

INDEPENDENT SCHOOL DISTRICT NO. 22
Detroit Lakes, Minnesota

COMMUNICATIONS LETTER

Year Ended June 30, 2015



INDEPENDENT SCHOOL DISTRICT NO. 22

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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. 22
Detroit Lakes, Minnesota

In planning and performing our audit of the financial statements of Independent School District No. 22, Detroit Lakes, Minnesota, as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency identified is stated within this letter.

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 28, 2015, on such statements.

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

Bergan KDV, Ltd.

BerganKDV, Ltd.
St. Cloud, Minnesota
October 28, 2015

INDEPENDENT SCHOOL DISTRICT NO. 22

SIGNIFICANT DEFICIENCY June 30, 2015

LACK OF SEGREGATION OF ACCOUNTING DUTIES

The District has a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation but due to the number staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Fiscal Affairs Coordinator has access to enter invoices into the system, processes checks and has access to the digital signatures.
- The Fiscal Affairs Coordinator is able to receipt money, code receipts, enter receipts into the accounting system, prepare bank deposits, bring deposits to the bank and reconcile accounts receivable.
- The Fiscal Affairs Coordinator prepares and posts all journal entries.
- The Fiscal Affairs Coordinator prepares federal funding draw requests, submits the request and receipts the funds.
- Building secretaries responsible for collecting money also prepare deposits. There is also no independent review of receipt backup documentation by someone other than the building secretaries to ensure all money collected was deposited.
- The Payroll Coordinator is able to enter new employees and all related information.

We recommend management and the School Board remain aware of this situation and continually monitor the accounting system including changes that occur. We further recommend that management review process to determine if any systems could be automated or done in an electronic fashion to eliminate redundancies in processes.

INDEPENDENT SCHOOL DISTRICT NO. 22

REQUIRED COMMUNICATION

June 30, 2015

We have audited the financial statements of Independent School District No. 22, Detroit Lakes, Minnesota for the year ended June 30, 2015, and have issued our report dated October 28, 2015. Professional standards require that we provide you with the following information related to our audit.

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

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

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

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

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

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.

INDEPENDENT SCHOOL DISTRICT NO. 22

REQUIRED COMMUNICATION

June 30, 2015

PLANNED SCOPE AND TIMING OF THE AUDIT

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Expenditure Allocation – Certain expenditures are allocated to functions based on an estimate of the benefit to that particular function. Examples include salaries, benefits, insurance and supplies.

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is also dependent upon ADM value; however, in addition to those, this Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

Net Other Post Employment Benefits (OPEB) Obligation – This obligation is based on an actuarial study using estimates of future obligations of the District for post employment benefits.

Net Pension Liability, Deferred Outflows of Resources Relating to Pension Activity and Deferred Inflows of Resources relating to Pension Activity – These balances are based on an allocation by the pension plans using estimates based on contributions.

The financial statement disclosures are neutral, consistent and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

INDEPENDENT SCHOOL DISTRICT NO. 22

REQUIRED COMMUNICATION

June 30, 2015

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. We identified the following uncorrected misstatement of the financial statements. Management has determined its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Property tax receivable
- State revenue and expense related to pension activity is not recorded

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

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

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

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

OTHER AUDIT FINDINGS OR ISSUES

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

OTHER MATTERS

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

INDEPENDENT SCHOOL DISTRICT NO. 22

FINANCIAL ANALYSIS June 30, 2015

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past seven 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. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this letter. The second to last section of this report, which contains a summary of legislative changes affecting school districts, gives an indication of the complexity of the funding system. The following section provides some state-wide funding and financial trend information.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

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

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

* 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.

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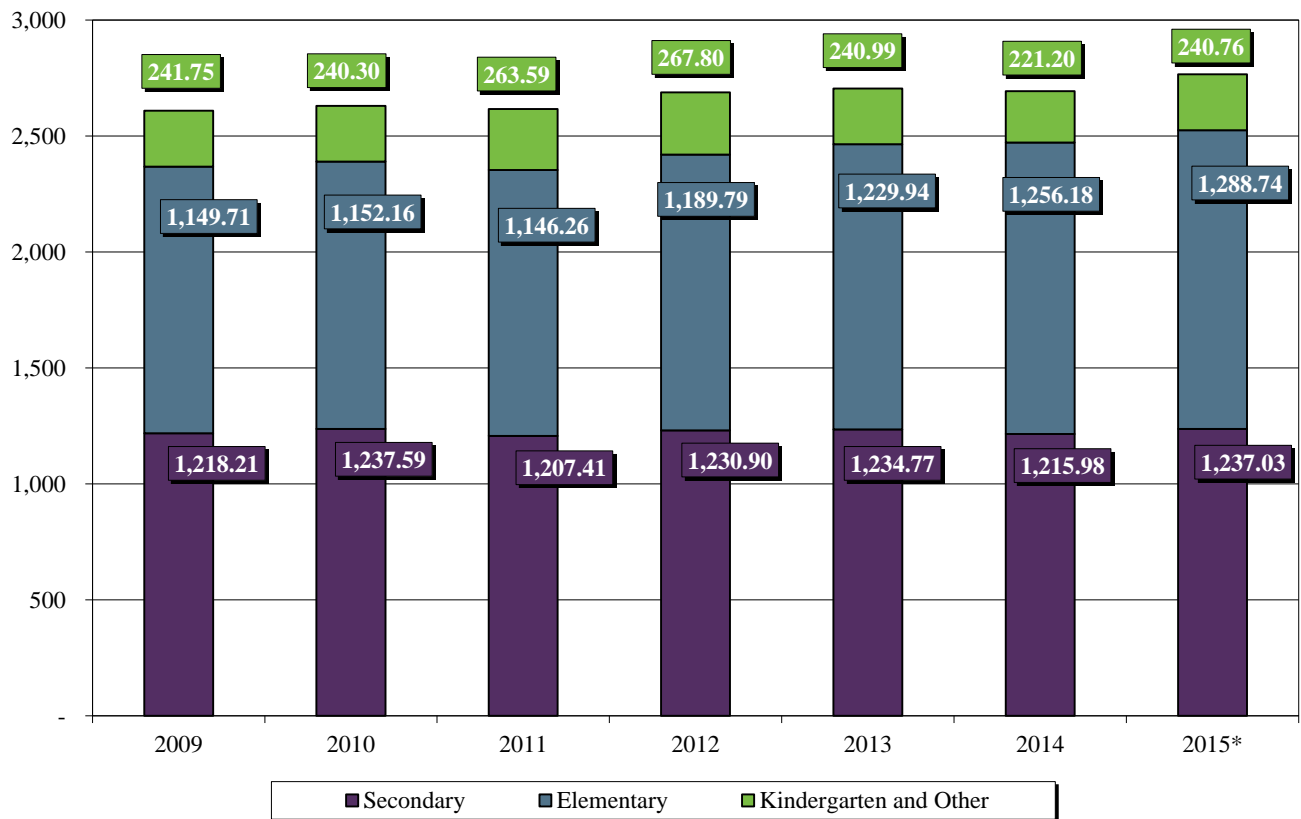
FINANCIAL ANALYSIS June 30, 2015

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The following information summarizes resident ADM of the District over the past seven years ended June 30:

ADM	2009	2010	2011	2012	2013	2014	2015*
Other	86.48	81.86	95.83	106.62	91.18	86.79	94.58
Kindergarten	155.27	158.44	167.76	161.18	149.81	134.41	146.18
Elementary	1,149.71	1,152.16	1,146.26	1,189.79	1,229.94	1,256.18	1,288.74
Secondary	1,218.21	1,237.59	1,207.41	1,230.90	1,234.77	1,215.98	1,237.03
Total Resident ADM	2,609.67	2,630.05	2,617.26	2,688.49	2,705.70	2,693.36	2,766.53

Students (ADM)



* The resident ADM for 2015 are estimated.

