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

Communications Letter

June 30, 2019

bergankdv

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, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.

- *Probable*. The future event or events are likely to occur.

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, 2019, 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.

Minneapolis, Minnesota
October 14, 2019

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, 2019. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

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

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

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

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.

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Independent School District No. 877
Required Communication

Our Responsibility in Relation to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As communicated in our engagement letter, 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.

In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

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

Qualitative Aspects of Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2019. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on 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 markedly from management's current judgements. The most sensitive estimate/s affecting the financial statements were:

Qualitative Aspects of Significant Accounting Practices (Continued)

Significant Accounting Estimates (Continued)

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

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 and determined that they are reasonable in relation to the financial statements taken as a whole**.**

Financial Statement Disclosures
Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole.

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

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. 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.

Independent School District No. 877
Required Communication

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

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

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

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

Other Information in Documents Containing Audited Financial Statements
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.

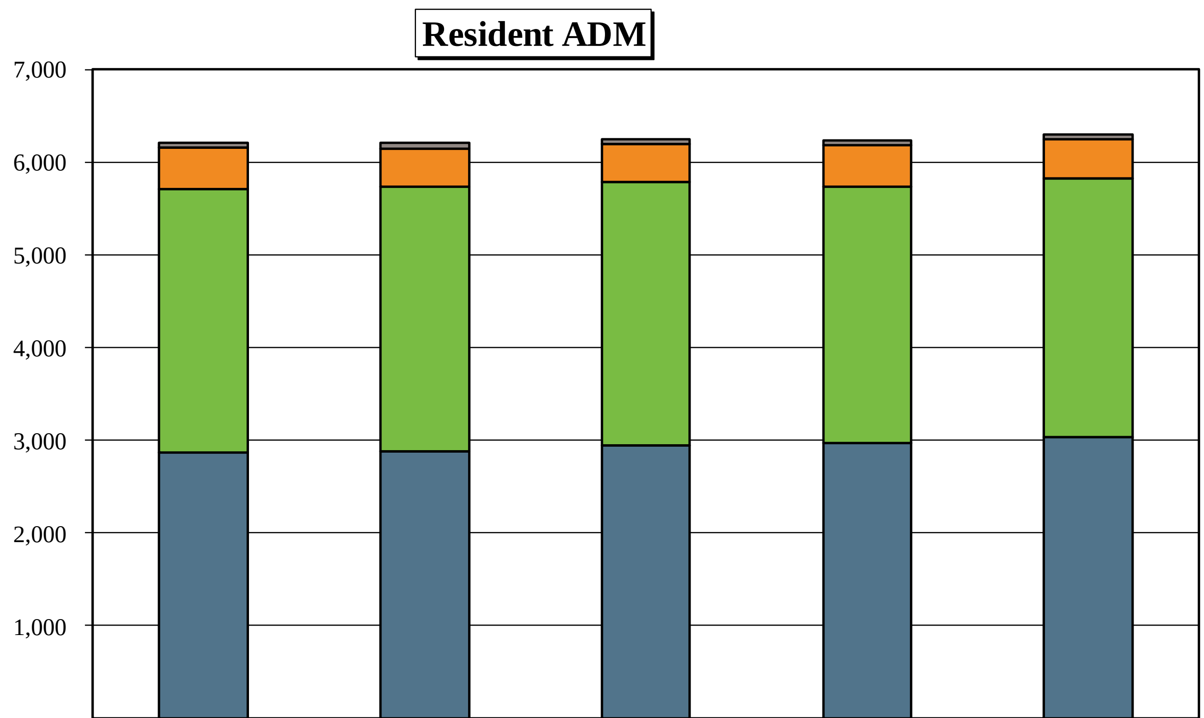
	General Education Aid Formula Allowance	
Year	Amount	Percent Increase
2011	$ 5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%

* 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 83% 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	2015	2016	2017	2018	2019*
Early Childhood	51.40	56.34	58.93	60.62	52.10
Kindergarten	448.33	418.54	404.11	449.92	429.01
Elementary	2,840.59	2,846.98	2,838.66	2,763.19	2,785.02
Secondary	2,871.68	2,884.11	2,949.50	2,967.00	3,036.85
Total Resident ADM	**6,212.00**	**6,205.97**	**6,251.20**	**6,240.73**	**6,302.98**



	2015	2016	2017	2018	2019*
Early Childhood	51.40	56.34	58.93	60.62	52.10
Kindergarten	448.33	418.54	404.11	449.92	429.01
Elementary	2,840.59	2,846.98	2,838.66	2,763.19	2,785.02
Secondary	2,871.68	2,884.11	2,949.50	2,967.00	3,036.85

* Estimate as of September 23, 2019

RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

The chart and graph on the previous page illustrate the fluctuations in resident ADM experienced by the District over the past five years. Total resident ADM increased 1.5% since 2015, and 1.0% from 2018. The majority of the increase from 2015 was in secondary ADM, increasing 165.17 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
2015-2019	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.

