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

Communications Letter

June 30, 2016

bergan KDV
CPAS | ADVISORS

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, 2016, 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 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. 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 14, 2016, 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.

BerganKDV Ltd.

St. Cloud, Minnesota
October 14, 2016

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, 2016. 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 an 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.

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 the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. 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.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)

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.

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 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.

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.

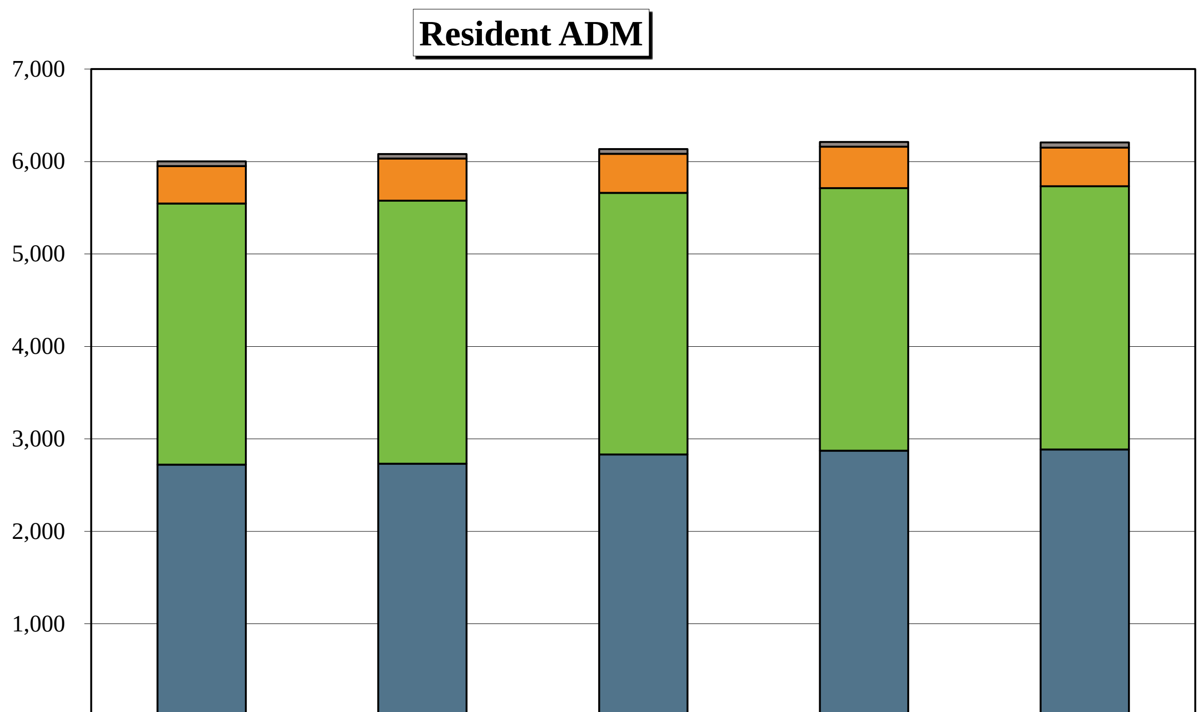
	General Education Aid Formula Allowance	
Year	Amount	Percent Increase
2005	$ 4,601	0.0%
2006	4,782	4.0%
2007	4,974	4.0%
2008	5,074	2.0%
2009	5,124	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%

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

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	2012	2013	2014	2015	2016*
Early Childhood	51.89	49.65	50.74	51.40	56.34
Kindergarten	404.41	453.79	422.95	448.33	418.54
Elementary	2,823.81	2,845.57	2,829.01	2,840.59	2,847.35
Secondary	2,721.82	2,731.65	2,832.26	2,871.68	2,884.05
Total resident ADM	**6,001.93**	**6,080.66**	**6,134.96**	**6,212.00**	**6,206.28**



	2012	2013	2014	2015	2016*
Early Childhood	51.89	49.65	50.74	51.40	56.34
Kindergarten	404.41	453.79	422.95	448.33	418.54
Elementary	2,823.81	2,845.57	2,829.01	2,840.59	2,847.35
Secondary	2,721.82	2,731.65	2,832.26	2,871.68	2,884.05

* Estimate as of September 14, 2016

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 3.4% since 2012, but decreased 0.1% from 2015. A majority of the increase from 2012 was in secondary ADM, increasing 162.23 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.

Pupil Units Weighting				
	Pre-Kindergarten and Handicapped Kindergarten	Part-time and All-Day Kindergarten	Elementary Grades 1-3/4-6	Secondary
2012-2014	1.250/1.000	0.612	1.115/1.060	1.300
2015-2016	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.