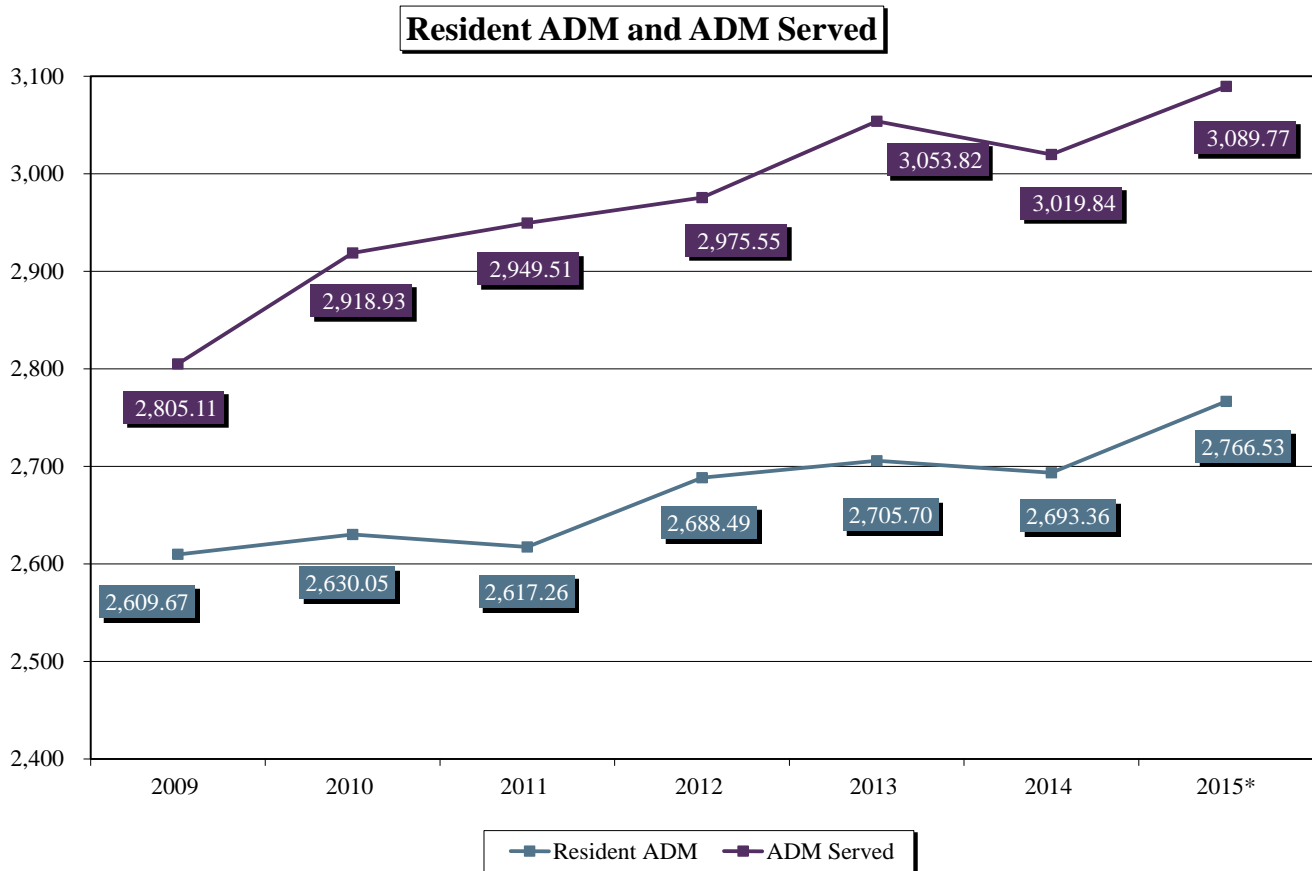
As the above chart indicates, total resident ADM has fluctuated over the last seven years. ADM increased by 73.17 pupil units from 2014 to 2015. As the chart above indicates, this increase came mostly in the elementary and secondary levels. Over the past seven years shown, the District has experienced an increase of 156.86 resident students, or 6.0%.

INDEPENDENT SCHOOL DISTRICT NO. 22

**FINANCIAL ANALYSIS
June 30, 2015**

AVERAGE DAILY MEMBERSHIP AND STUDENTS SERVED

The next graph illustrates the comparison between resident ADM versus the ADM served over the last seven years.



* The resident ADM for 2015 are estimated.

As the graph above shows, total ADM served increased from 2014 to 2015. The increase is due to increases in resident students and fewer students open enrolling to other school districts. The ADM amounts are weighted based on the number of students in each grade level and are used to calculate the majority of the District education aids. The following table displays that weighting.

Pupil Units Weighting				
	Pre-Kindergarten and Handicapped Kindergarten	Half/Full Kindergarten	Elementary	Secondary
2009-2014	1.250/1.000	N/A/0.612	1.115/1.060	1.300
2015	1.000/1.000	0.550/1.000	1.000/1.000	1.200