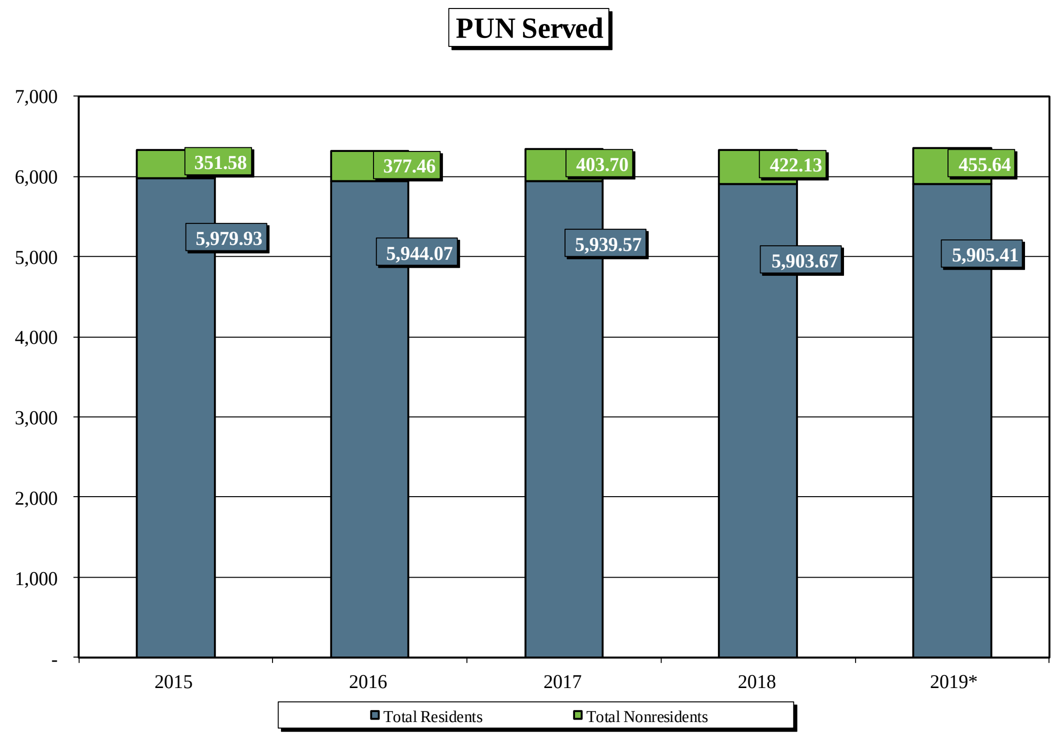
PUN	2015	2016	2017	2018	2019*
Residents	6,781.76	6,780.39	6,840.28	6,834.04	6,910.35
Resident PUN loss	(801.83)	(836.32)	(900.71)	(930.37)	(1,004.94)
Nonresident PUN gain	351.58	377.46	403.70	422.13	455.64
Total PUN Served	**6,331.51**	**6,321.53**	**6,343.27**	**6,325.80**	**6,361.05**