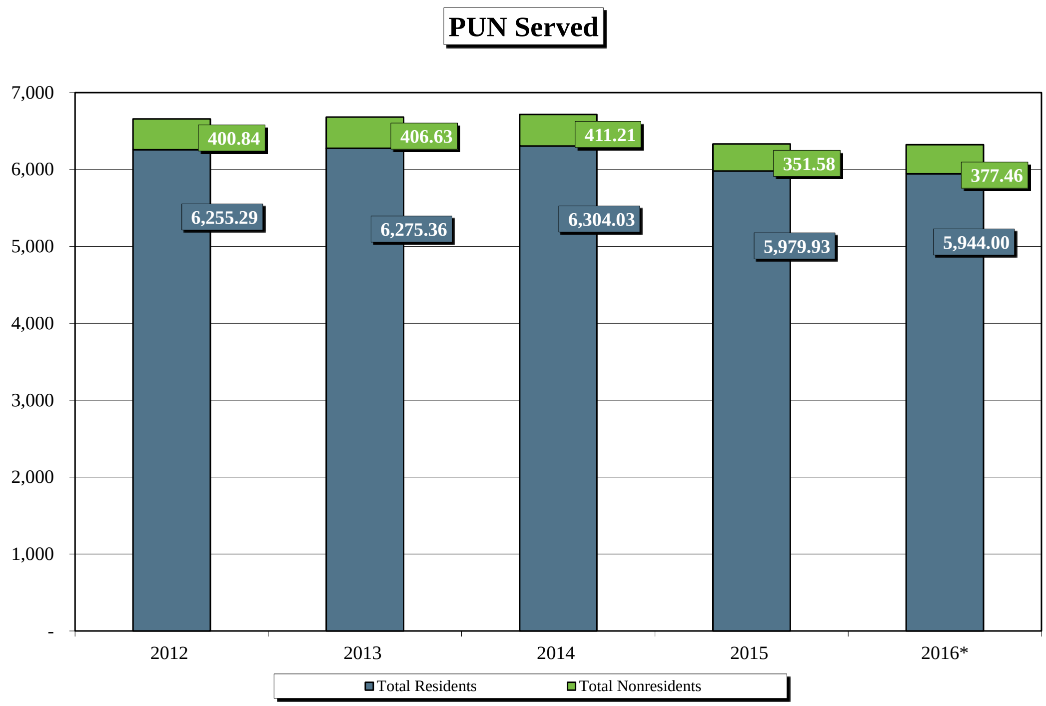
The pupil units weighting (PUN) served table below and graph on the following page, converts the resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

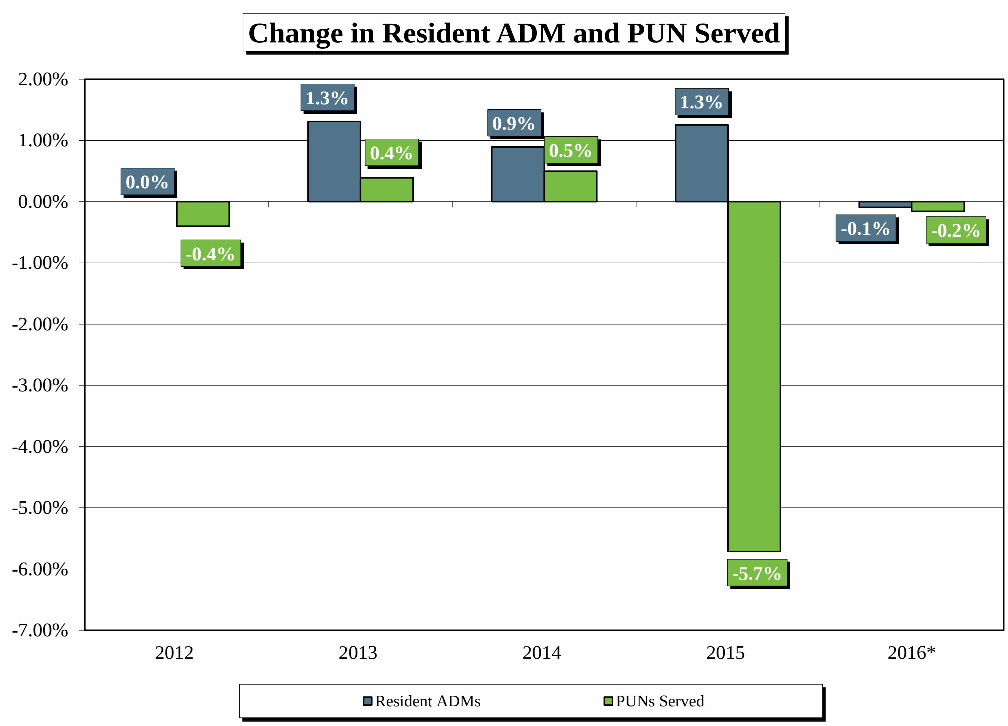
PUN	2012	2013	2014	2015	2016*
Residents	6,934.05	6,991.53	7,090.53	6,781.76	6,780.69
Resident PUN loss	(678.76)	(716.17)	(786.50)	(801.83)	(836.69)
Nonresident PUN gain	400.84	406.63	411.21	351.58	377.46
Total PUN served	**6,656.13**	**6,681.99**	**6,715.24**	**6,331.51**	**6,321.46**