INDEPENDENT SCHOOL DISTRICT NO. 22

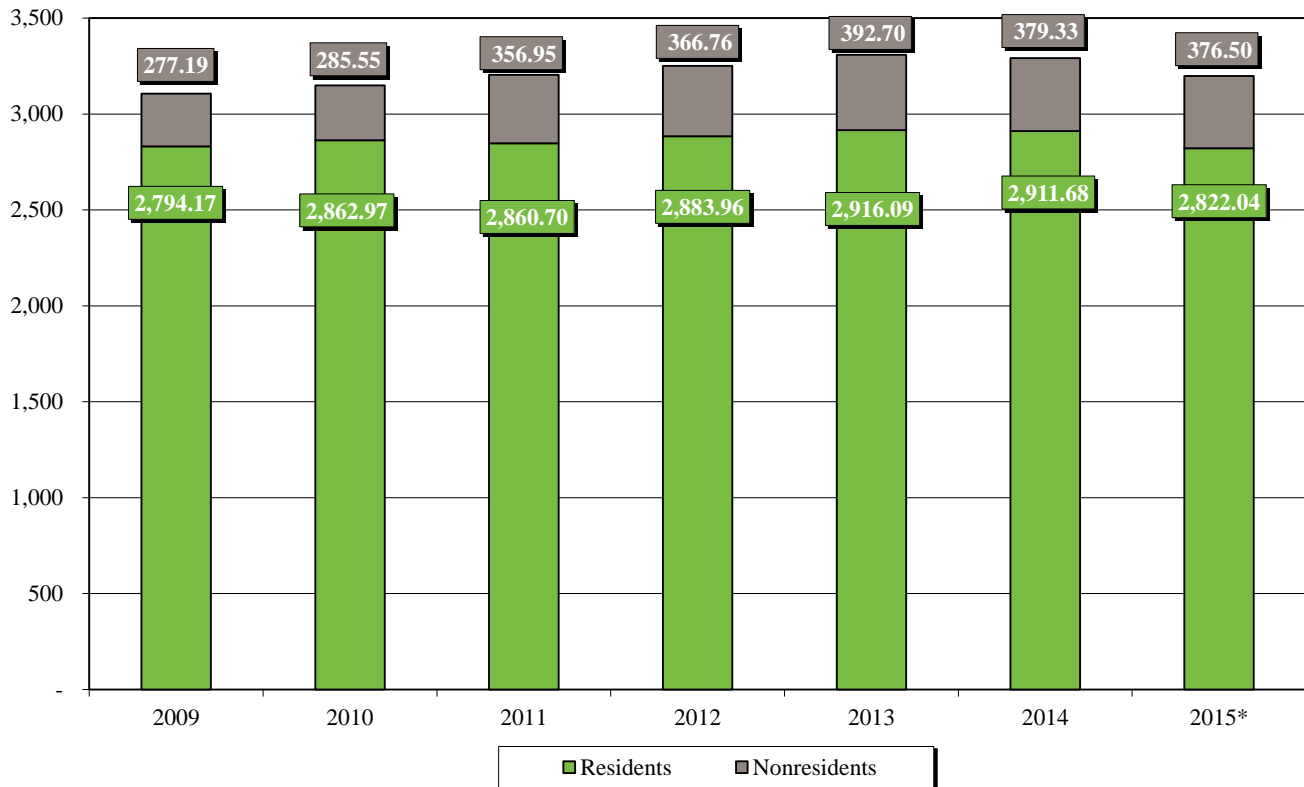
FINANCIAL ANALYSIS June 30, 2015

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

After the weighting is applied to resident ADM, the open enrollment adjustment is also considered. The following table and graph illustrates total weighted/adjusted average daily membership (PUN) served for fiscal years 2009 through 2015.

PUN	2009	2010	2011	2012	2013	2014	2015*
Residents	3,024.04	3,051.29	3,025.97	3,111.89	3,137.30	3,126.83	3,013.91
Resident PUN Going							
Elsewhere	(161.07)	(190.59)	(178.20)	(227.93)	(221.21)	(215.15)	(191.87)
Nonresident PUN Coming In	285.55	346.19	356.95	366.76	392.70	379.33	376.50
Total PUN Served	3,148.52	3,206.89	3,204.72	3,250.72	3,308.79	3,291.01	3,198.54

Students Served



* The resident PUN served for 2015 are estimated.

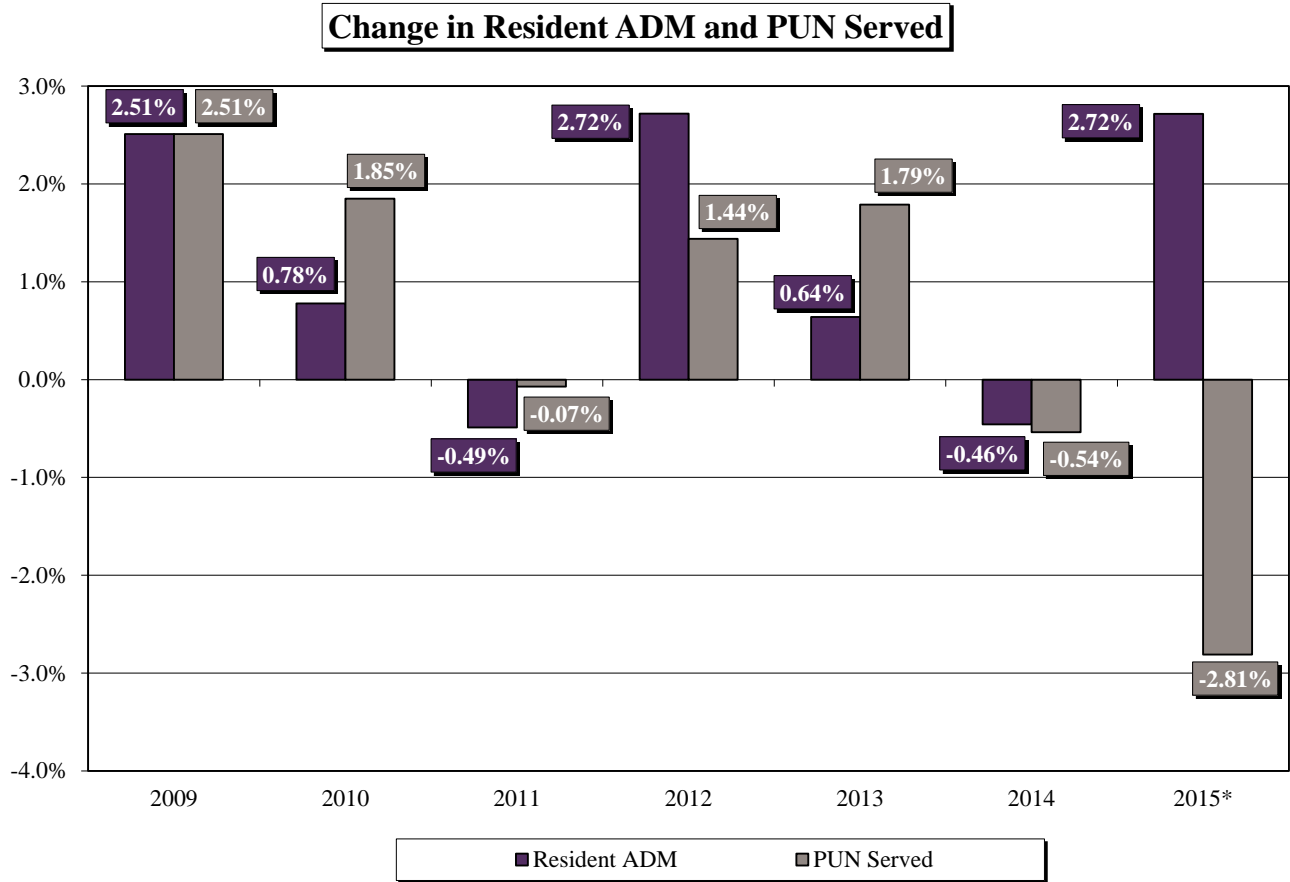
Comparing 2014 and 2015, total PUN served decreased by 92.47, or 2.8%. Resident students decreased by 3.6%, while the net gain from open enrollment increased 12.5% as a result of fewer students from other districts enrolling with the District, coupled with a decrease in resident students going to other school districts. The change is also due to the new weighting system being applied. The District continues to benefit from open enrollment. Net gains in open enrollment totaled 184.63 in 2015, an increase from 164.18 in 2014. This amount also includes students attending the Detroit Lakes Area Learning Center.

INDEPENDENT SCHOOL DISTRICT NO. 22

FINANCIAL ANALYSIS June 30, 2015

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The following graph illustrates the percent change in resident ADM and PUN served over the past seven years.



* The resident PUN served for 2015 are estimated.

During 2015, ADM increased while PUN decreased. Open enrollment has helped offset the overall relatively consistent resident enrollment numbers. The net gain from open enrollment has increased from 124.48 in 2009 to 184.63 in 2015. Student enrollment in the District is projected to continue to increase through 2017.