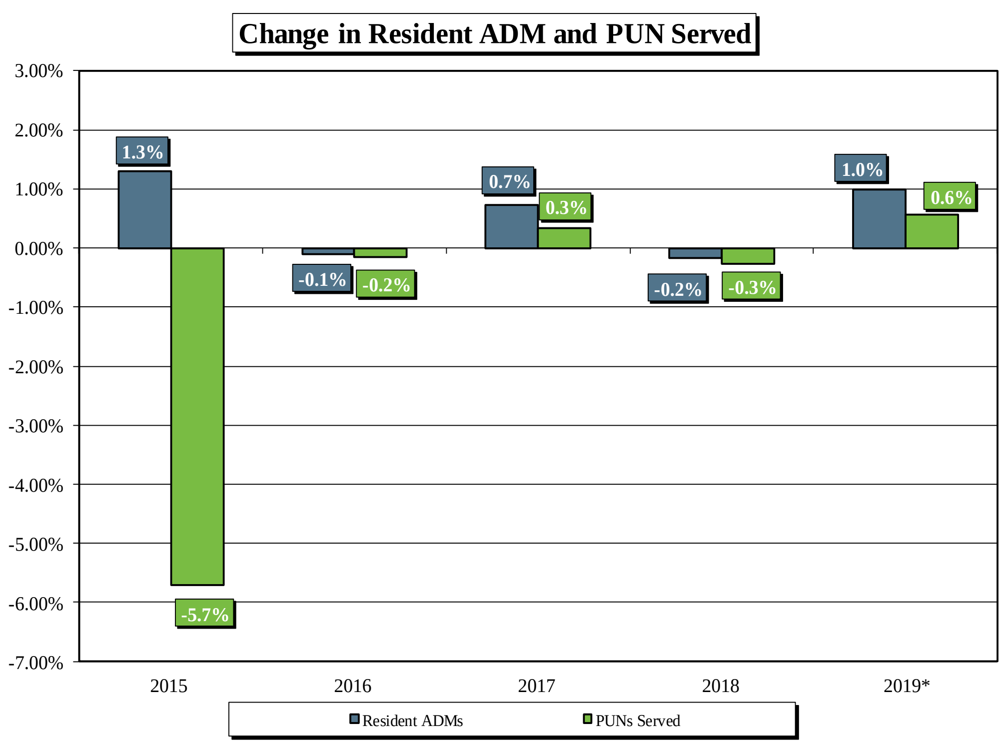
* Estimate as of September 23, 2019

Resident PUN increased from 2018 by 76.31 units. PUN served has varied from year-to-year based on open enrollment. From 2018 to 2019, total PUN served increased 35.25 units as a result of the increase in resident PUN.

Independent School District No. 877
Financial Analysis

PUPIL UNITS WEIGHTING SERVED





Independent School District No. 877
Financial Analysis

GENERAL FUND REVENUES BUDGET AND ACTUAL

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

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 7,060,240	$ 7,068,705	$ 7,016,659	$ (52,046)
Other local revenues	1,930,257	1,918,536	2,197,898	279,362
Revenue from state sources	55,530,760	56,020,570	56,485,821	465,251
Revenue from federal sources	1,774,980	2,482,865	1,809,492	(673,373)
Sales and other conversion of assets	41,130	36,300	19,910	(16,390)
Total revenues	66,337,367	67,526,976	67,529,780	2,804
Expenditures				
Administration	1,873,544	1,812,519	1,843,135	30,616
District support services	1,695,722	1,748,643	1,692,769	(55,874)
Regular instruction	31,379,117	31,675,395	31,905,523	230,128
Vocational instruction	1,922,997	1,930,836	1,893,966	(36,870)
Special education instruction	12,053,104	12,264,532	11,848,676	(415,856)
Instructional support services	5,110,473	5,791,347	4,877,541	(913,806)
Pupil support services	7,011,785	6,959,648	6,987,422	27,774
Sites and buildings	7,813,739	7,505,769	7,393,361	(112,408)
Fiscal and other fixed cost programs	245,831	247,696	296,491	48,795
Debt service	127,833	202,080	202,081	1
Total expenditures	69,234,145	70,138,465	68,940,965	(1,197,500)
Excess of revenues under expenditures	$ (2,896,778)	$ (2,611,489)	$ (1,411,185)	$ 1,200,304

The District approved a final General Fund revenue budget of $67,526,976. With actual revenues coming in at $67,529,780, the final budget produced a variance of $2,804. The largest variance was in revenue from federal sources which were primarily under budget due to budgeting for the full entitlements, but not utilize all the funds in 2019 also, no longer utilizing federal funds for tuition payments. State sources of revenue were over budget primarily due to a conservative estimate of special education aid.