* Estimate as of September 14, 2016

Resident PUN stayed relatively consistent with 2015, decreasing just 1.07 units. PUN has varied from year-to-year based on open enrollment. From 2015 to 2016, total PUN served decreased 10.05 units.

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	Variance With Final Budget -
	Original	Final	Amounts	Over (under)
Revenues				
Local property taxes	$ 4,692,270	$ 5,667,463	$ 5,655,260	$ (12,203)
Other local revenues	1,857,422	1,966,914	2,027,453	60,539
Revenue from state sources	51,295,891	50,461,792	51,640,876	1,179,084
Revenue from federal sources	1,608,879	1,551,915	1,552,551	636
Sales and other conversion of assets	48,058	38,200	42,548	4,348
Total revenues	59,502,520	59,686,284	60,918,688	1,232,404
Expenditures				
Administration	1,695,633	1,690,783	1,679,268	(11,515)
District support services	1,576,776	1,558,398	1,548,590	(9,808)
Regular instruction	30,061,201	28,973,773	28,861,161	(112,612)
Vocational instruction	1,665,687	1,642,882	1,642,038	(844)
Special education instruction	10,847,536	10,521,070	10,445,405	(75,665)
Instructional support services	3,325,703	4,734,726	4,495,055	(239,671)
Pupil support services	5,652,658	5,707,858	5,902,796	194,938
Sites and buildings	5,858,931	5,910,882	5,474,334	(436,548)
Fiscal and other fixed cost programs	213,800	212,441	212,044	(397)
Debt service	334,880	418,494	418,495	1
Total expenditures	61,232,805	61,371,307	60,679,186	(692,121)
Excess of revenues over (under) expenditures	$ (1,730,285)	$ (1,685,023)	$ 239,502	$ 1,924,525

The District approved a final General Fund revenue budget of $59,686,284. With actual revenues coming in at $60,918,688, the final budget produced a variance of $1,232,404, or 2.1%. The largest variance was in revenue from State sources which were over budget due to the TRA in-kind contributions and receiving more special education revenue than anticipated. All other revenue categories budgets were in line with actual revenue.

In total, General Fund expenditures were $692,121 under budget. The largest variance occurred in sites and buildings, which was $436,548 under budget. This was due to the District budgeting conservatively for health and safety as well as seeing decreased costs in both utilities and snow removal. Instructional support was under budget due to the District budgeting for textbooks that were not purchased in 2016. Pupil support services was over budget $194,938 due to more special education transportation costs than what was anticipated.

