

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

Communications Letter

June 30, 2018



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

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

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 8, 2018, on such statements.

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

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

Minneapolis, Minnesota
October 8, 2018

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, 2018. Professional standards require that we advise you of the following matters related to our audit.

OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT

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

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

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

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

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

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

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

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

QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

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

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

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

Independent School District No. 877
Required Communication

QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

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 in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT

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

UNCORRECTED AND CORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management has corrected all such misstatements.

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

DISAGREEMENTS WITH MANAGEMENT

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

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

REPRESENTATIONS REQUESTED FROM MANAGEMENT

We 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 auditors.

OTHER MATTERS

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

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

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

Independent School District No. 877
Financial Analysis

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

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

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

Year	General Education Aid Formula Allowance	
	Amount	Percent Increase
2009	\$ 5,124	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%

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

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

RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

Approximately 84% 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	2014	2015	2016	2017	2018*
Early Childhood	50.74	51.40	56.34	58.93	60.36
Kindergarten	422.95	448.33	418.54	404.11	449.92
Elementary	2,829.01	2,840.59	2,846.98	2,838.66	2,763.20
Secondary	2,832.26	2,871.68	2,884.11	2,949.50	2,966.81
Total Resident ADM	6,134.96	6,212.00	6,205.97	6,251.20	6,240.29



* Estimate as of September 7, 2018

Independent School District No. 877
Financial Analysis

RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

The chart and graph on the previous page illustrate the fluctuations in resident ADM experienced by the District over the past five years. Total resident ADM increased 1.7% since 2014, but decreased 0.2% from 2017. The majority of the increase from 2014 was in secondary ADM, increasing 134.55 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
2014	1.250/1.000	0.612	1.115/1.060	1.300
2015-2018	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.