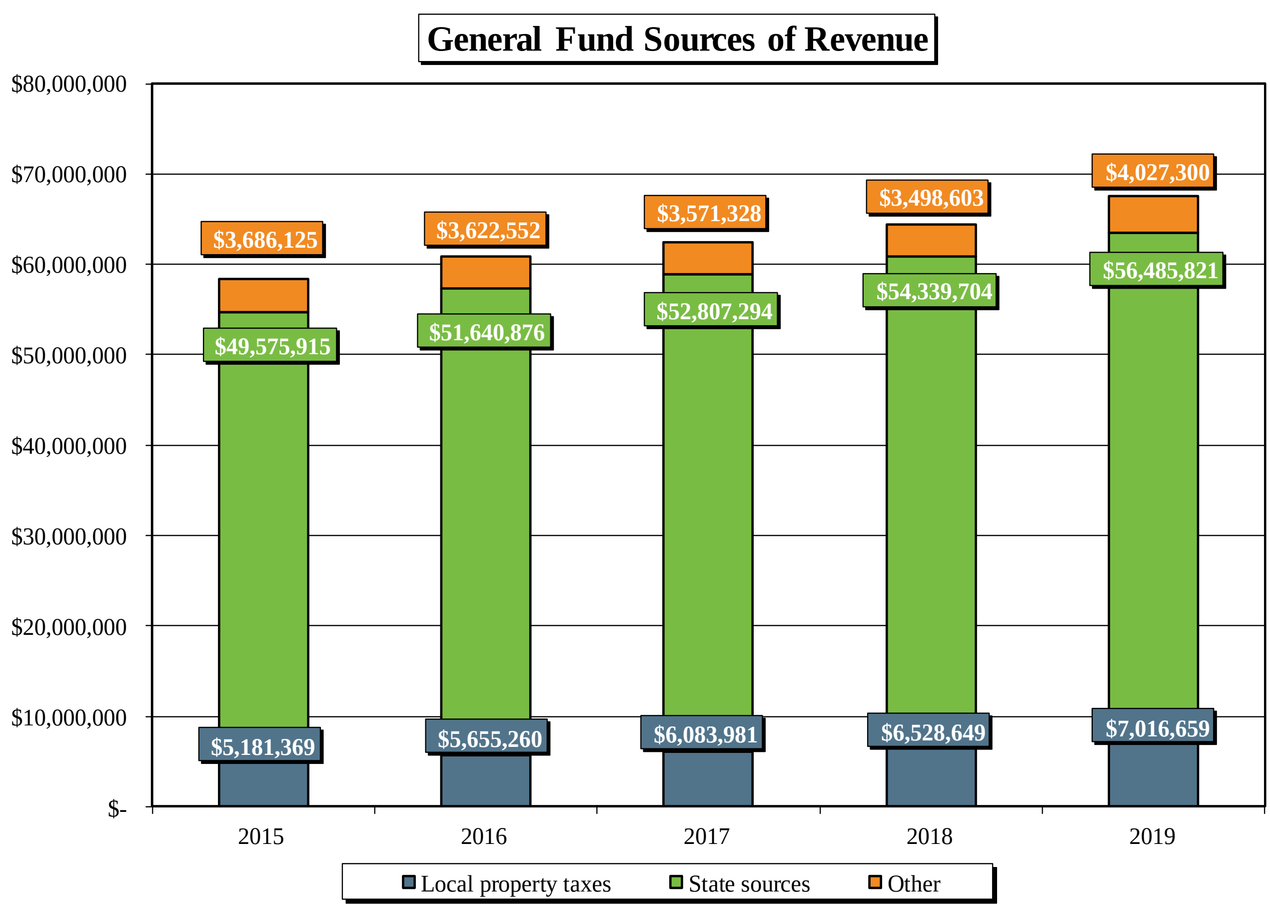
In total, General Fund expenditures were under budget of 1.7% or $1,197,500. Instructional support services was the largest component of the variance with textbooks and instructional supplies coming in under budget.

GENERAL FUND SOURCES OF REVENUE

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

	2015	2016	2017	2018	2019
Local property taxes	$ 5,181,369	$ 5,655,260	$ 6,083,981	$ 6,528,649	$ 7,016,659
State sources	49,575,915	51,640,876	52,807,294	54,339,704	56,485,821
Other	3,686,125	3,622,552	3,571,328	3,498,603	4,027,300
Total	**$ 58,443,409**	**$ 60,918,688**	**$ 62,462,603**	**$ 64,366,956**	**$ 67,529,780**

State revenue sources, which make up approximately 83.6% of total revenues, increased by $2,146,117 for the year ended June 30, 2019, while local property taxes increased by $488,010 and other sources increased $528,697. Included in other revenues are local, county, and federal revenues. Factors contributing to these changes include increases in pupil units, the formula allowance per students, special education, and long term facilities revenues and an increase in the amounts levied during the year.



Independent School District No. 877
Financial Analysis

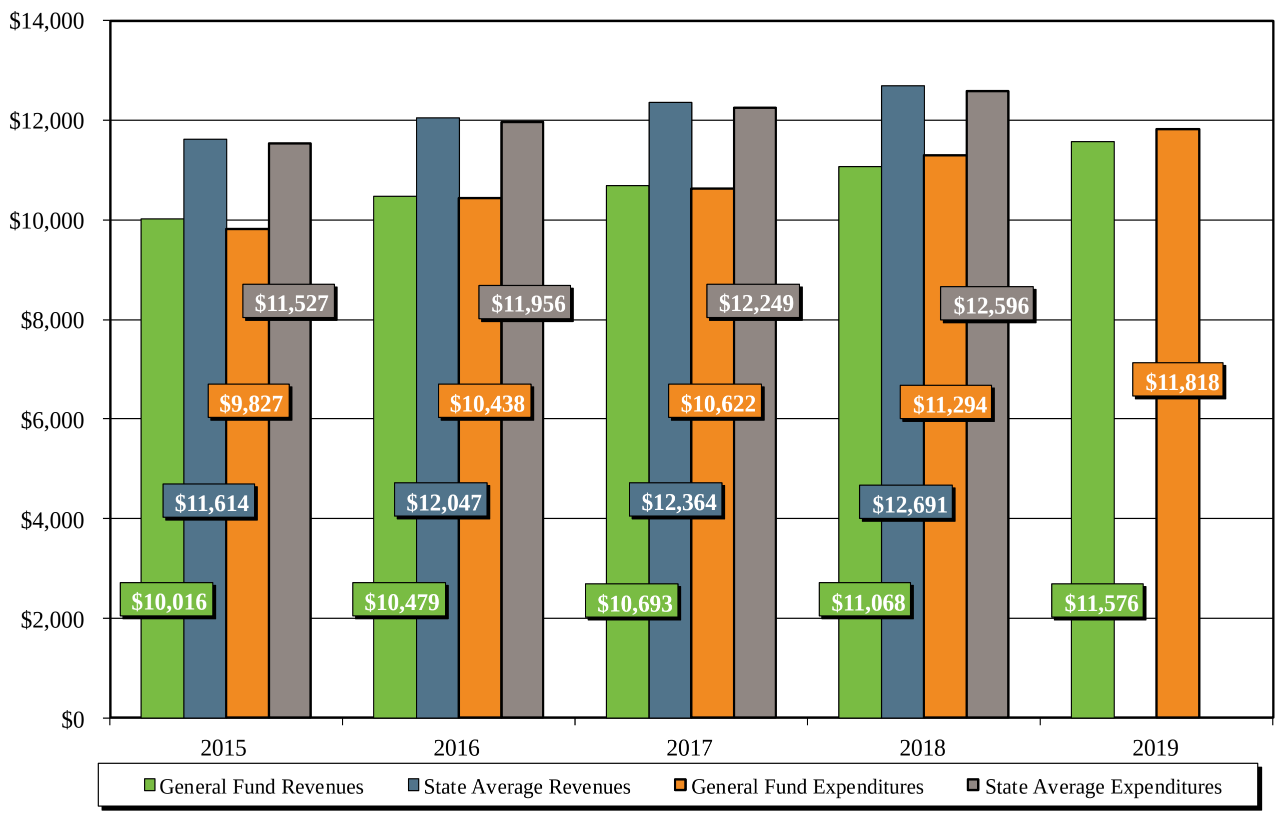
REVENUES AND EXPENDITURES PER ADM SERVED