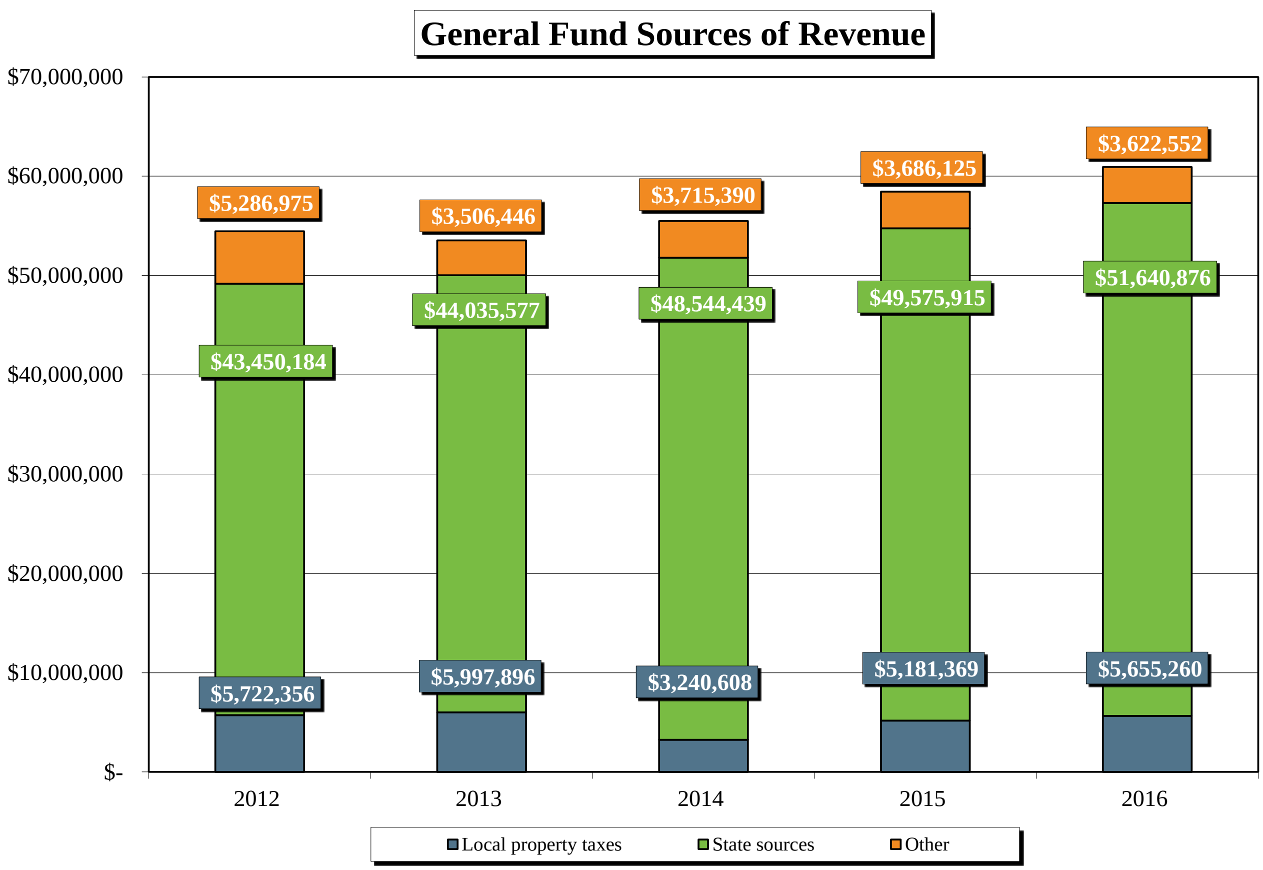
Independent School District No. 877
Financial Analysis

GENERAL FUND SOURCES OF REVENUE

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

	2012	2013	2014	2015	2016
Local property taxes	$ 5,722,356	$ 5,997,896	$ 3,240,608	$ 5,181,369	$ 5,655,260
State sources	43,450,184	44,035,577	48,544,439	49,575,915	51,640,876
Other	5,286,975	3,506,446	3,715,390	3,686,125	3,622,552
Total	**$ 54,459,515**	**$ 53,539,919**	**$ 55,500,437**	**$ 58,443,409**	**$ 60,918,688**

State revenue sources, which make up approximately 84.8% of total revenues, increased by $2,064,961 for the year ended June 30, 2016, while local property taxes increased by $473,891 and other sources decreased $63,573. Included in other revenues are local, county, and federal revenues. Factors contributing to these changes include an increase in the formula allowance per students, Q-comp 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