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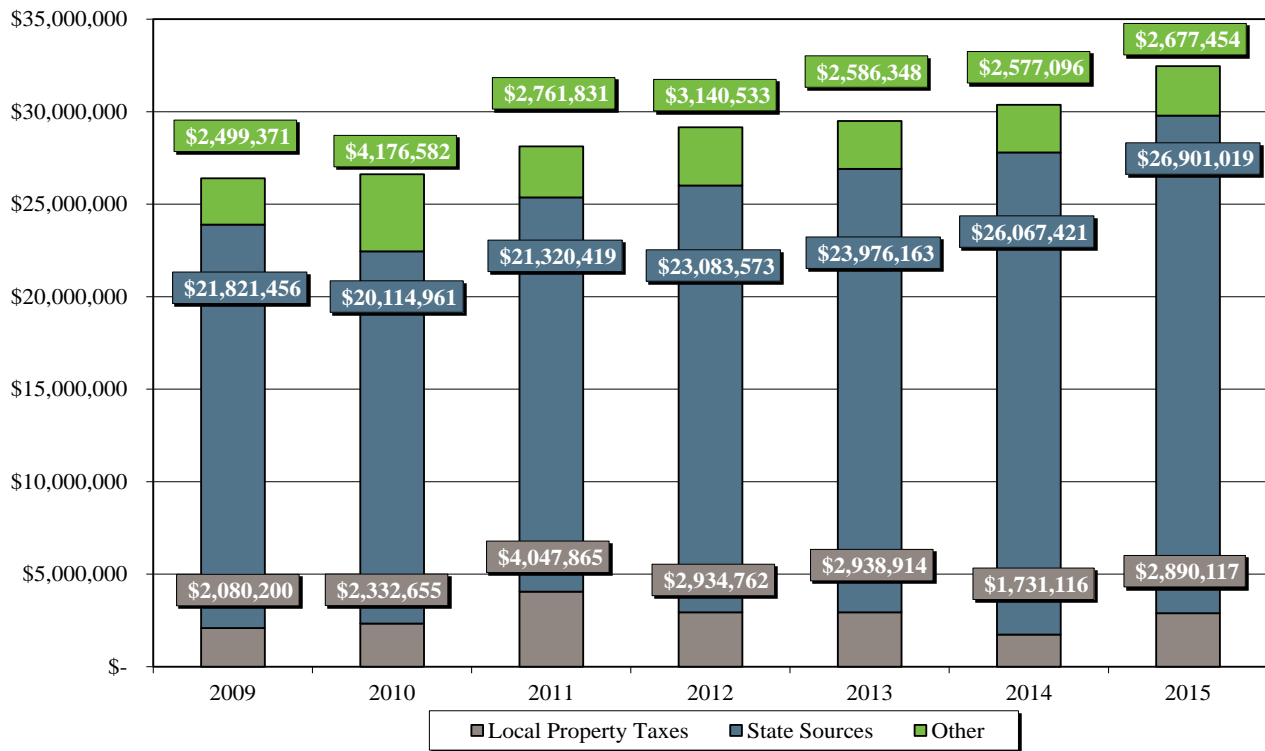
FINANCIAL ANALYSIS June 30, 2015

GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows:

	2009	2010	2011	2012	2013	2014	2015
Local Property Tax Levies	\$ 2,080,200	\$ 2,332,655	\$ 4,047,865	\$ 2,934,762	\$ 2,938,914	\$ 1,731,116	\$ 2,890,117
State Revenue	21,821,456	20,114,961	21,320,419	23,083,573	23,976,163	26,067,421	26,901,019
Other Revenue	2,499,371	4,176,582	2,761,831	3,140,533	2,586,348	2,577,096	2,677,454
Total	\$ 26,401,027	\$ 26,624,198	\$ 28,130,115	\$ 29,158,868	\$ 29,501,425	\$ 30,375,633	\$ 32,468,590

General Fund Sources of Revenue



State sources represent 82.9% of the General Fund's total revenue, with local tax payers contributing 8.9% of the funding and federal and other sources making up the remaining 8.2%. Local property tax revenue decreased in 2012 compared to 2011 by \$ 1,113,103 due to a tax shift of approximately \$ 1,223,000 from state aids to property tax revenue in 2011. The tax shift was brought back in 2011 by the State Legislature as a way for the state to balance their budget. As a result of the tax shift, 48.6% of the 2012 tax levy was recognized as revenue in 2011, with state aid decreasing as the offset. The tax shift remained at the same level until 2014 when it was paid back. This resulted in an increase in state aids and a decrease in property tax revenues in 2014. In 2015, tax revenue increased \$ 1,159,001 primarily as a result of the effects of the tax shift payback in 2014. State sources of revenue increased \$ 833,598 as a result of increased student counts, an increased formula allowance, as well as additional special education funding.

Included in other revenues are local, county and federal revenues. Other revenues remained very consistent from the prior year, increasing \$ 100,358.

INDEPENDENT SCHOOL DISTRICT NO. 22

FINANCIAL ANALYSIS

June 30, 2015

REVENUES PER STUDENT (ADM) SERVED

The table below shows a comparison of total revenue per ADM received by the District, districts with ADM between 2,200-4,499 and by all Minnesota school districts.

Detroit Lakes					
General Fund	2011	2012	2013	2014	2015 (est)
Property Taxes	\$ 1,339	\$ 947	\$ 928	\$ 536	\$ 935
Other Local Sources	412	386	441	429	395
State Aid	7,243	7,774	7,851	8,606	8,706
Federal Aid	562	713	440	458	472
Total General Fund Revenue	\$ 9,556	\$ 9,820	\$ 9,660	\$ 10,029	\$ 10,508

Districts with 2,200-4,499 ADM**					
General Fund	2011	2012	2013	2014	2015
Property Taxes	\$ 1,740	\$ 1,252	\$ 1,218	\$ 723	N/A
Other Local Sources	456	499	486	549	N/A
State Aid	7,213	7,831	8,010	8,796	N/A
Federal Aid	635	467	369	352	N/A
Total General Fund Revenue	\$ 10,044	\$ 10,049	\$ 10,083	\$ 10,420	N/A

State-Wide**					
General Fund	2011	2012	2013	2014	2015
Property Taxes	\$ 2,132	\$ 1,550	\$ 1,608	\$ 923	N/A
Other Local Sources	429	444	442	477	N/A
State Aid	7,341	8,033	8,234	9,136	N/A
Federal Aid	729	590	494	463	N/A
Total General Fund Revenue	\$ 10,631	\$ 10,617	\$ 10,778	\$ 10,999	N/A

** Source of districts with 2,200-4,499 ADM and state-wide data: *School District Profiles* report published by the Minnesota Department of Education (MDE)

The mix of local and state revenues vary from year-to-year primarily based on funding formulas and the state's financial condition. As a result, the District saw an increase in tax revenue in 2011 as a result of the tax shift by the state. In 2012 and 2013 revenue sources were more consistent with historical trends. In 2014, the District saw a decrease in property taxes and increase in state aids due to the tax shift being paid back by the state. 2015 once again returns to more historical numbers. The mix of revenue components from district to district varies due to factors such as the strengths of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered and countless other criteria.