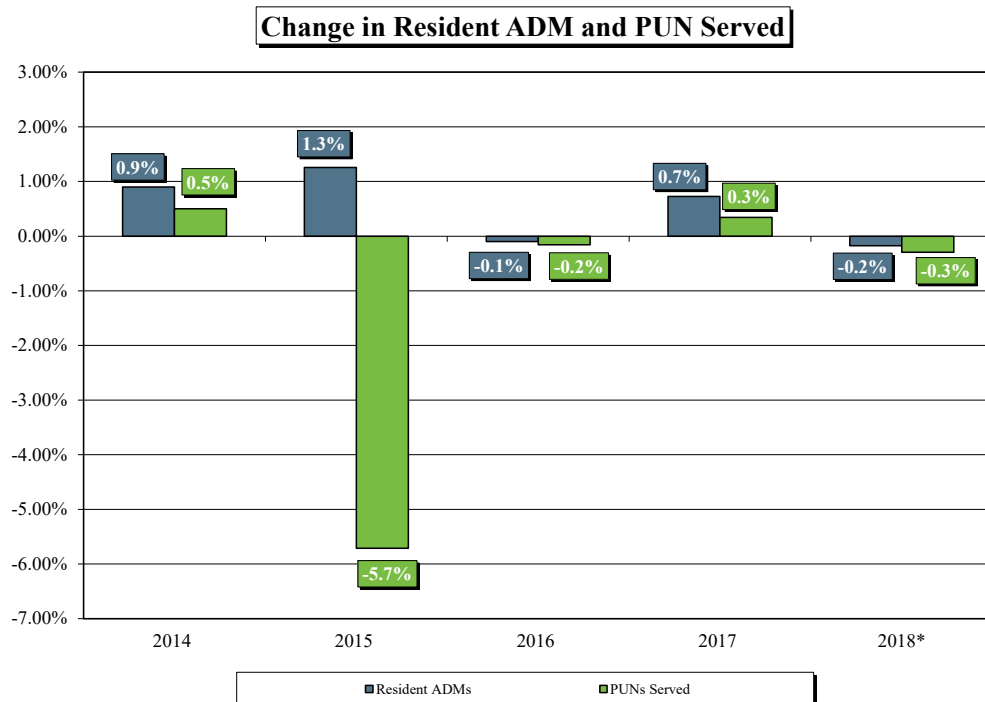
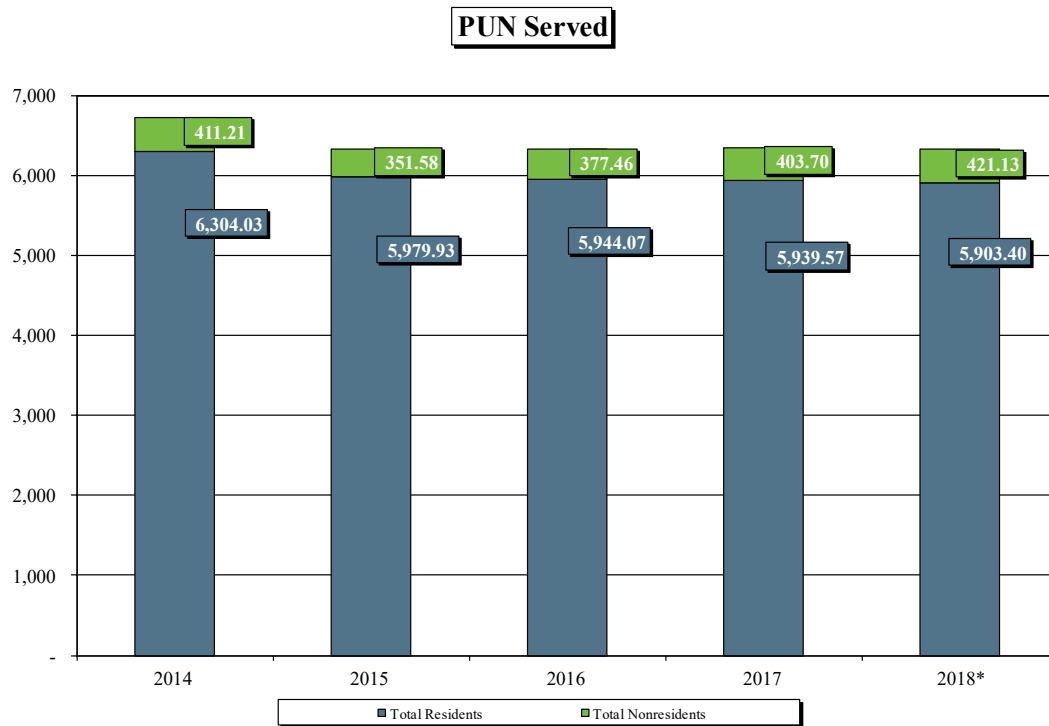
PUN	2014	2015	2016	2017	2018*
Residents	7,090.53	6,781.76	6,780.39	6,840.28	6,833.56
Resident PUN loss	(786.50)	(801.83)	(836.32)	(900.71)	(930.16)
Nonresident PUN gain	411.21	351.58	377.46	403.70	421.13
Total PUN Served	6,715.24	6,331.51	6,321.53	6,343.27	6,324.53

* Estimate as of September 7, 2018

Resident PUN decreased from 2017 by 6.72 units. PUN served has varied from year-to-year based on open enrollment. From 2017 to 2018, total PUN served decreased 18.74 units as a result of the decrease in resident PUN and increase in the open enrollment loss.