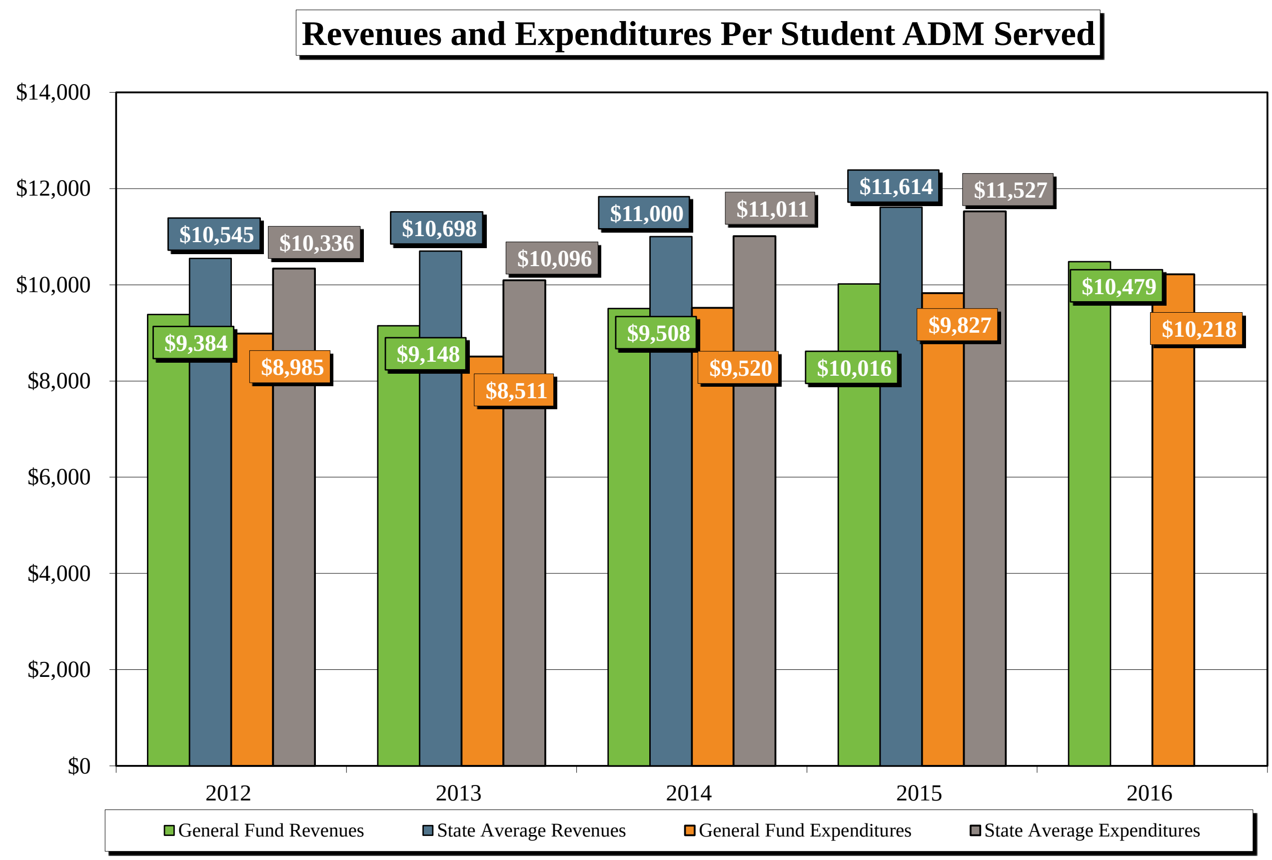
REVENUES AND EXPENDITURES PER ADM SERVED

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

	2012	2013	2014	2015	2016
General Fund	$ 9,384	$ 9,148	$ 9,508	$ 10,016	$ 10,479
General Fund state average	10,545	10,698	11,000	11,614	N/A

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

	2012	2013	2014	2015	2016
General Fund	$ 8,985	$ 8,511	$ 9,520	$ 9,827	$ 10,218
General Fund state average	10,336	10,096	11,011	11,527	N/A

