

**Independent School District No. 22
Detroit Lakes, Minnesota**

Communications Letter

June 30, 2016



Independent School District No. 22
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Report on Matters Identified as a Result of the Audit of the Financial Statements

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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. 22, Detroit Lakes, Minnesota, as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 November 4, 2016, on such statements.

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.

St. Cloud, Minnesota
November 4, 2016

Independent School District No. 22
Significant Deficiency

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, 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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2016, and have issued our report dated November 4, 2016. Professional standards require that we provide you with the following information related to our audit.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS* AND THE UNIFORM GUIDANCE

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

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

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

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

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

**Independent School District No. 22
Required Communication**

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS* AND THE UNIFORM GUIDANCE (CONTINUED)

Our responsibility with respect to the other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information was not audited and we do not express an opinion or provide any assurance on it.

PLANNED SCOPE AND TIMING OF THE AUDIT

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

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

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the notes to financial statements. No new accounting policies were adopted and the District changed their Policy 704 Development and Maintenance of an Inventory of Fixed Assets and a Fixed Asset Accounting System during the year ended June 30, 2016. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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.

**Independent School District No. 22
Required Communication**

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)

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.

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. 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.

- Loss on Asset Disposals

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

DISAGREEMENTS WITH MANAGEMENT

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

**Independent School District No. 22
Required Communication**

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

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. 22
Financial Analysis**

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%

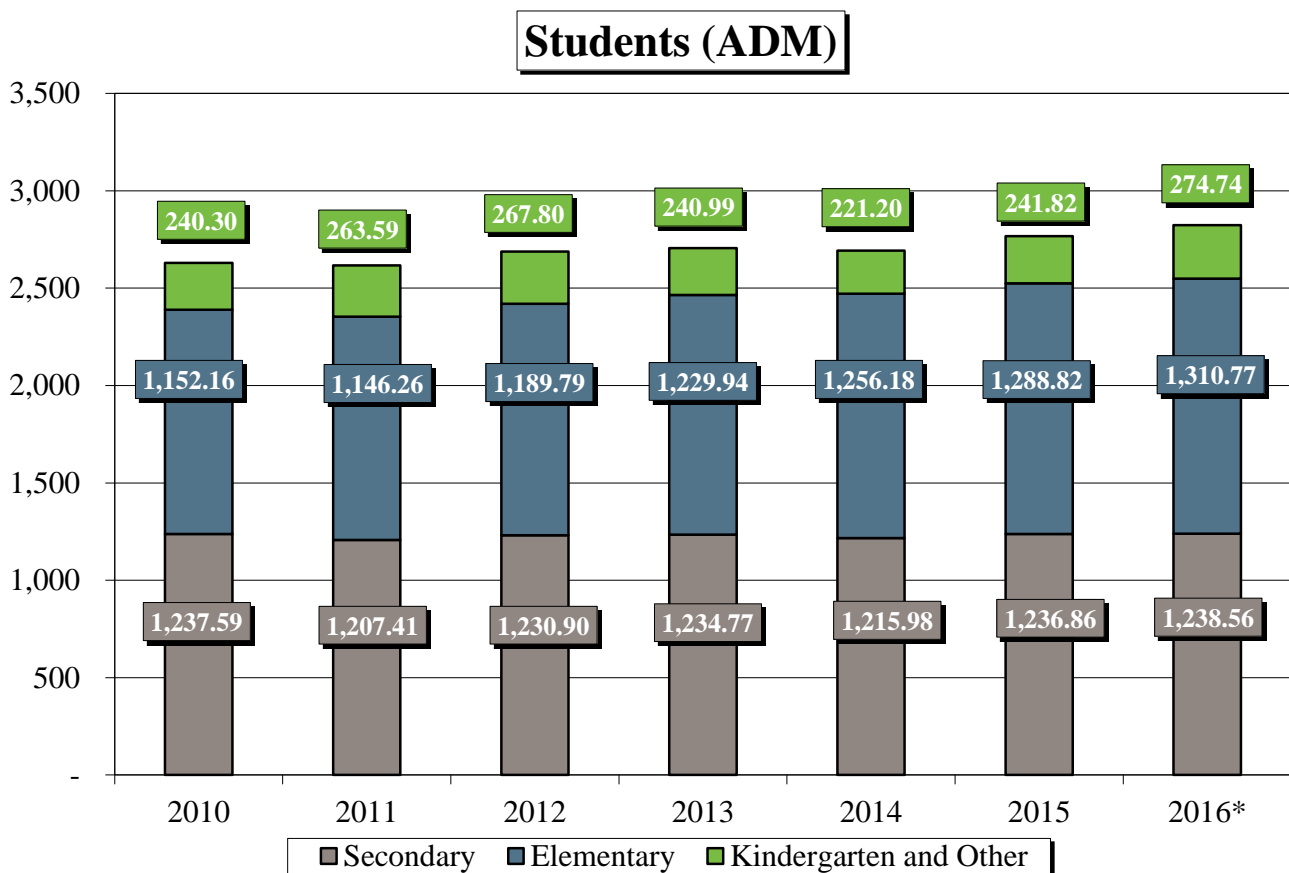
* General Education Aid - Of the \$529 increase over 2014, \$105 is for inflation at 1.9%; the remaining \$424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