From 2014 to 2015, the District's revenue per ADM served increased an estimated \$ 479 per unit. This increase in the current year reflects an increase in revenue while ADMs served decreased. Property taxes increased with the tax shift payback that occurred in 2014. State aid revenues increased with an increase in the formula allowance and additional special education funding. Other local sources and federal aid were consistent with prior year amounts.

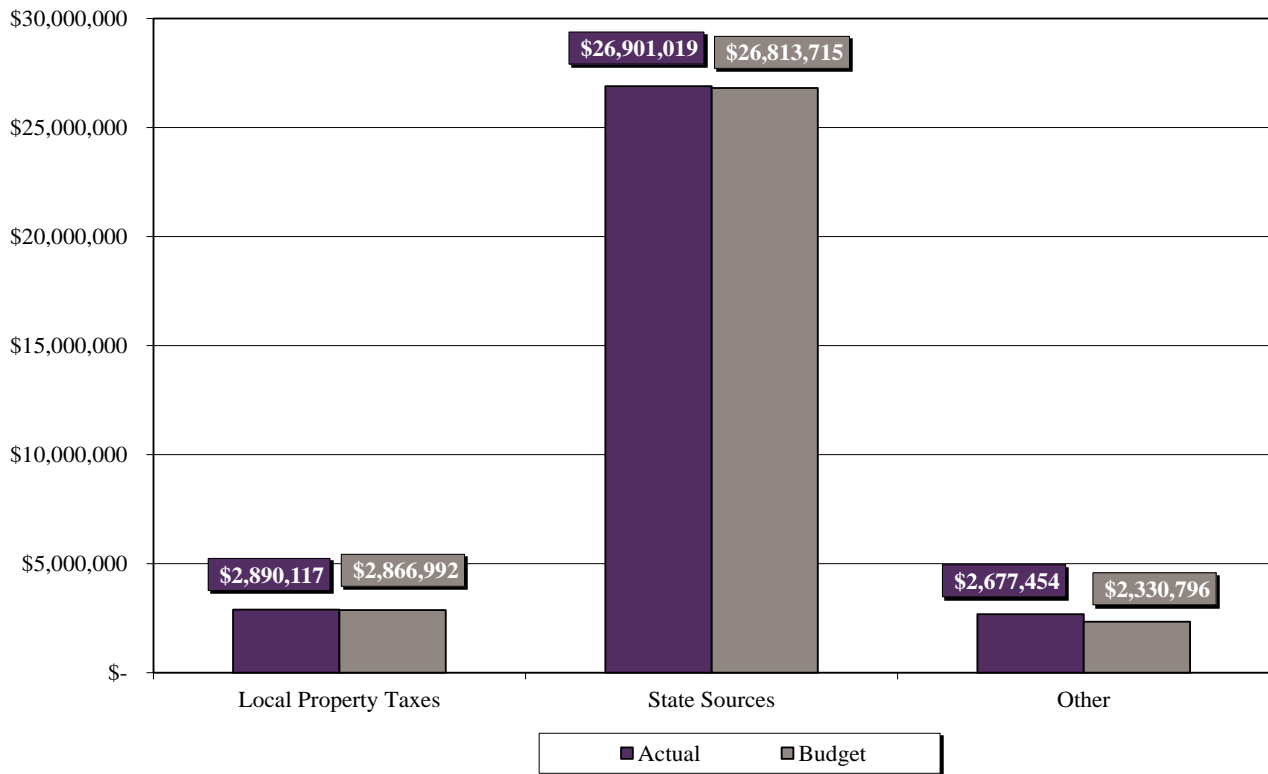
INDEPENDENT SCHOOL DISTRICT NO. 22

FINANCIAL ANALYSIS June 30, 2015

GENERAL FUND BUDGET AND ACTUAL

The following graph outlines the budget and actual of the General Fund revenue. Overall, actual revenue was \$ 457,087 over budget. Other sources of revenue were over budget \$ 346,658 due to budgeting conservatively for medical assistance billings which can vary greatly from year to year, and conservative budgeting for local donations. All other revenue sources were consistent with budgeted amounts.

2015 General Fund Revenues Budget and Actual



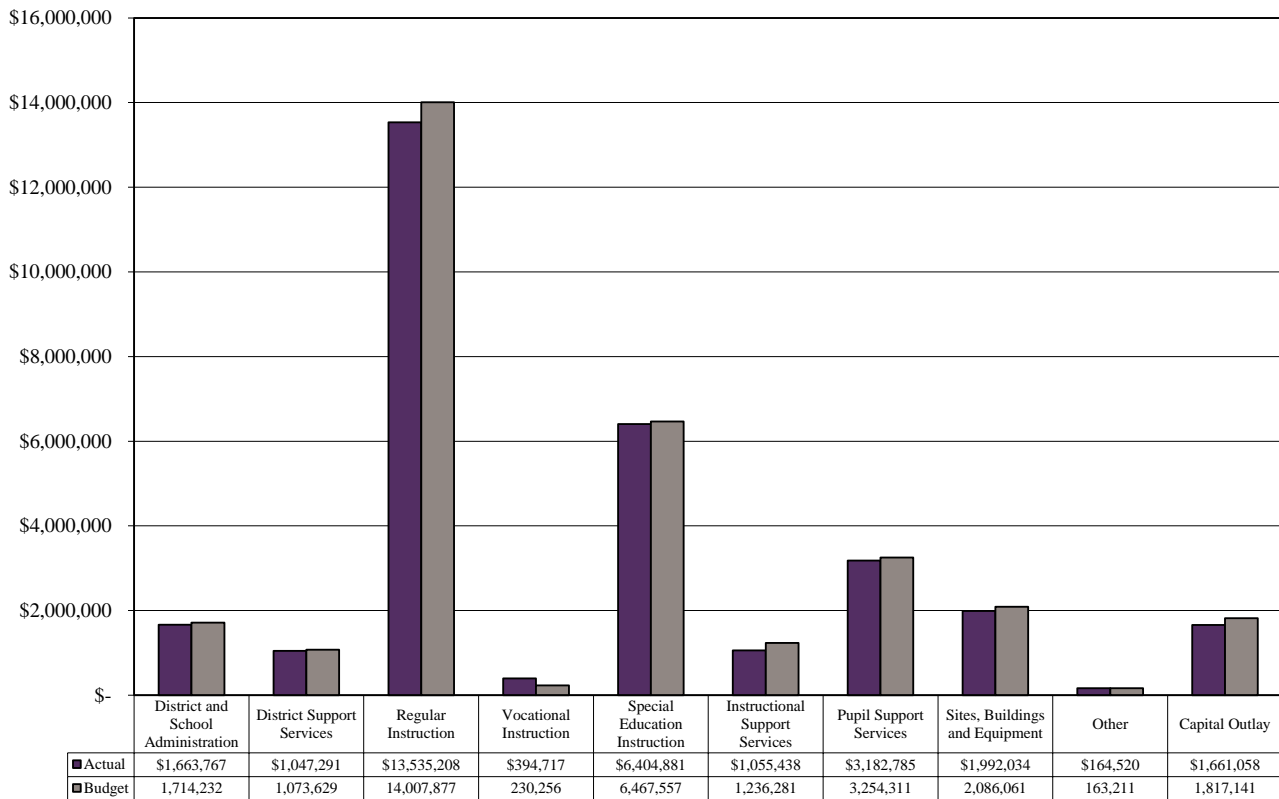
INDEPENDENT SCHOOL DISTRICT NO. 22

FINANCIAL ANALYSIS June 30, 2015

GENERAL FUND BUDGET AND ACTUAL

The following graph outlines the budget and actual of the General Fund's expenditures. Overall, actual expenditures were \$ 948,857 under budget. Regular instruction was under budget \$ 472,669 due to not purchasing budgeted textbooks, and budgeting for staff in this program while paying for it out of the vocational program based on staff assignments which resulted in that program being over budget. Instructional support services were under budget \$ 180,843 due to spending less than anticipated on staff development. Capital outlay was under budget \$ 156,083 due to projects that were planned for not starting until after the fiscal year had ended.