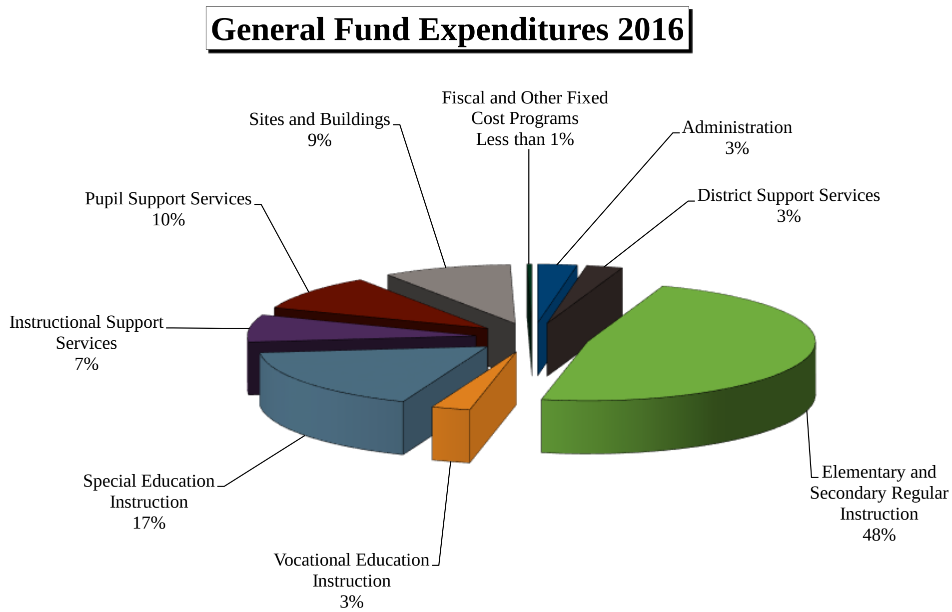


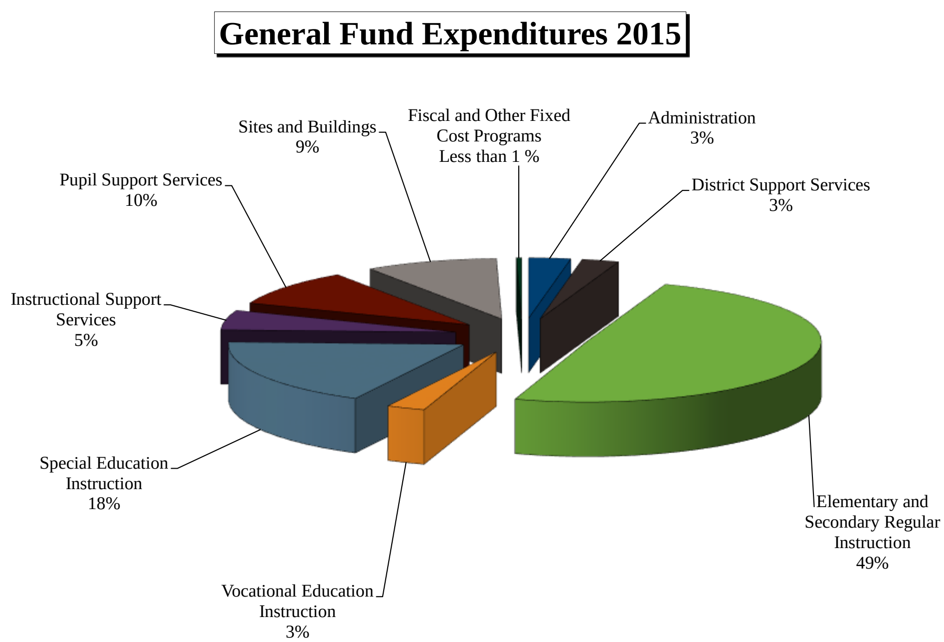
Revenues per ADM have consistently been below the state average, the largest variance is in property tax revenue per ADM. The District also receives less General Education Aid and federal aids per ADM. In relation to this, as a result of bringing in less revenue per ADM, the District is spending less 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 2015 and 2016. Expenditures increased by $3,340,704, or 5.8%, from 2015 to 2016, and the allocation of expenditures remained very consistent. Education programs and instructional support made up approximately 75% of the District's expenditures, and only 6% were attributable to Administration and District support services for both 2015 and 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:

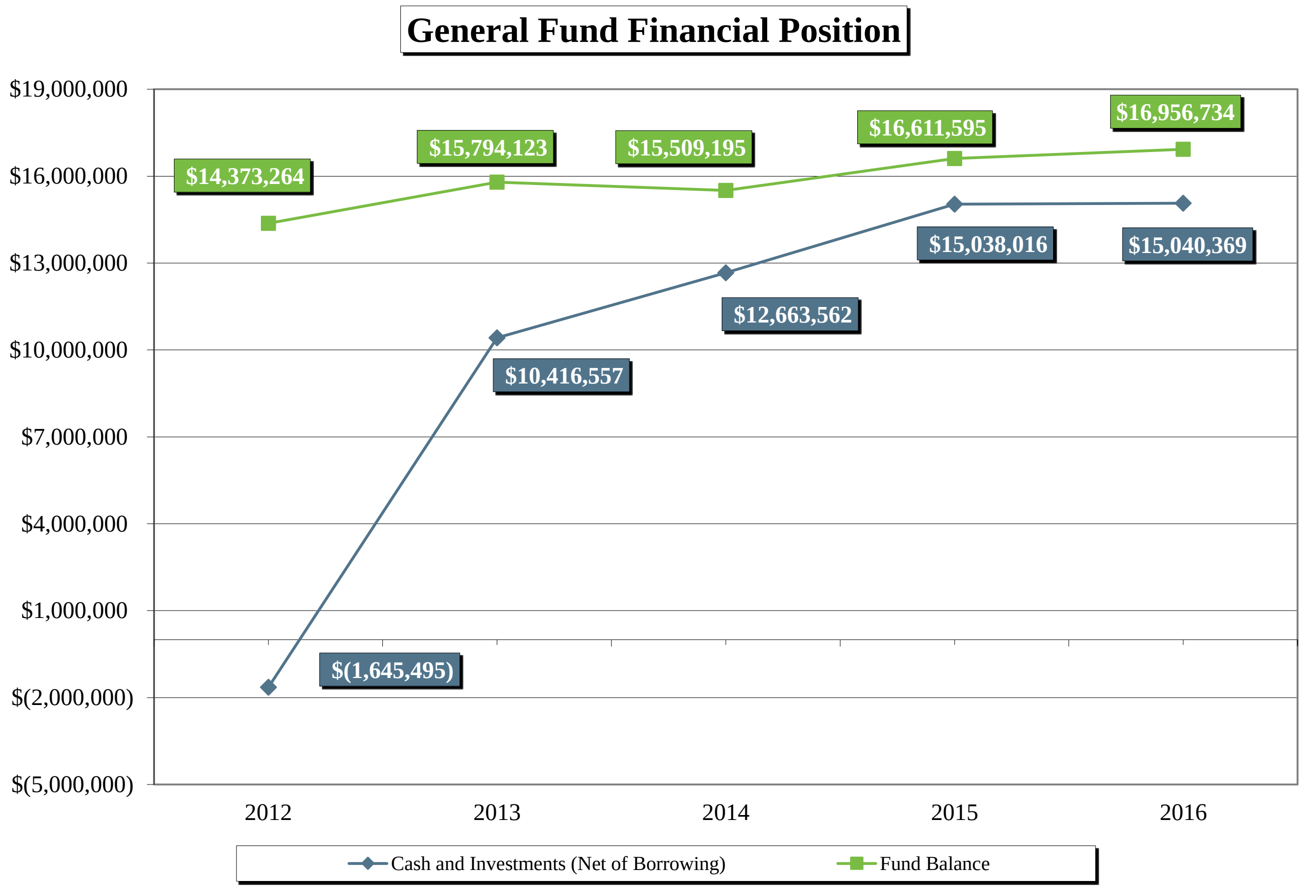
	2012	2013	2014	2015	2016
Revenues	$ 54,459,515	$ 53,539,919	$ 55,500,437	$ 58,443,409	$ 60,918,688
Expenditures	52,254,661	52,105,504	55,968,551	57,341,009	60,679,186
Excess of revenues over (under) expenditures	2,204,854	1,434,415	(468,114)	1,102,400	239,502
Transfers/other financing sources and uses	109,046	(13,556)	183,186	-	105,637
Fund balance, July 1	12,059,364	14,373,264	15,794,124	15,509,195	16,611,595
Fund balance, June 30	$ 14,373,264	$ 15,794,123	$ 15,509,196	$ 16,611,595	$ 16,956,734
Components					
Unassigned	$ 7,719,781	$ 8,361,633	$ 9,209,451	$ 9,943,213	$ 9,739,003
Nonspendable	417,092	312,765	335,791	331,689	262,877
Reserved/restricted for					
Staff development	74,801	74,801	74,801	67,063	62,695
Teacher development and evaluations	-	-	-	110,131	103,247
Deferred maintanence	981	13	883	730	-
Operating capital	111,840	368,212	233,458	624,963	614,500
Health and safety	(112,811)	(65,661)	14,272	(137,329)	(64,860)
Committed/assigned for					
Separation benefits	4,118,869	4,689,661	4,075,012	4,062,933	4,165,436
Student activities	134,880	143,576	211,361	317,704	356,604
3rd party special education	422,029	501,964	522,502	493,734	560,353
Stimulus	66,543	66,543	66,543	385,973	654,758
Capital	1,000,000	775,750	405,534	-	-
Carryover	171,929	341,646	144,006	211,124	355,597
Dental insurance	247,330	223,220	215,581	199,667	146,524
Total	$ 14,373,264	$ 15,794,123	$ 15,509,195	$ 16,611,595	$ 16,956,734

As previously stated, total General Fund revenue increased 4.2% from 2015 to 2016 as a result of an increase in state aids due to the increase in the formula allowance.

Total General Fund expenditures increased 5.8% from 2015 to 2016. This increase was mostly due to the large increase in expenditures for the first year of quality compensation, increasing salaries and benefits for regular instruction, special education, and instructional support services.

Revenues exceeded expenditures during 2016, increasing fund balance by $239,502, with an additional increase of $105,637 coming from sale of capital assets.