Independent School District No. 22 Financial Analysis

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

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

ADM	2010	2011	2012	2013	2014	2015	2016*
Other	81.86	95.83	106.62	91.18	86.79	94.64	98.15
Kindergarten	158.44	167.76	161.18	149.81	134.41	147.18	176.59
Elementary	1,152.16	1,146.26	1,189.79	1,229.94	1,256.18	1,288.82	1,310.77
Secondary	1,237.59	1,207.41	1,230.90	1,234.77	1,215.98	1,236.86	1,238.56
Total Resident ADM	2,630.05	2,617.26	2,688.49	2,705.70	2,693.36	2,767.50	2,824.07



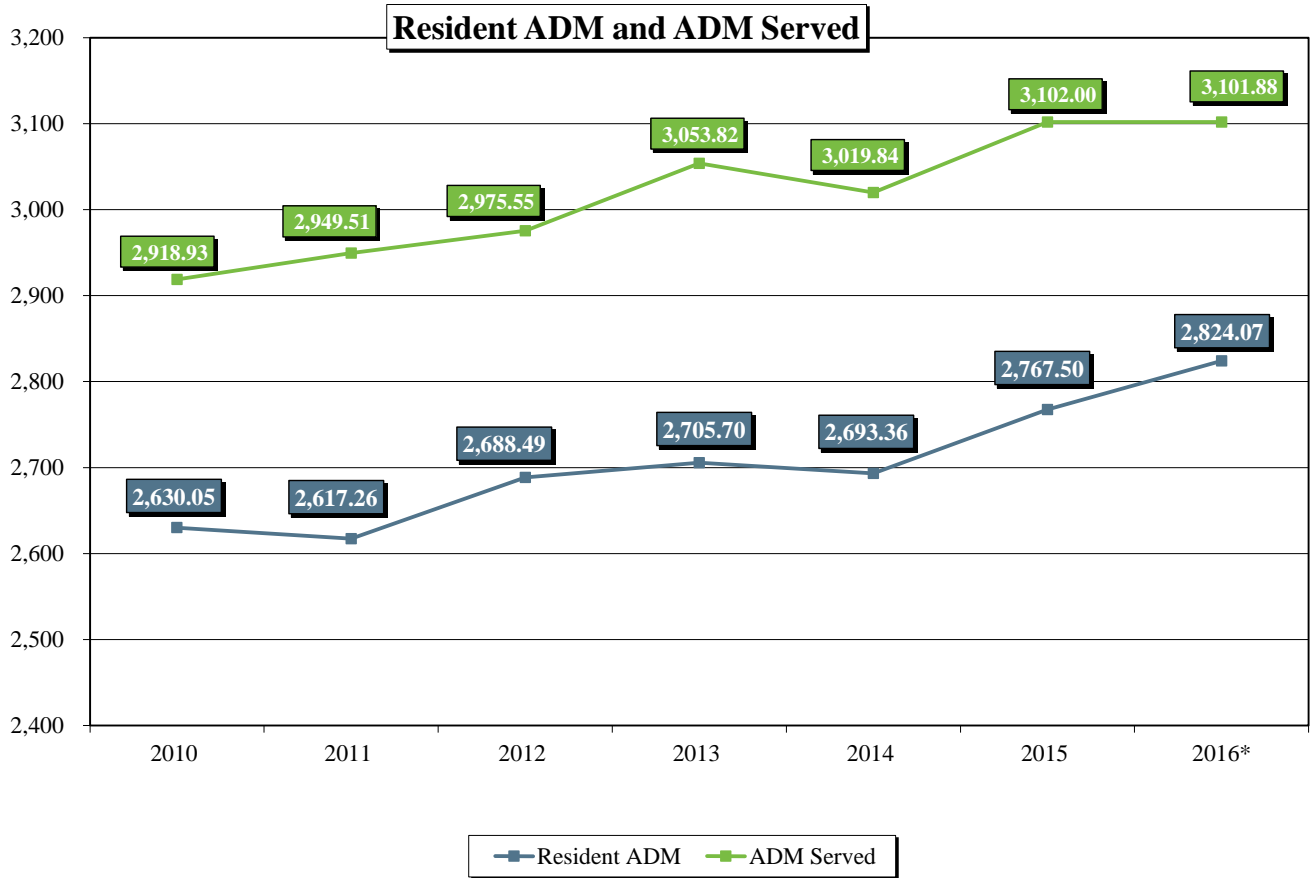
* The resident ADM for 2016 are estimated.