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

	2015	2016	2017	2018	2019
General Fund	$ 10,016	$ 10,479	$ 10,693	$ 11,068	$ 11,576
General Fund state average	11,614	12,047	12,364	12,691	N/A

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

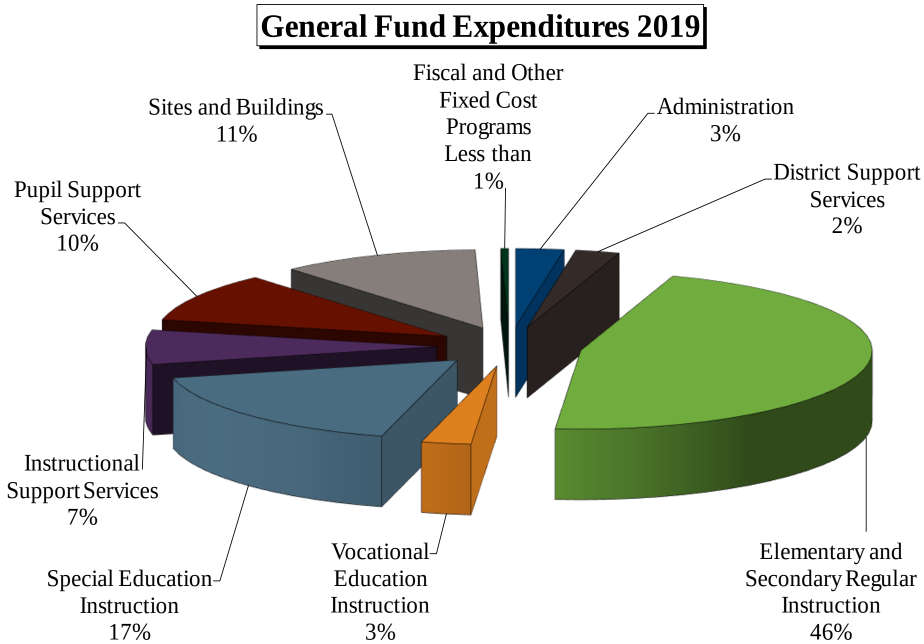
	2015	2016	2017	2018	2019
General Fund	$ 9,827	$ 10,438	$ 10,622	$ 11,294	$ 11,818
General Fund state average	11,527	11,956	12,249	12,596	N/A