Independent School District No. 877 Financial Analysis

PUPIL UNITS WEIGHTING SERVED



Independent School District No. 877
Financial Analysis

GENERAL FUND REVENUES BUDGET AND ACTUAL

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 6,342,018	\$ 6,372,211	\$ 6,528,649	\$ 156,438
Other local revenues	1,941,581	1,912,882	1,865,294	(47,588)
Revenue from state sources	53,857,128	54,136,174	54,339,704	203,530
Revenue from federal sources	1,583,370	1,774,980	1,599,380	(175,600)
Sales and other conversion of assets	38,775	44,130	33,929	(10,201)
Total revenues	<u>63,762,872</u>	<u>64,240,377</u>	<u>64,366,956</u>	<u>126,579</u>
Expenditures				
Administration	1,807,531	1,818,471	1,782,911	(35,560)
District support services	1,696,515	1,787,612	1,727,583	(60,029)
Regular instruction	30,794,139	30,548,840	30,339,546	(209,294)
Vocational instruction	1,687,555	1,983,784	1,847,107	(136,677)
Special education instruction	11,433,965	11,613,482	11,477,596	(135,886)
Instructional support services	4,542,633	4,643,610	4,453,434	(190,176)
Pupil support services	6,732,861	6,717,441	6,718,760	1,319
Sites and buildings	6,269,631	6,721,351	6,796,081	74,730
Fiscal and other fixed cost programs	228,874	227,939	244,106	16,167
Debt service	285,694	285,694	285,759	65
Total expenditures	<u>65,479,398</u>	<u>66,348,224</u>	<u>65,672,883</u>	<u>(675,341)</u>
Excess of revenues over (under) expenditures	<u>\$ (1,716,526)</u>	<u>\$ (2,107,847)</u>	<u>\$ (1,305,927)</u>	<u>\$ 801,920</u>

The District approved a final General Fund revenue budget of \$64,240,377. With actual revenues coming in at \$64,366,956, the final budget produced a variance of \$126,579, or 0.2%. The largest variance was in revenue from state sources which were primarily over budget due to a conservative estimate of special education aid.

In total, General Fund expenditures were on budget, coming in under budget with a variance of 1.0% or \$675,341 under budget.