2015 General Fund Expenditures Budget and Actual



INDEPENDENT SCHOOL DISTRICT NO. 22

FINANCIAL ANALYSIS June 30, 2015

EXPENDITURES PER STUDENT

Expenditures per student (ADM) for all General Fund programs, including transportation and operating capital are summarized as follows:

Detroit Lakes Schools	2009*	2010*	2011*	2012*	2013*	2014*	2015 (est.)
General Fund	\$ 9,501	\$ 9,156	\$ 9,358	\$ 9,503	\$ 9,353	\$ 9,813	\$ 10,066
State Average	2009	2010	2011	2012	2013	2014	2015
General Fund - ADM Size**	\$ 10,395	\$ 9,754	\$ 9,776	\$ 9,849	\$ 9,927	\$ 10,398	N/A
General Fund - State-Wide Average***	10,630	10,228	10,207	10,297	10,634	11,011	N/A

* Denotes amount taken from the MDE's publication *School District Profiles*

** State average expenditures per ADM served for the 2,200-4,449 ADM group as listed in the MDE publication *School District Profiles*

*** State-wide average expenditures per ADM served as listed in the MDE publication *School District Profiles*

In 2015, General Fund expenditures increased 3.6% from the prior year, while ADM served increased 2.3% causing expenditures per student to increase 2.6%.

GENERAL FUND OPERATIONS

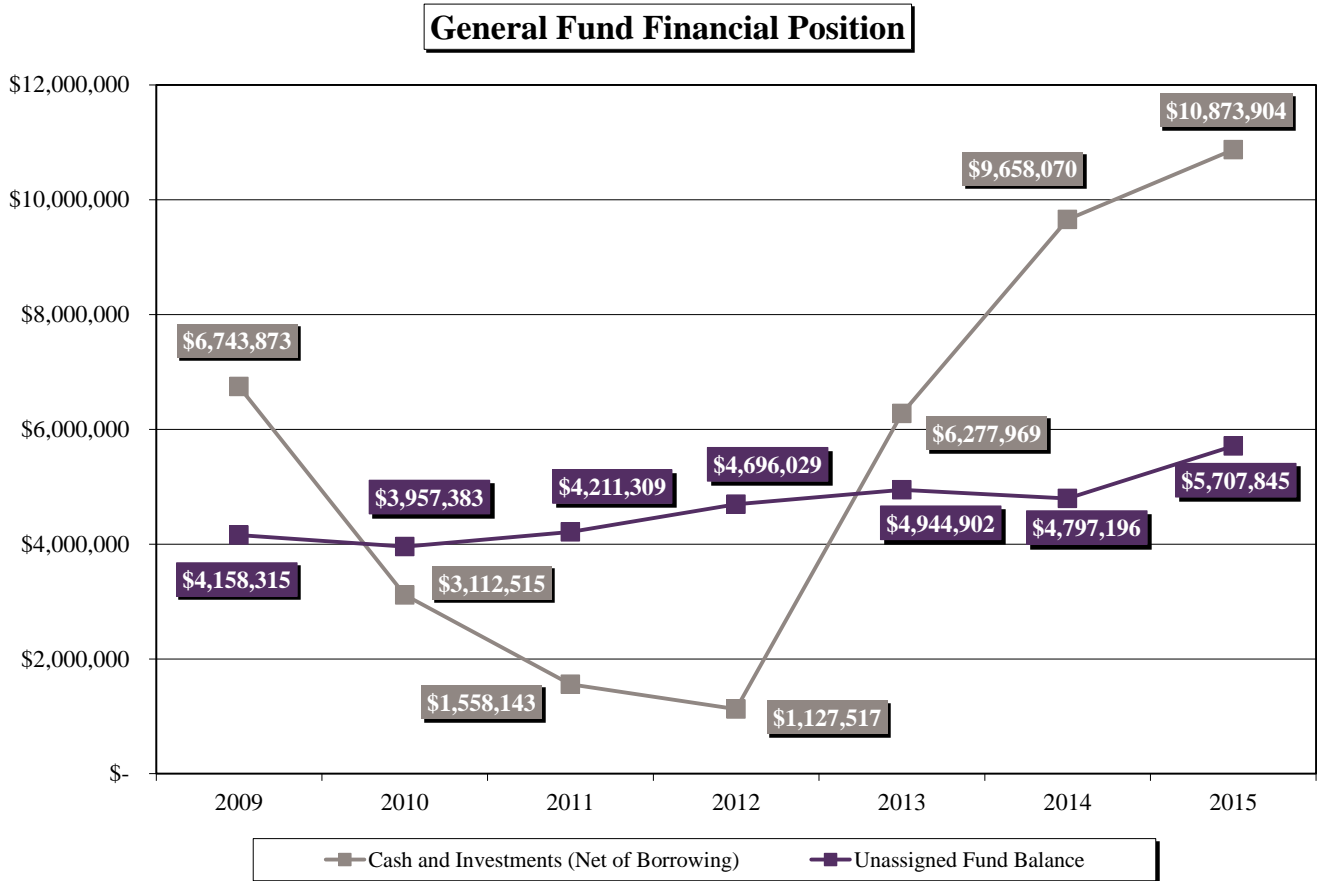
The following table presents seven years of comparative operating results for the District's General Fund.

For the Year Ended June 30,	2009	2010	2011	2012	2013	2014	2015
Revenue	\$ 26,401,027	\$ 26,624,198	\$ 28,130,115	\$ 29,158,868	\$ 29,501,425	\$ 30,375,633	\$ 32,468,590
Expenditures	26,651,160	26,599,768	27,550,575	28,215,865	28,561,064	30,031,868	31,101,699
Excess of Revenue Over (Under) Expenditures	(250,133)	24,430	579,540	943,003	940,361	343,765	1,366,891
Other Financing Sources	-	502	-	400	-	318,250	3,746
Fund Balance, July 1	7,578,975	7,328,842	7,353,774	7,933,314	8,876,717	9,817,078	10,479,093
Fund Balance, June 30	7,328,842	7,353,774	7,933,314	8,876,717	9,817,078	10,479,093	11,849,730
Less Restricted Fund Balances	3,170,527	1,218,466	1,339,391	1,696,432	1,919,073	2,654,901	2,915,056
Unrestricted Fund Balance, June 30	\$ 4,158,315	\$ 6,135,308	\$ 6,593,923	\$ 7,180,285	\$ 7,898,005	\$ 7,824,192	\$ 8,934,674

INDEPENDENT SCHOOL DISTRICT NO. 22

**FINANCIAL ANALYSIS
June 30, 2015**

GENERAL FUND OPERATIONS AND FINANCIAL POSITION



The District's unassigned General Fund balance as a percentage of total expenditures increased from 16.0% in 2014 to 18.6% to 2015. Although the District is in adequate financial condition, it should continue to monitor its unassigned General Fund balance.