As the above chart indicates, total resident ADM has fluctuated over the last seven years. ADM increased by 56.57 pupil units from 2015 to 2016. As the chart above indicates, this increase came mostly in the kindergarten and other and elementary levels. Over the past seven years shown, the District has experienced an increase of 194.02 resident students, or 7.4%.

**Independent School District No. 22
Financial Analysis**

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 2016 are estimated.

As the graph above shows, total ADM served remained consistent from 2015 to 2016. 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	Half/Full Kindergarten	Elementary	Secondary
2010-2014	1.250/1.000	N/A/0.612	1.115/1.060	1.300
2015-2016	1.000/1.000	0.550/1.000	1.000/1.000	1.200

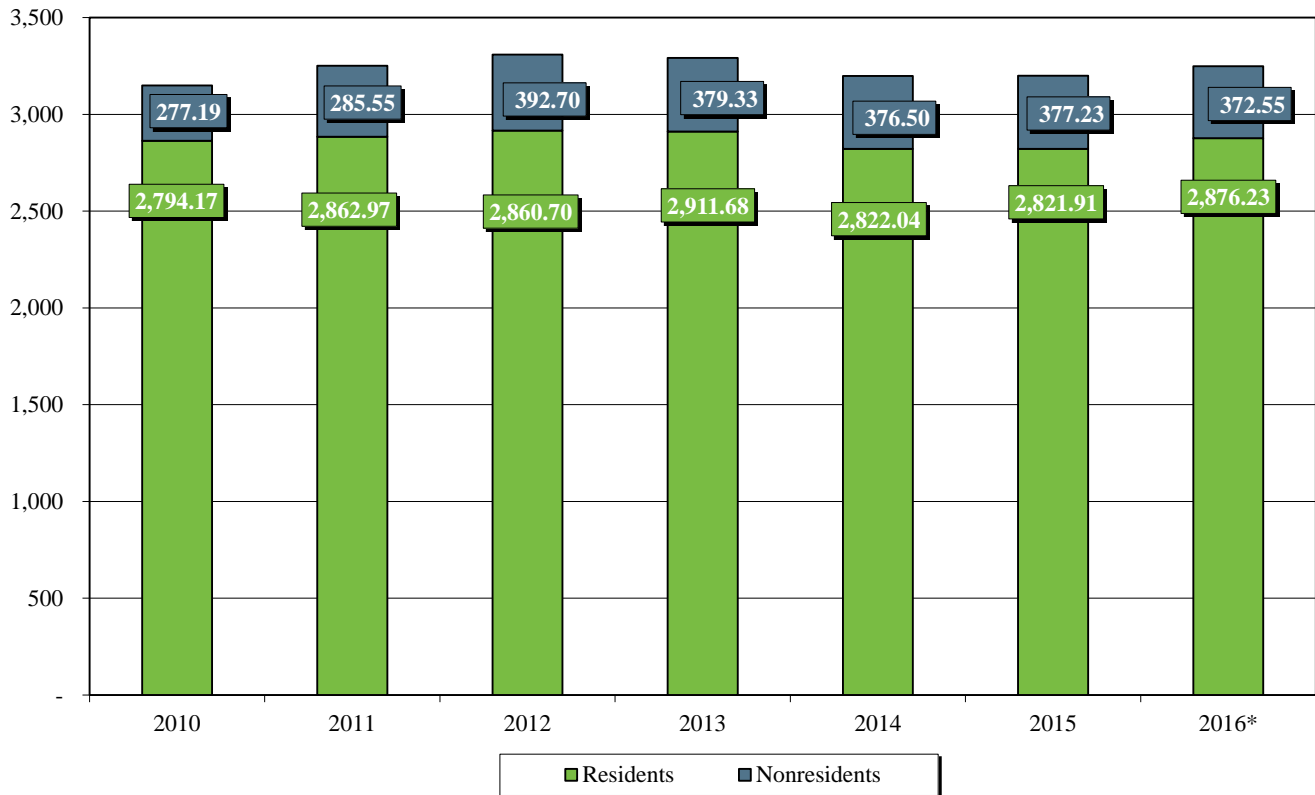
Independent School District No. 22 Financial Analysis