Independent School District No. 877

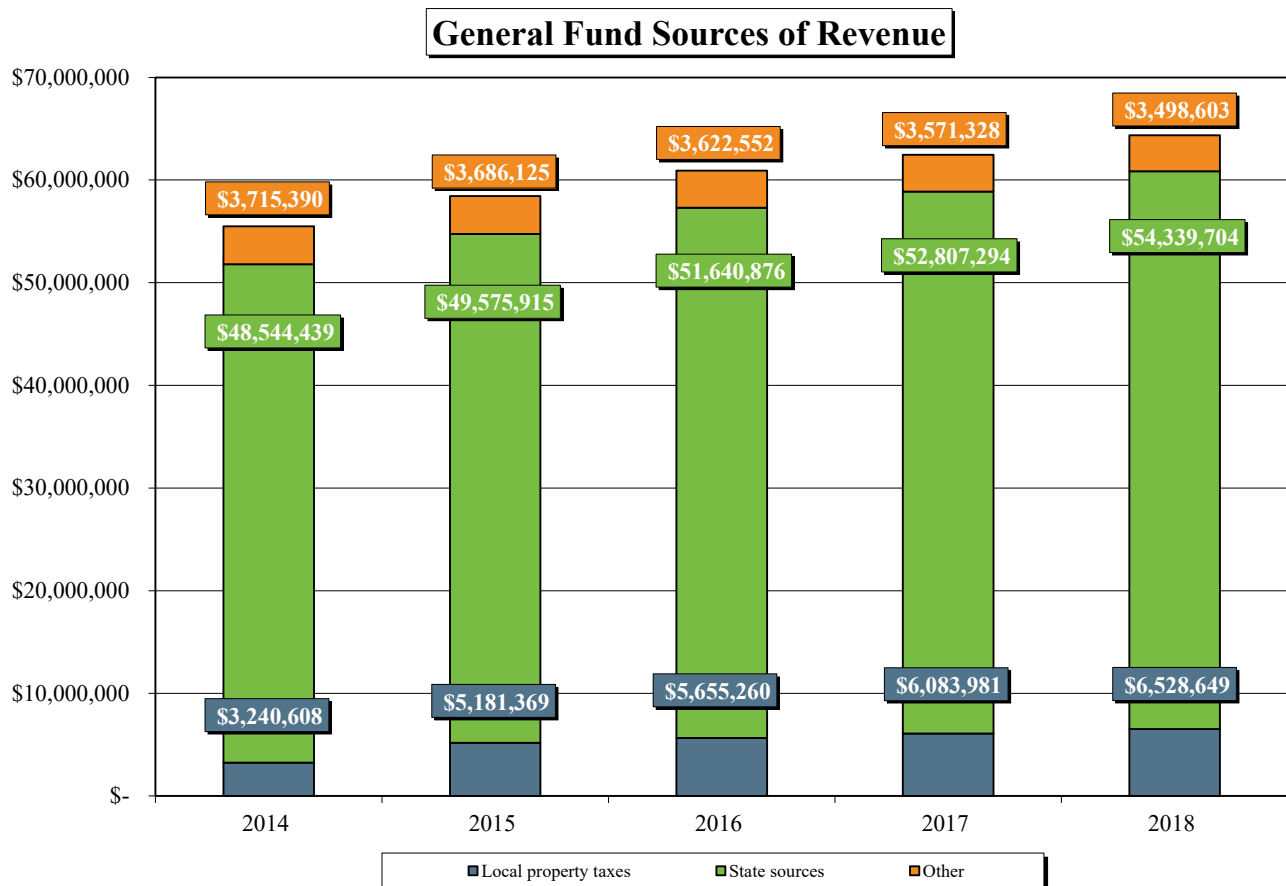
Financial Analysis

GENERAL FUND SOURCES OF REVENUE

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

	2014	2015	2016	2017	2018
Local property taxes	\$ 3,240,608	\$ 5,181,369	\$ 5,655,260	\$ 6,083,981	\$ 6,528,649
State sources	48,544,439	49,575,915	51,640,876	52,807,294	54,339,704
Other	3,715,390	3,686,125	3,622,552	3,571,328	3,498,603
Total	\$ 55,500,437	\$ 58,443,409	\$ 60,918,688	\$ 62,462,603	\$ 64,366,956

State revenue sources, which make up approximately 84.4% of total revenues, increased by \$1,532,410 for the year ended June 30, 2018, while local property taxes increased by \$444,668 and other sources decreased \$72,725. Included in other revenues are local, county, and federal revenues. Factors contributing to these changes include increases in pupil units, the formula allowance per students, special education revenues and an increase in the amounts levied during the year.



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

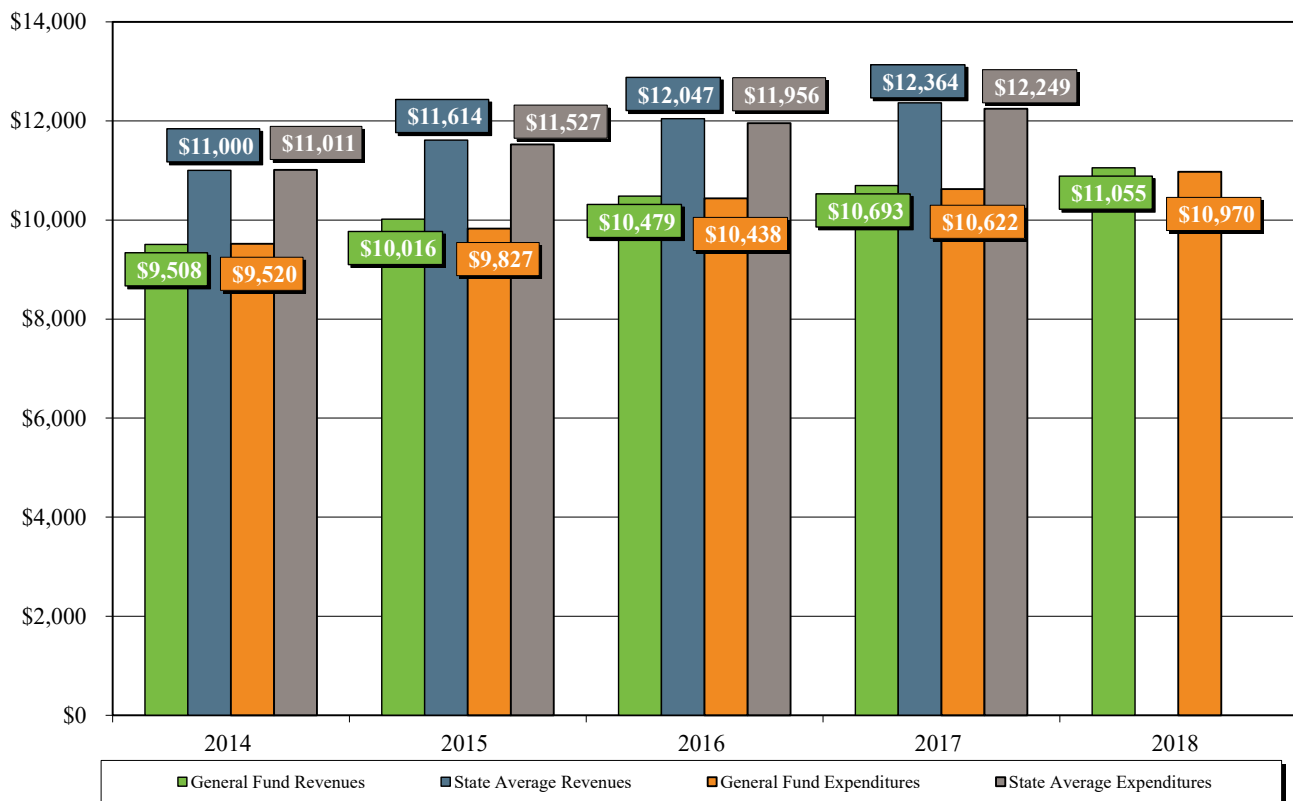
REVENUES AND EXPENDITURES PER ADM SERVED

