16,611,595

As previously stated, total General Fund revenue increased 5.3% from 2014 to 2015 as a result of an increase in state aids due to the increase in the formula allowance and an increase in students served.

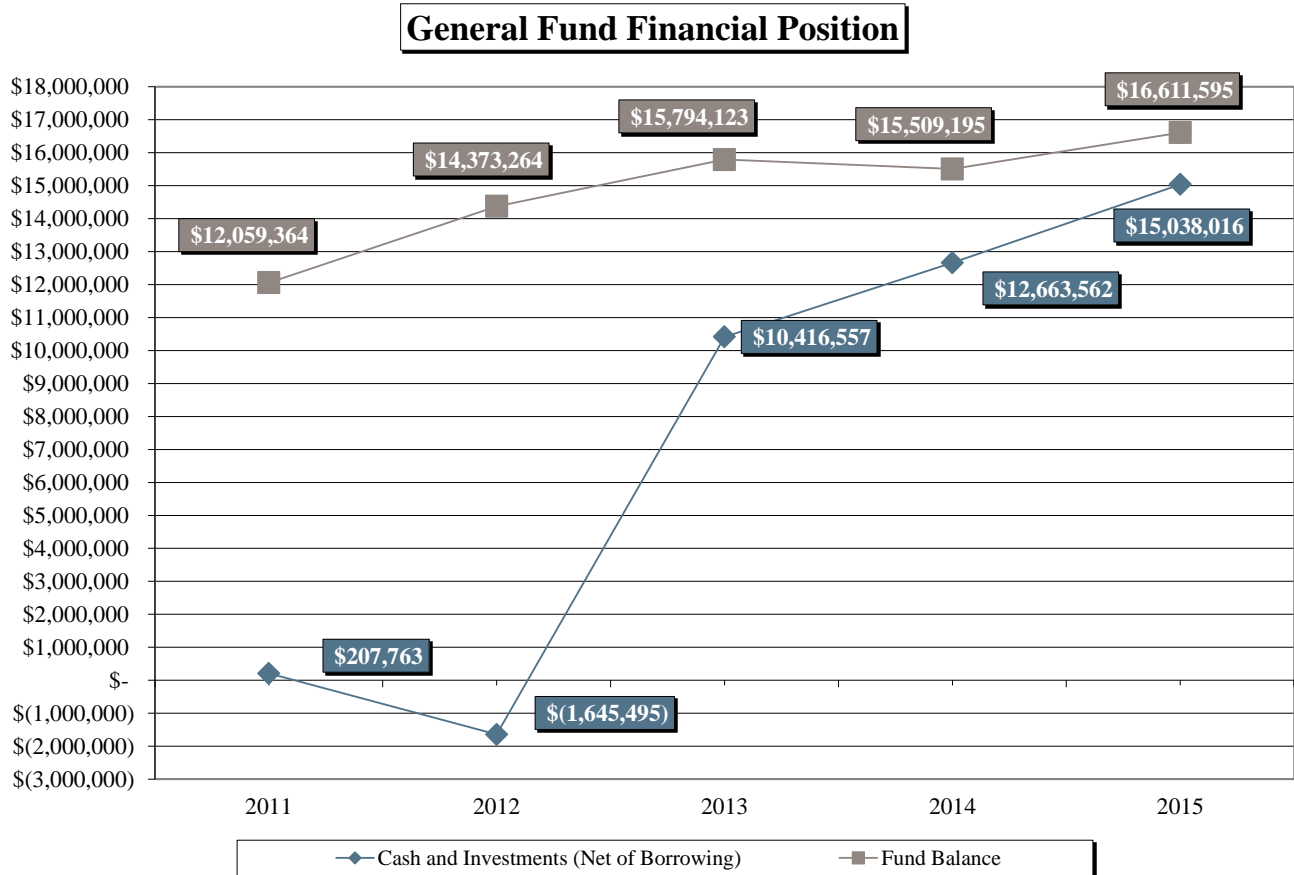
Total General Fund expenditures increased 2.5% from 2014 to 2015. This increase was mostly due to an increase in salaries and benefits for regular instruction and special education programs.

Revenues exceeded expenditures during 2015, increasing fund balance by \$ 1,102,400.

INDEPENDENT SCHOOL DISTRICT NO. 877

FINANCIAL ANALYSIS
June 30, 2015

GENERAL FUND OPERATIONS



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 70% in 2011 and 64.3% in 2012. The state also reenacted the property tax shift in which property tax revenues were early recognized in place of state aids during year 2011. In 2013, the state metered payments at 85%. 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

June 30, 2015

FOOD SERVICE FUND

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

For the Year Ended June 30,	2011	2012	2013	2014	2015
Revenues	\$ 2,859,338	\$ 2,884,441	\$ 2,842,939	\$ 2,758,656	\$ 2,886,080
Expenditures, Excluding OPEB	2,825,861	2,993,198	2,887,006	2,974,079	2,860,520
Excess of Revenues Over (Under) Expenditures	33,477	(108,757)	(44,067)	(215,423)	25,560
Transfers/Other Financing Sources	-	-	16,677	215,423	-
Fund Balance, July 1	102,670	136,147	27,390	-	-
Fund Balance, June 30	\$ 136,147	\$ 27,390	\$ -	\$ -	\$ 25,560

In 2015, the Food Service Fund posted a surplus for the first time since 2011. Revenues exceeded expenditures by \$ 25,560, and as a result, a transfer from the General fund to help cover costs was not needed.