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 2010 through 2016.

PUN	2010	2011	2012	2013	2014	2015	2016*
Residents	3,051.29	3,025.97	3,111.89	3,137.30	3,126.83	3,014.86	3,071.79
Resident PUN going							
Elsewhere	(190.59)	(178.20)	(227.93)	(221.21)	(215.15)	(192.95)	(195.56)
Nonresident PUN coming in	346.19	356.95	366.76	392.70	379.33	377.23	372.55
Total PUN Served	3,206.89	3,204.72	3,250.72	3,308.79	3,291.01	3,199.14	3,248.78

Students Served



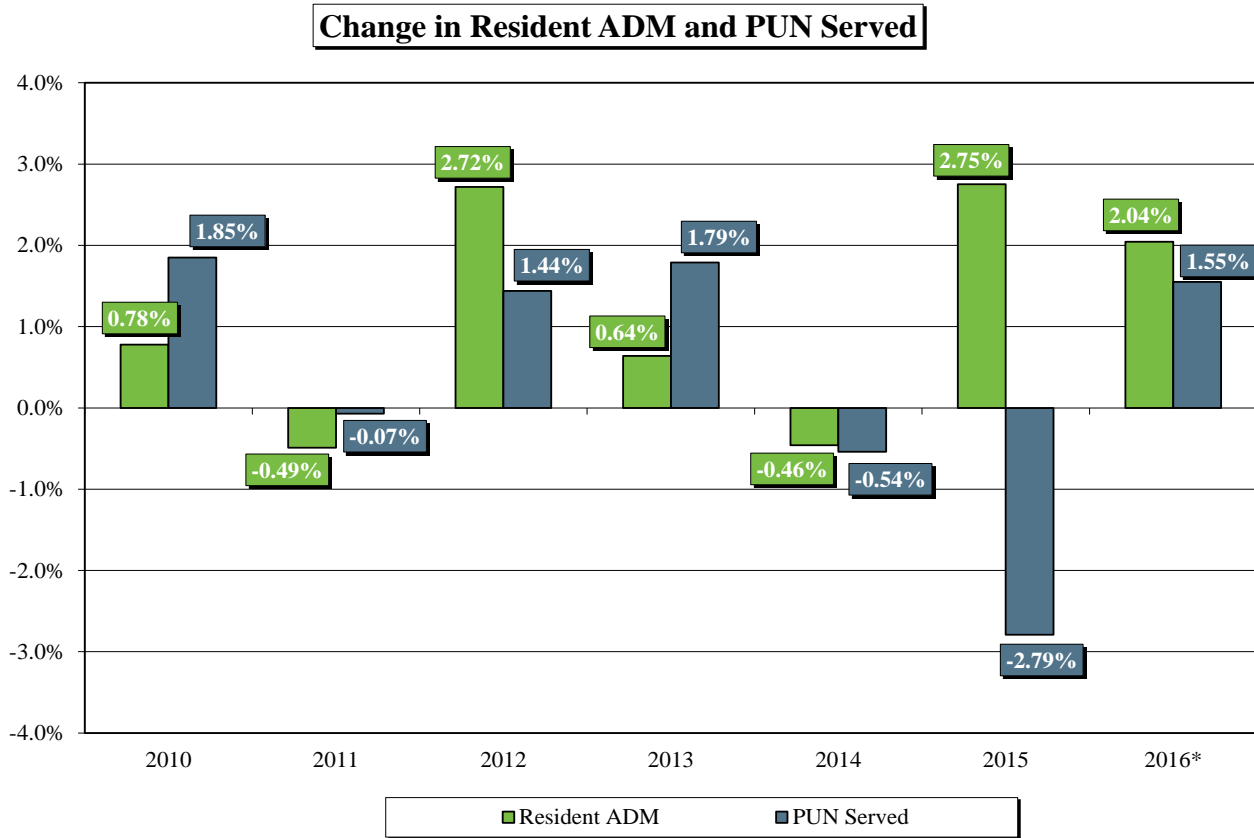
* The resident PUN served for 2016 are estimated.