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

	2014	2015	2016	2017	2018
General Fund	\$ 9,508	\$ 10,016	\$ 10,479	\$ 10,693	\$ 11,055
General Fund state average	11,000	11,614	12,047	12,364	N/A

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

	2014	2015	2016	2017	2018
General Fund	\$ 9,520	\$ 9,827	\$ 10,438	\$ 10,622	\$ 10,970
General Fund state average	11,011	11,527	11,956	12,249	N/A



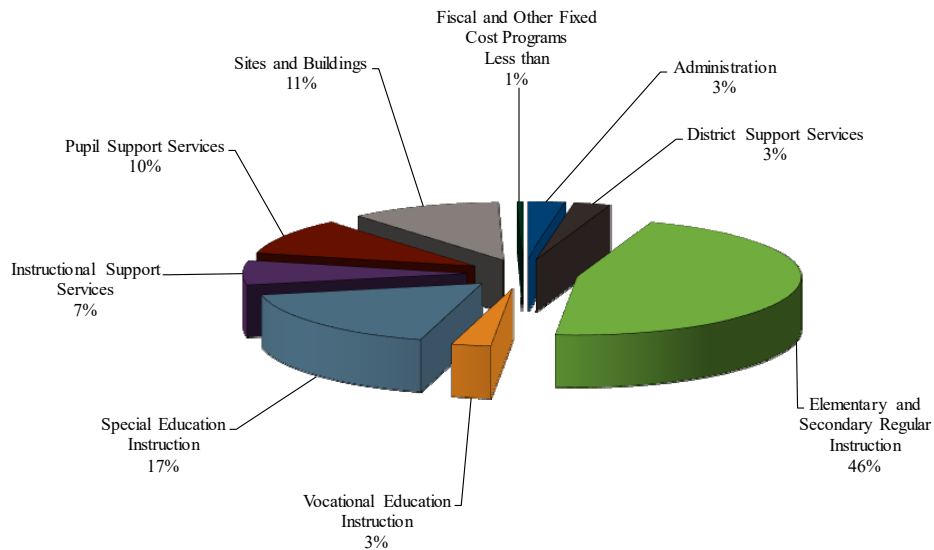
Revenues per ADM have consistently been below the state average, the largest variance is in property tax revenue per ADM. The District also receives less General Education Aid and federal aids per ADM. In relation to this, as a result of bringing in less revenue per ADM, the District is spending less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