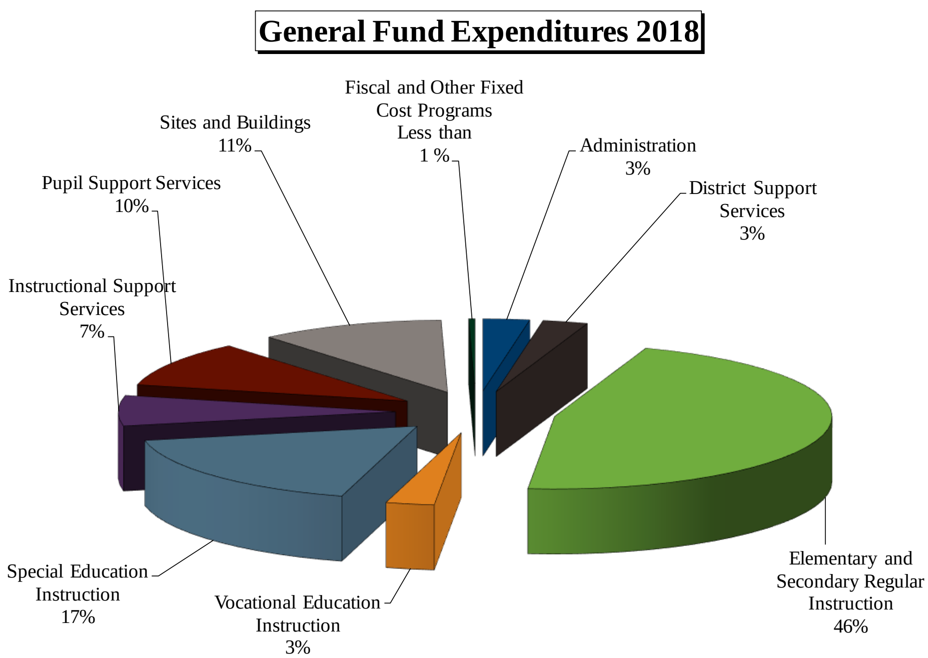


Revenues per ADM have consistently been below the state average, the largest variance is in property tax revenue per ADM. The District also receives less General Education Aid and federal aids per ADM. In relation to this, as a result of bringing in less revenue per ADM, the District is spending less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

GENERAL FUND EXPENDITURES

The graphs below depict the percentage of expenditures by function in the General Fund for years 2018 and 2019. Expenditures increased by $3,268,082, or 5.0%, from 2018 to 2019, and the allocation of expenditures remained very consistent. Education programs and instructional support made up 73% of the District's expenditures, for 2019 and 2018. Only 5% and 6% of expenditures were attributable to Administration and District support services, respectively for 2019 and 2018.





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:

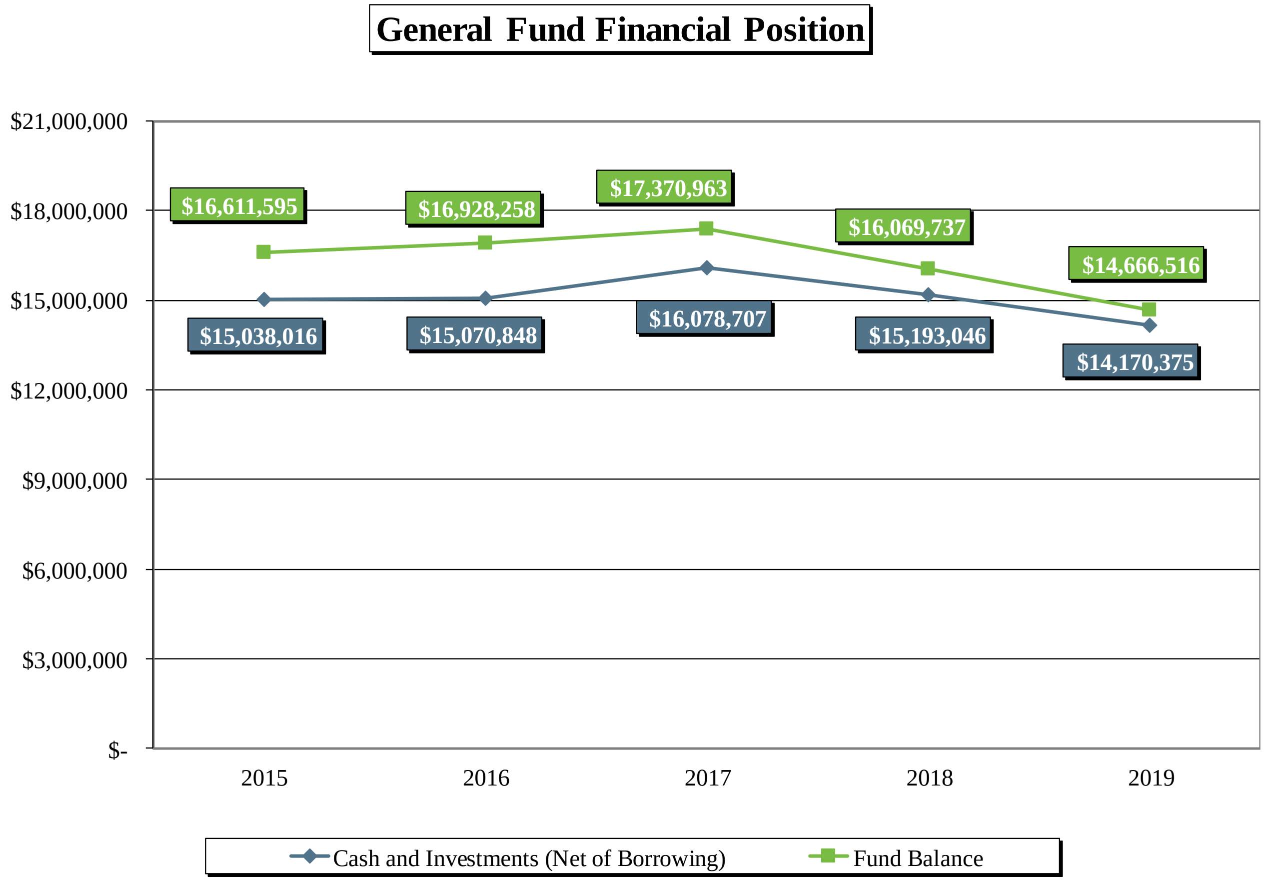
	2015	2016	2017	2018	2019
Revenues	$ 58,443,409	$ 60,918,688	$ 62,462,603	$ 64,366,956	$ 67,529,780
Expenditures	57,341,009	60,679,186	62,888,607	65,672,883	68,940,965
Excess of revenues over (under) expenditures	1,102,400	239,502	(426,004)	(1,305,927)	(1,411,185)
Transfers/other financing sources and uses	-	105,637	840,233	4,701	7,964
Fund balance, July 1	15,509,195	16,611,595	16,956,734	17,370,963	16,069,737
Fund Balance, June 30	$ 16,611,595	$ 16,956,734	$ 17,370,963	$ 16,069,737	$ 14,666,516
Components					
Unassigned	$ 9,943,213	$ 9,739,003	$ 9,973,930	$ 8,430,222	$ 6,136,605
Nonspendable	331,689	262,877	369,130	504,349	574,149
Reserved/restricted for					
Staff development	67,063	62,695	10,569	-	-
Teacher development and evaluations	110,131	103,247	103,247	103,247	103,096
Deferred maintanence	730	-	-	-	-
Operating capital	624,963	614,500	698,826	734,140	733,445
Health and safety	(137,329)	(64,860)	(16,495)	-	-
Long-term facility maintenance	-	-	104,729	(150,913)	(71,833)
Medical assistance	-	-	89,096	124,412	217,324
Committed/assigned for					
Separation benefits	4,062,933	4,165,436	3,495,768	3,420,225	3,340,760
Student activities	317,704	356,604	399,325	360,854	389,589
3rd party special education	493,734	560,353	560,353	560,353	560,353
Stimulus	-	-	-	-	66,719
Capital	385,973	654,758	1,058,630	1,459,667	1,833,715
Carryover	211,124	355,597	342,530	301,525	587,621
Dental insurance	199,667	146,524	181,325	221,656	194,973
Total	$ 16,611,595	$ 16,956,734	$ 17,370,963	$ 16,069,737	$ 14,666,516