COMMUNITY SERVICE FUND

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

For the Year Ended June 30,	2011	2012	2013	2014	2015
Revenues	\$ 2,998,587	\$ 3,280,332	\$ 3,600,629	\$ 3,722,968	\$ 3,558,973
Expenditures, Excluding OPEB	2,988,036	3,222,834	3,757,184	3,772,546	3,757,423
Excess of Revenues Over (Under) Expenditures	10,551	57,498	(156,555)	(49,578)	(198,450)
Transfers/Other Financing Sources	-	-	-	2,276	500
Fund Balance, July 1	277,849	288,400	345,898	189,343	142,041
Fund Balance, June 30	\$ 288,400	\$ 345,898	\$ 189,343	\$ 142,041	\$ (55,909)

Components:

Unreserved/Unassigned	\$ -	\$ -	\$ -	\$ -	\$ (20,203)
Nonspendable	-	-	-	-	13,252
Restricted/Reserved for:					
Community Service	7,860	9,981	2	-	-
ECFE	99,645	78,951	28,276	34,442	(3,303)
Community Education	129,672	212,281	138,066	103,280	(5,750)
School Readiness	40,554	32,303	10,494	(8,186)	(47,669)
Adult Basic Education	10,669	12,382	12,505	12,505	7,764
Total	\$ 288,400	\$ 345,898	\$ 189,343	\$ 142,041	\$ (55,909)

Expenditures exceeded revenues for the third straight year. Revenues decreased 4.4% due to revenues for all-day kindergarten becoming a state funded program and moved to the general fund. Expenditures stayed consistent, decreasing only 0.4% from 2014. As a result, the fund showed its first fund balance deficit in the five years presented.

INDEPENDENT SCHOOL DISTRICT NO. 877

LEGISLATIVE SUMMARY June 30, 2015

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

STATE AID APPROPRIATIONS

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

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

ENGLISH LEARNER REVENUE

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

COMPENSATORY REVENUE

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

STUDENT ACHIEVEMENT LEVY

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

OPERATING CAPITAL LEVY

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

LEARNING AND DEVELOPMENT

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

Q COMP

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

INDEPENDENT SCHOOL DISTRICT NO. 877

LEGISLATIVE SUMMARY June 30, 2015

ALTERNATIVE TEACHER PAY

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

STAFF DEVELOPMENT

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

AMERICAN INDIAN EDUCATION AID

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

LONG-TERM FACILITIES MAINTENANCE REVENUE

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 877

LEGISLATIVE SUMMARY June 30, 2015

MISCELLANEOUS LEVIES

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

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

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

LOCAL OPTIONAL REVENUE

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

ACCOUNTING

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

FINANCIAL REPORTING DATES

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

INDEPENDENT SCHOOL DISTRICT NO. 877

LEGISLATIVE SUMMARY June 30, 2015

SPECIAL EDUCATION

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

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 877

EMERGING ISSUES

June 30, 2015

Executive Summary

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

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

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

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

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

Effective Dates

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

Objective of OMB Grant Reform

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

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

INDEPENDENT SCHOOL DISTRICT NO. 877

EMERGING ISSUES

June 30, 2015

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

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

Administrative Requirements – Subpart A-D of Federal Register

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

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

Internal Controls (Section 200.303)

Internal controls should comply with:

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

Internal controls must:

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

Procurement Standards (Sections 200.317 through 200.326)

Guidelines provide five different procurement methods

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

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

INDEPENDENT SCHOOL DISTRICT NO. 877

EMERGING ISSUES

June 30, 2015

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

Subrecipient Monitoring (Sections 200.330 through 200.332 and 200.521)

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

Cost Principles – Subpart E of Federal Register

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

Indirect/Direct Costs (Sections 200.413-200.414)

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

Time and Effort Reporting (Section 200.430)

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

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

Audit Requirements – Subpart F of Federal Register

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

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

INDEPENDENT SCHOOL DISTRICT NO. 482

EMERGING ISSUES

June 30, 2015

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

Other Items of Interest

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

Example of Strategy to Implement OMB Grant Reform Changes

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

Additional Resources on OMB Grant Reform

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 482

EMERGING ISSUES

June 30, 2015

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

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

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

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

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

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

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