Independent School District No. 877 Financial Analysis

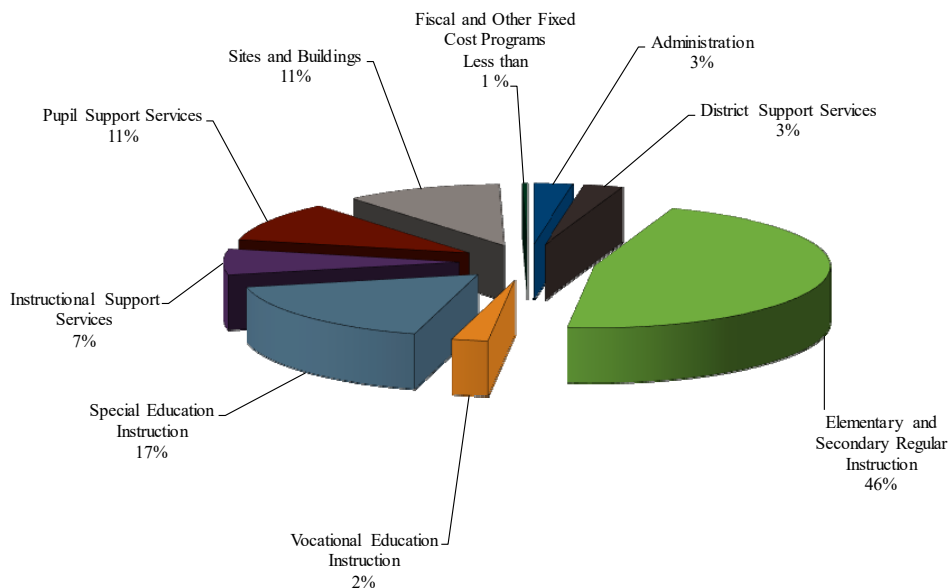
GENERAL FUND EXPENDITURES

The graphs below depict the percentage of expenditures by function in the General Fund for years 2017 and 2018. Expenditures increased by \$2,784,276, or 4.4%, from 2017 to 2018, and the allocation of expenditures remained very consistent. Education programs and instructional support made up 73% and 72% of the District's expenditures, respectively for 2018 and 2017. Only 6% of expenditures were attributable to Administration and District support services for 2017 and 2018.

General Fund Expenditures 2018



General Fund Expenditures 2017



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:

	2014	2015	2016	2017	2018
Revenues	\$ 55,500,437	\$ 58,443,409	\$ 60,918,688	\$ 62,462,603	\$ 64,366,956
Expenditures	55,968,551	57,341,009	60,679,186	62,888,607	65,672,883
Excess of revenues over (under) expenditures	(468,114)	1,102,400	239,502	(426,004)	(1,305,927)
Transfers/other financing sources and uses	183,186	-	105,637	840,233	4,701
Fund balance, July 1	15,794,123	15,509,195	16,611,595	16,956,734	17,370,963
Fund Balance, June 30	\$ 15,509,195	\$ 16,611,595	\$ 16,956,734	\$ 17,370,963	\$ 16,069,737

Components					
Unassigned	\$ 9,209,451	\$ 9,943,213	\$ 9,739,003	\$ 9,973,930	\$ 8,430,222
Nonspendable	335,791	331,689	262,877	369,130	504,349
Reserved/restricted for					
Staff development	74,801	67,063	62,695	10,569	-
Teacher development and evaluations	-	110,131	103,247	103,247	103,247
Deferred maintenance	883	730	-	-	-
Operating capital	233,458	624,963	614,500	698,826	734,140
Health and safety	14,272	(137,329)	(64,860)	(16,495)	-
Long-term facility maintenance	-	-	-	104,729	(150,913)
Medical assistance	-	-	-	89,096	124,412
Committed/assigned for					
Separation benefits	4,075,012	4,062,933	4,165,436	3,495,768	3,420,225
Student activities	211,361	317,704	356,604	399,325	360,854
3rd party special education	522,502	493,734	560,353	560,353	560,353
Stimulus	66,543	-	-	-	-
Capital	405,534	385,973	654,758	1,058,630	1,459,667
Carryover	144,006	211,124	355,597	342,530	301,525
Dental insurance	215,581	199,667	146,524	181,325	221,656
Total	\$ 15,509,195	\$ 16,611,595	\$ 16,956,734	\$ 17,370,963	\$ 16,069,737