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 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

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,	2012	2013	2014	2015	2016
Revenues	$ 2,884,441	$ 2,842,939	$ 2,758,656	$ 2,886,080	$ 3,073,403
Expenditures, excluding OPEB	2,993,198	2,887,006	2,974,079	2,860,520	2,841,565
Excess of revenues over (under) expenditures	(108,757)	(44,067)	(215,423)	25,560	231,838
Transfers/other financing sources	-	16,677	215,423	-	-
Fund balance, July 1	136,147	27,390	-	-	25,560
Fund balance, June 30	$ 27,390	$ -	$ -	$ 25,560	$ 257,398

In 2016, the Food Service Fund posted a surplus for the second time since 2012. Revenues exceeded expenditures by $231,838. Revenues increased $187,323, the largest component of the increase was due to increased participation in the free and reduced program.

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,	2012	2013	2014	2015	2016
Revenues	$ 3,280,332	$ 3,600,629	$ 3,722,968	$ 3,558,973	$ 3,700,202
Expenditures, excluding OPEB	3,222,834	3,757,184	3,772,546	3,757,423	3,836,358
Excess of revenues over (under) expenditures	57,498	(156,555)	(49,578)	(198,450)	(136,156)
Transfers/other financing sources	-	-	2,276	500	-
Fund balance, July 1	288,400	345,898	189,343	142,041	(55,909)
Fund balance, June 30	$ 345,898	$ 189,343	$ 142,041	$ (55,909)	$ (192,065)
Components					
Unreserved/unassigned	$ -	$ -	$ -	$ (20,203)	$ (22,059)
Nonspendable	-	-	-	13,252	7,572
Restricted/reserved for					
Community service	9,981	2	-	-	-
ECFE	78,951	28,276	34,442	(3,303)	(27,519)
Community education	212,281	138,066	103,280	(5,750)	(124,082)
School readiness	32,303	10,494	(8,186)	(47,669)	(38,190)
Adult basic education	12,382	12,505	12,505	7,764	12,213
Total	$ 345,898	$ 189,343	$ 142,041	$ (55,909)	$ (192,065)

Expenditures exceeded revenues for the fourth straight year. Revenues increased 4.0% due to increased participation in the Kid Kare program and in school readiness. Expenditures increased $78,935 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

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. Eligibility was expanded to include cooperative units other than intermediate districts beginning in 2017.

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 education 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 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.

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.

SPECIAL EDUCATION

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

For 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

SPECIAL EDUCATION (CONTINUED)

For 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

During 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.

FOUR DAY WEEKS

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

VOLUNTARY PREKINDERGARTEN

Starting in 2017, children who are four years old on September 1st of the school year in which they enroll are eligible. Funding is formula driven, with students at MDE approved participating sites generating up to 0.6 pupil units.

Aid entitlement is capped at $27,092,000 for 2017, $27,239,000 for 2018, and $26,399,000 for 2019.

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.

SCHOOL BOARD ELECTIONS

Schools are allowed to appoint someone to a vacant seat; however they are required to hold an election for the vacated seat during the next general election. The appointed position may be negated if 5% of the general election voters sign a petition within the first 30 days.

Independent School District No. 877
Emerging Issues

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:

- **Accounting Standard Update – GASB 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans** – GASB has issued GASB statement 74 relating to postemployment benefit plans other than pension plans administered through trusts that meet certain criteria and includes requirements for OPEB plans not administered through trusts. The new statement improves financial reporting primarily through enhanced note disclosures and schedules of required supplementary information.
- **Accounting Standard Update –GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** –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.

ACCOUNTING STANDARD UPDATE – GASB 74 - *FINANCIAL REPORTING FOR POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS*

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

ACCOUNTING STANDARD UPDATE – GASB 74 - *FINANCIAL REPORTING FOR POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS* (CONTINUED)

- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

Alternative measurement method

This Statement includes an option for the use of 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).

Effective Date and Transition
This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

How the Changes in this Statement will Improve Financial Reporting
The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined. In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due.

ACCOUNTING STANDARD UPDATE – GASB 74 - *FINANCIAL REPORTING FOR POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS* (CONTINUED)

Footnote Portion:
GASB has issued GASB Statement 74 relating to postemployment benefit plans other than pension plans administered through trusts that meet certain criteria and includes requirements for OPEB plans not administered through trusts. This new statement requires additional note disclosures and additional required supplementary information. This statement is effective for financial statements for fiscal years beginning after June 15, 2016. We are recommending that a review of your actuarial study be completed with your actuarial firm to ensure compliance with the new standard.

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

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

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

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

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

- 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.

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

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.