Total General Fund revenue increased 4.9% from 2018 to 2019 as previously discussed.

Total General Fund expenditures increased 5.0% from 2018 to 2019. This increase was mostly due to the large increase in expenditures for increasing salaries and benefits, textbooks and supplies, and capital needs.

Expenditures exceeded revenues and other financing sources during 2019, decreasing fund balance by $1,403,221.

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 pays out 90% of its aids during the fiscal year, with the remaining 10% coming after year-end.

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,	2015	2016	2017	2018	2019
Revenues	$ 2,886,080	$ 3,073,403	$ 3,160,305	$ 2,992,988	$ 3,055,039
Expenditures, excluding OPEB	2,860,520	2,841,565	2,860,199	3,078,905	2,910,459
Excess of revenues over (under) expenditures	25,560	231,838	300,106	(85,917)	144,580
Transfers/other financing sources	-	-	-	-	5,575
Fund balance, July 1	-	25,560	257,398	557,504	471,587
Fund Balance, June 30	$ 25,560	$ 257,398	$ 557,504	$ 471,587	$ 621,742

In 2019, revenues exceeded expenditures by $144,580. Revenues increased $62,051; a result of increased meals served. Expenditures decreased from the prior year due to decreases in wages and food costs.

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,	2015	2016	2017	2018	2019
Revenues	$ 3,558,973	$ 3,700,202	$ 3,830,996	$ 3,719,931	$ 3,687,299
Expenditures, excluding OPEB	3,757,423	3,836,358	3,955,606	3,679,358	3,444,580
Excess of revenues over (under) expenditures	(198,450)	(136,156)	(124,610)	40,573	242,719
Transfers/other financing sources	500	-	-	-	-
Fund balance, July 1	142,041	(55,909)	(192,065)	(316,675)	(276,102)
Fund Balance, June 30	$ (55,909)	$ (192,065)	$ (316,675)	$ (276,102)	$ (33,383)
Components					
Unreserved/unassigned	$ (20,203)	$ (22,059)	$ (38,646)	$ (44,723)	$ (44,476)
Nonspendable	13,252	7,572	15,623	5,969	390
Restricted/reserved for					
ECFE	(3,303)	(27,519)	28,167	86,893	122,452
Community education	(5,750)	(124,082)	(325,599)	(300,928)	(115,528)
School readiness	(47,669)	(38,190)	(8,565)	(35,658)	(8,566)
Adult basic education	7,764	12,213	12,345	12,345	12,345
Total	$ (55,909)	$ (192,065)	$ (316,675)	$ (276,102)	$ (33,383)

Revenues exceeded expenditures for the second time in the five years presented, causing an increase in fund balance of $242,719. Revenues and expenditures decreased as a result of the District discontinuing its Little Kid Kare program in Montrose.