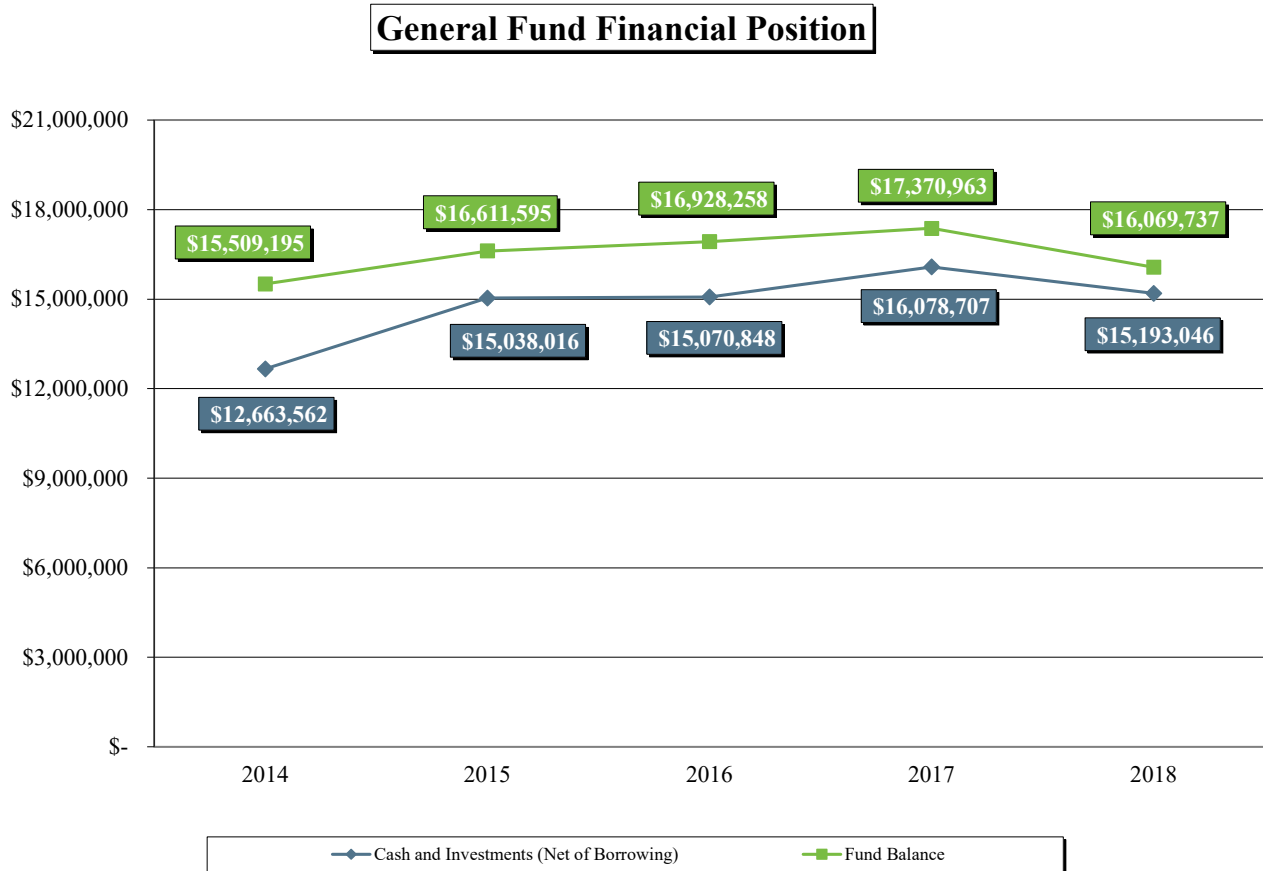
Total General Fund revenue increased 3.0% from 2017 to 2018 as a result of an increase in state aids due to the increase in the formula allowance.

Total General Fund expenditures increased 4.4% from 2017 to 2018. This increase was mostly due to the large increase in expenditures for increasing salaries and benefits for regular instruction and special education, including a 16.9% increase in health insurance premiums.

Expenditures exceeded revenues and other financing sources during 2018, decreasing fund balance by \$1,301,226.