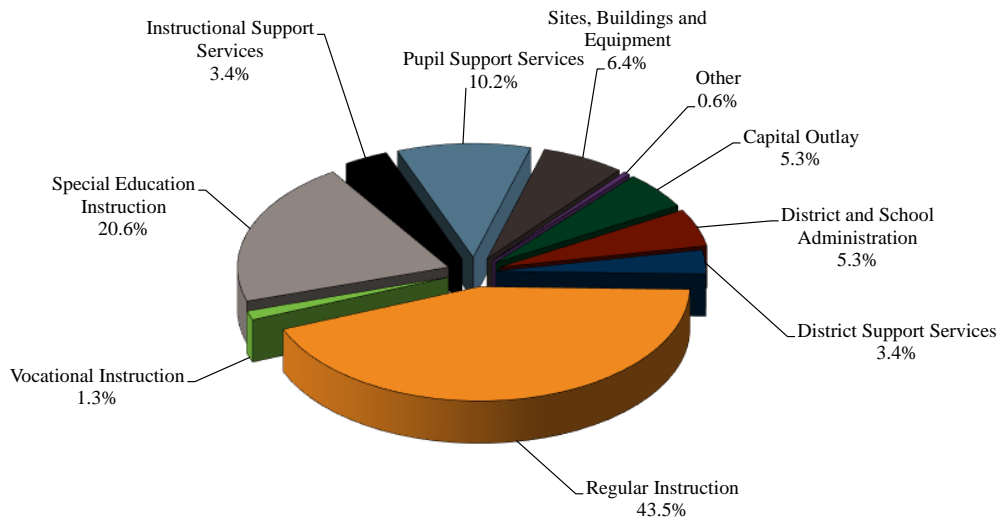
Over the course of the seven year-ends presented, the General Fund cash balance increased \$ 4,130,031 and unassigned fund balance increased \$ 1,549,530. In 2010, the MDE increased its withholding percentage to 27% due to state budget constraints. As a result, the District only received approximately 73% of its state aid entitlement prior to June 30. This funding holdback caused cash to decrease from 2009 to 2010 by \$ 3,631,358. The holdback increased to 30% in 2011 and 35.7% in 2012 which resulted in decreases in the cash balance of \$ 1,554,372 and \$ 430,626, respectively. By the end of 2013, the holdback percentage decreased to 14.6%, causing the cash increase of \$ 5,150,452. During 2014, the state decreased the holdback percentage to 10% and paid back the tax shift resulting in an increase in cash in the amount of \$ 3,380,101. In 2015, cash further increased \$ 1,215,834 and unassigned fund balance increased \$ 910,649 due to positive operations of the District.

INDEPENDENT SCHOOL DISTRICT NO. 22

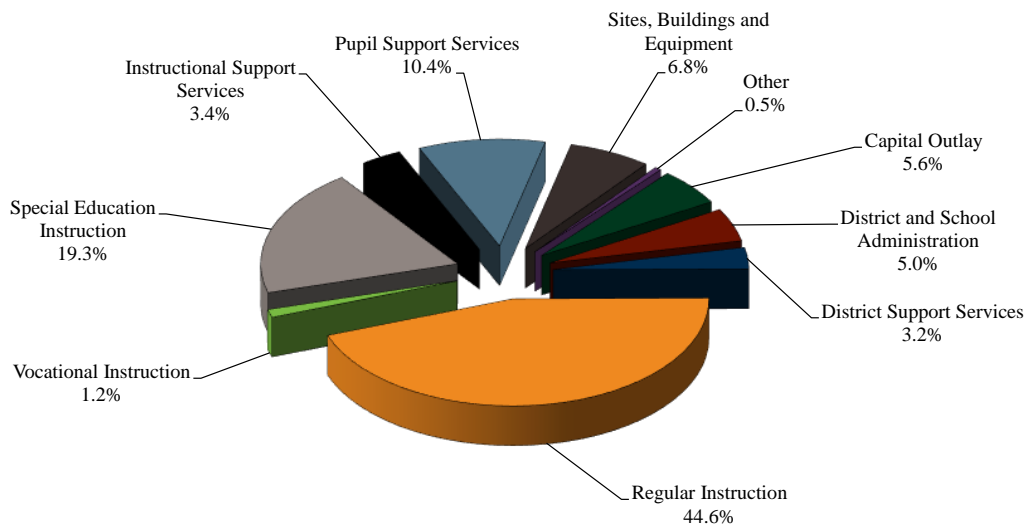
FINANCIAL ANALYSIS June 30, 2015

GENERAL FUND OPERATIONS

2015 District Expenditures



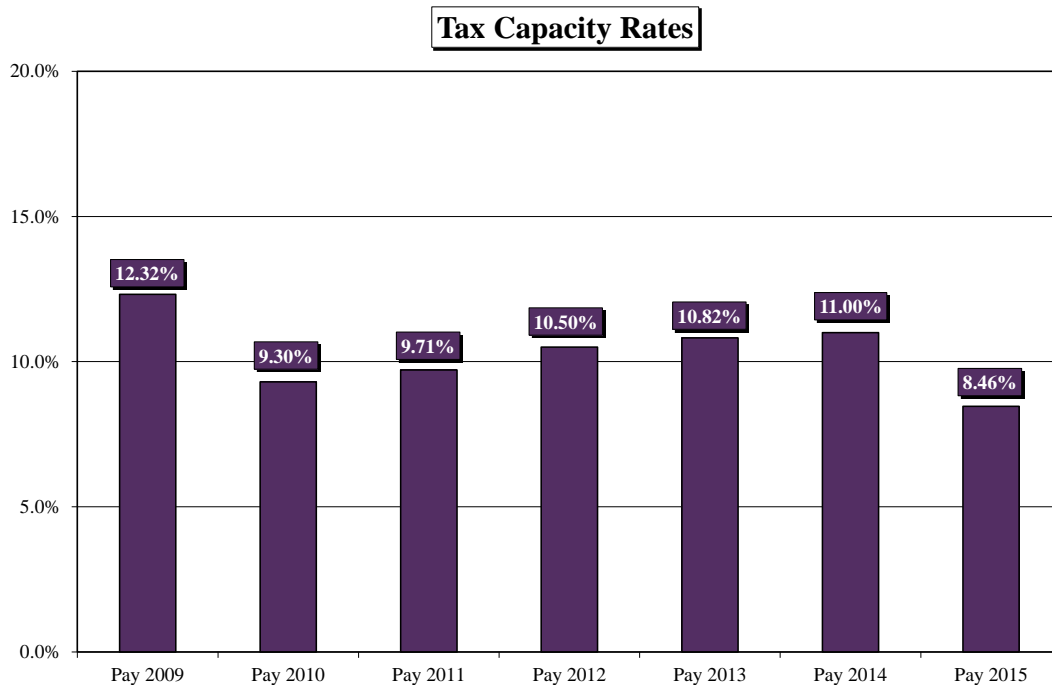
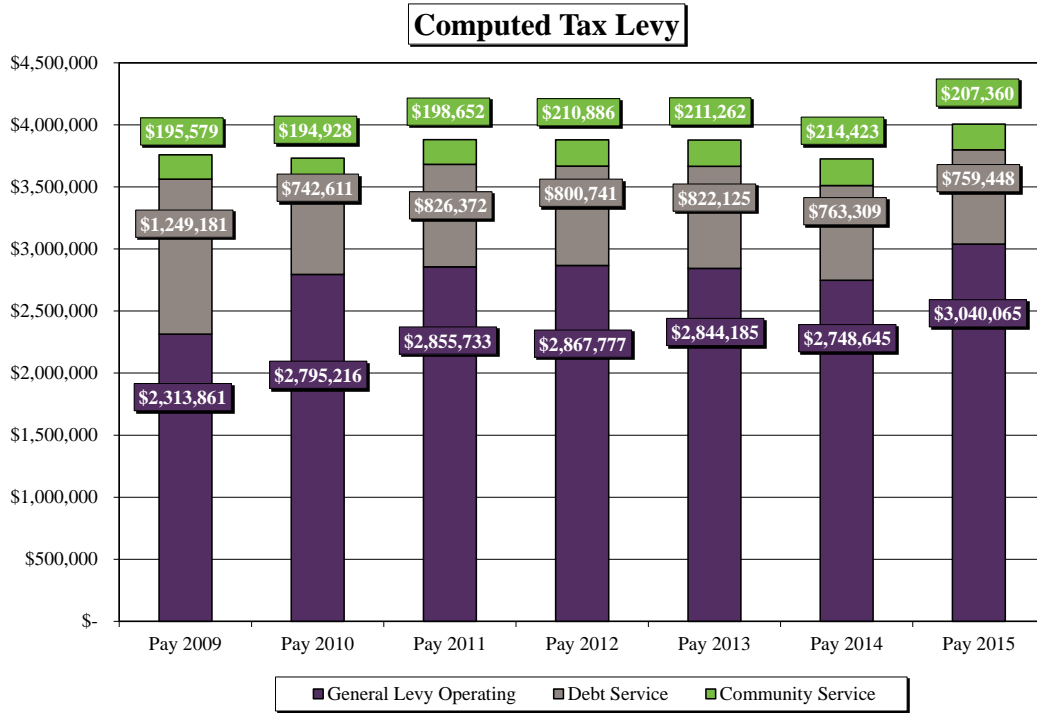
2014 District Expenditures