Independent School District No. 877
Legislative Summary

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

STATE AID APPROPRIATIONS

The formula allowance for 2019 General Education Aid was increased $124 (2%) to $6,312. For 2020 and 2021, the formula allowance is set at $6,438 and $6,567, respectively, which is an increase of 2% each year.

COMPENSATORY REVENUE

The compensatory pilot grants have been added permanently to regular compensatory revenue at the 2017 level. A percentage of the total compensatory revenue (regular plus pilot grant) must be used for extended time activities. This percentage was 3.5% for 2019. For 2020 and 2021, this percentage increases based on the 2% increases each year in the formula allowance to 5.5% and 7.5%, respectively.

SPECIAL EDUCATION

Beginning in 2020, cross subsidy reduction aid will be established as a new component of the special education aid formula. Cross subsidy reduction aid will be a percentage of each district's initial cross subsidy for the prior fiscal year – 2.6% for 2020 and 6.43% for 2021 and later. The tuition rate paid by the resident school district for open enrolled special education students served by another district or charter school will be reduced from 90% to 85% of unfunded costs for 2020 and to 80% for 2021 and later. The hold harmless calculation will be adjusted to reduce reliance on the 2016 base and factor in current year costs.

For 2020, the special education aid cap is increased to the greater of the current cap or the sum of 56% of current year special education program costs plus 100% of current year special education transportation cost plus the tuition adjustment. For 2021 and later, the cap is eliminated.

Beginning in 2021, the pupil-driven portion of the initial special education aid formula will reflect 2018 data.

The special education hold harmless guarantee is limited to the sum of 90% in 2020, 85% in 2021, 80% in 2022, and 75% in 2023 and later, of current year special education program costs plus 100% of special transportation costs plus the tuition adjustment. The annual inflation adjustment used in the calculation of the hold harmless will be reduced by 0.2% per year from 4.6% in 2020 until the inflation adjustment reaches 2.0%.

Independent School District No. 877
Legislative Summary

PROPERTY TAX BILL

Effective for taxes payable in 2018, there will be a property tax credit on all property classified as agricultural. The credit will be equal to 40% of the tax on the property attributable to school district bonded debt levies. The credit is increased to 50% for taxes payable in 2020, 55% for taxes payable in 2021, 60% for taxes payable in 2022, and 70% for taxes payable in 2023 and thereafter. Total amounts available state-wide will be $45.2 million in 2020 and $52.5 million in 2021.

The equalizing factor for tier 2 of the operating referendum was increased from $510,000 to $567,000.

BOARD CONTROL OF EXTRACURRICULAR ACTIVITIES

School boards are required to take charge of and control all extracurricular activities. School districts are required to reserve revenue raised for extracurricular activities and spend the revenue only for extracurricular activities.

MAXIMUM EFFORT LOAN AID

Effective for 2018 through 2022, there will be payments of $3.29 million per year made over a five year period to school districts with a maximum effort loan outstanding as of June 30, 2016 equal to the interest paid on the loan between December 1, 1990 and June 30, 2016. For districts with a capital loan outstanding as of June 30, 2017, the aid will be increased by the amount of interest paid on the loan between June 30, 2017 and June 30, 2021.

The aid must be used to reduce the current property tax levies or to finance a defeasance of future payments on outstanding bonded debt.

SAFE SCHOOLS SUPPLEMENTAL AID

Funding is contingent based on the 2019 closing balance and will be up to $30 million. The aid will be allocated among districts and charter schools based on total adjusted ADMs for 2018. The aid will be available beginning October 1, 2019, and will be allocated during 2020. Aid must be used for the same purposes as the safe schools levy.

VOLUNTARY PREKINDERGARTEN (VPK)/SCHOOL READINESS PLUS

For 2020 and 2021 only, the 4,000 seats currently expiring after 2019 will continue to be funded.

SAFE SCHOOLS REVENUE

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

DISPOSAL OF SURPLUS COMPUTERS

School districts are authorized to sell or give surplus computers to charitable organizations for educational use or to currently enrolled students who intend to enroll the following year.

ENERGY USE REDUCTIONS AND REPORTING

School districts are required to enter and maintain monthly consumption data into the Minnesota B3 benchmarking program for each school building.

PENSION BILL

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

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

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

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

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

Independent School District No. 877
Emerging Issues

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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