Independent School District No. 877
Financial Analysis

GENERAL FUND OPERATIONS (CONTINUED)



This graph outlines the cash and investments (net of borrowing) and the fund balance for the General Fund for the past five years. A healthy fund balance allows the District to maintain a positive operating cash position when expenditures are timed prior to the receipt of significant revenues, including state aid and local property tax levies. At year-end when expenditure needs are significant and revenue receipts are delayed until subsequent to year-end, an increased positive fund balance position reduces the reliance on short-term borrowing.

The state 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,	2014	2015	2016	2017	2018
Revenues	\$ 2,758,656	\$ 2,886,080	\$ 3,073,403	\$ 3,160,305	\$ 2,992,988
Expenditures, excluding OPEB	2,974,079	2,860,520	2,841,565	2,860,199	3,078,905
Excess of revenues over (under) expenditures	(215,423)	25,560	231,838	300,106	(85,917)
Transfers/other financing sources	215,423	-	-	-	-
Fund balance, July 1	-	-	25,560	257,398	557,504
Fund Balance, June 30	\$ -	\$ 25,560	\$ 257,398	\$ 557,504	\$ 471,587

In 2018, the Food Service Fund posted a deficit for the second time in the five years presented. Expenditures exceeded revenues by \$85,917. Revenues decreased \$167,317; the largest component of the decrease was federal sources due to additional commodities received in the previous year. Expenditures increased from the prior year due to increased food costs and the increase in health insurance premiums.

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,	2014	2015	2016	2017	2018
Revenues	\$ 3,722,968	\$ 3,558,973	\$ 3,700,202	\$ 3,830,996	\$ 3,719,931
Expenditures, excluding OPEB	3,772,546	3,757,423	3,836,358	3,955,606	3,679,358
Excess of revenues over (under) expenditures	(49,578)	(198,450)	(136,156)	(124,610)	40,573
Transfers/other financing sources	2,276	500	-	-	-
Fund balance, July 1	189,343	142,041	(55,909)	(192,065)	(316,675)
Fund Balance, June 30	\$ 142,041	\$ (55,909)	\$ (192,065)	\$ (316,675)	\$ (276,102)

Components					
Unreserved/unassigned	\$ -	\$ (20,203)	\$ (22,059)	\$ (38,646)	\$ (44,723)
Nonspendable	-	13,252	7,572	15,623	5,969
Restricted/reserved for					
ECFE	34,442	(3,303)	(27,519)	28,167	86,893
Community education	103,280	(5,750)	(124,082)	(325,599)	(300,928)
School readiness	(8,186)	(47,669)	(38,190)	(8,565)	(35,658)
Adult basic education	12,505	7,764	12,213	12,345	12,345
Total	\$ 142,041	\$ (55,909)	\$ (192,065)	\$ (316,675)	\$ (276,102)

Revenues exceeded expenditures for the first time in the five years presented, causing an increase in fund balance of \$40,573. This was due to a decrease in expenditures as a result of the District discontinuing its Little Kid Kare program in Montrose and being under staffed during the year.

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

COMPENSATORY REVENUE

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

STUDENT ACHIEVEMENT LEVY

The Student Achievement Levy eliminated for 2019.

LEAD IN SCHOOL DRINKING WATER

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

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

PAYMENTS TO NONOPERATING FUNDS

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

SCHOOL BUILDING BOND AGRICULTURAL CREDIT

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

Independent School District No. 877

Legislative Summary

LONG-TERM FACILITIES MAINTENANCE REVENUE

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

EQUITY REVENUE

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

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

SPECIAL EDUCATION

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

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

VOLUNTARY PREKINDERGARTEN (VPK)/SCHOOL READINESS PLUS

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

EMERGENCY SCHOOL FUNDING

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

STAFF DEVELOPMENT SET-ASIDE WAIVER

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

Independent School District No. 877 Legislative Summary

COMMUNITY SERVICE FUND TRANSFER

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

SAFE SCHOOLS REVENUE

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

Q COMP

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

SCHOOL SAFETY GRANTS

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

PENSION BILL

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

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

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

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

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

Independent School District No. 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.

Independent School District No. 877
Emerging Issues

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

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.

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.

Independent School District No. 877
Emerging Issues

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

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.

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.