INDEPENDENT SCHOOL DISTRICT NO. 22

FINANCIAL ANALYSIS June 30, 2015

TAX LEVY



INDEPENDENT SCHOOL DISTRICT NO. 22

FINANCIAL ANALYSIS June 30, 2015

FOOD SERVICE FUND

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

For the Year Ended June 30,	2009	2010	2011	2012	2013	2014	2015
Revenue	\$ 1,143,763	\$ 1,219,673	\$ 1,269,820	\$ 1,352,430	\$ 1,452,468	\$ 1,428,651	\$ 1,490,659
Expenditures	1,089,003	1,107,183	1,181,958	1,248,625	1,357,815	1,392,401	1,536,763
Excess of Revenue Over Expenditures	54,760	112,490	87,862	103,805	94,653	36,250	(46,104)
Other Financing Sources	-	-	600	-	900	-	-
Fund Balance, July 1	308,332	363,092	475,582	564,044	667,849	763,402	799,652
Fund Balance, June 30	\$ 363,092	\$ 475,582	\$ 564,044	\$ 667,849	\$ 763,402	\$ 799,652	\$ 753,548

The Food Service Fund fully supported its operations in six of the last seven years. In 2015, expenditures exceeded revenues by \$46,104. This activity resulted in a Food Service Fund balance to \$ 753,548 at the end of the year. Revenues and expenditures increased during the year due to additional breakfast programming. Expenditures also increased as a result of salary increases, adding an additional cook and the purchase of an oven and cash registers.

COMMUNITY SERVICE FUND

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

For the Year Ended June 30,	2009	2010	2011	2012	2013	2014	2015
Revenue	\$ 694,469	\$ 690,154	\$ 692,681	\$ 685,758	\$ 700,850	\$ 776,434	\$ 849,804
Expenditures	683,553	684,685	701,725	663,686	700,749	748,004	814,366
Excess of Revenue Over (Under) Expenditures	10,916	5,469	(9,044)	22,072	101	28,430	35,438
Fund Balance, July 1	111,039	121,955	127,424	118,380	140,452	140,553	168,983
Fund Balance, June 30	\$ 121,955	\$ 127,424	\$ 118,380	\$ 140,452	\$ 140,553	\$ 168,983	\$ 204,421

In 2015, Community Service Fund revenues exceeded expenditures by \$ 35,438, resulting in the fund balance increasing to \$ 204,421. Revenues and expenditures fluctuate year to year depending on the number of classes and programs offered. During 2015, the District experienced an increase in students participating in the school readiness and latchkey programs.

INDEPENDENT SCHOOL DISTRICT NO. 22

LEGISLATIVE SUMMARY

June 30, 2015

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

STATE AID APPROPRIATIONS

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

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

ENGLISH LEARNER REVENUE

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

COMPENSATORY REVENUE

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

STUDENT ACHIEVEMENT LEVY

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

OPERATING CAPITAL LEVY

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

LEARNING AND DEVELOPMENT

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

Q COMP

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

INDEPENDENT SCHOOL DISTRICT NO. 22

LEGISLATIVE SUMMARY

June 30, 2015

ALTERNATIVE TEACHER PAY

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

STAFF DEVELOPMENT

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

AMERICAN INDIAN EDUCATION AID

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

LONG-TERM FACILITIES MAINTENANCE REVENUE

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 22

LEGISLATIVE SUMMARY

June 30, 2015

MISCELLANEOUS LEVIES

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

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

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

LOCAL OPTIONAL REVENUE

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

ACCOUNTING

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

FINANCIAL REPORTING DATES

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

SPECIAL EDUCATION

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 22

LEGISLATIVE SUMMARY

June 30, 2015

SPECIAL EDUCATION (CONTINUED)

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 22

EMERGING ISSUES

June 30, 2015

Executive Summary

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

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

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

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

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

Effective Dates

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

Objective of OMB Grant Reform

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

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

INDEPENDENT SCHOOL DISTRICT NO. 22

EMERGING ISSUES

June 30, 2015

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

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

Administrative Requirements – Subpart A-D of Federal Register

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

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

Internal Controls (Section 200.303)

Internal controls should comply with:

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

Internal controls must:

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

Procurement Standards (Sections 200.317 through 200.326)

Guidelines provide five different procurement methods

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

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

INDEPENDENT SCHOOL DISTRICT NO. 22

EMERGING ISSUES

June 30, 2015

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

Subrecipient Monitoring (Sections 200.330 through 200.332 and 200.521)

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

Cost Principles – Subpart E of Federal Register

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

Indirect/Direct Costs (Sections 200.413-200.414)

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

Time and Effort Reporting (Section 200.430)

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

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

Audit Requirements – Subpart F of Federal Register

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

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

INDEPENDENT SCHOOL DISTRICT NO. 22

EMERGING ISSUES

June 30, 2015

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

Other Items of Interest

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

Example of Strategy to Implement OMB Grant Reform Changes

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

Additional Resources on OMB Grant Reform

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 22

EMERGING ISSUES

June 30, 2015

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

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

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

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

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

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

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