Comparing 2015 and 2016, total PUN served increased by 49.64, or 1.6%. Resident students increased by 1.9%, while the net gain from open enrollment decreased 4.1% 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 District continues to benefit from open enrollment. Net gains in open enrollment totaled 176.99 in 2016, a decrease from 184.28 in 2015. This amount also includes students attending the Detroit Lakes Area Learning Center.

**Independent School District No. 22
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

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



* The resident PUN served for 2016 are estimated.

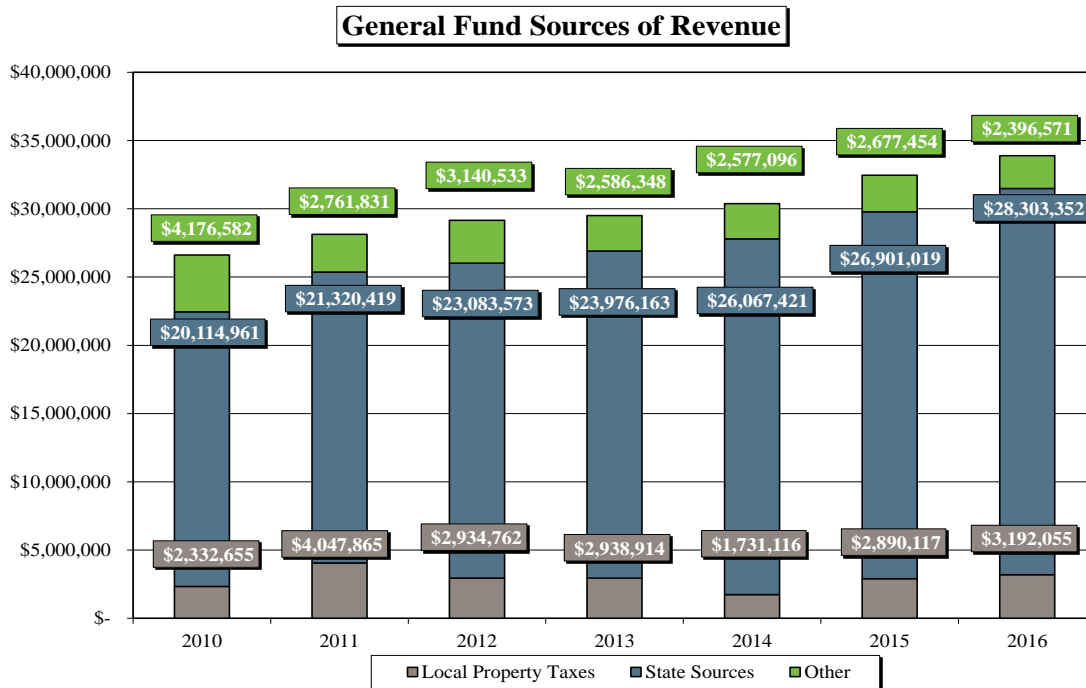
During 2016, ADM and PUN increased. Open enrollment has helped offset the overall relatively consistent resident enrollment numbers. The net gain from open enrollment has increased from 155.6 in 2010 to 176.99 in 2016. Student enrollment in the District is projected to continue to increase through 2020.

Independent School District No. 22 Financial Analysis

GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows:

	2010	2011	2012	2013	2014	2015	2016
Local property tax levies	\$ 2,332,655	\$ 4,047,865	\$ 2,934,762	\$ 2,938,914	\$ 1,731,116	\$ 2,890,117	\$ 3,192,055
State revenue	20,114,961	21,320,419	23,083,573	23,976,163	26,067,421	26,901,019	28,303,352
Other revenue	4,176,582	2,761,831	3,140,533	2,586,348	2,577,096	2,677,454	2,396,571
Total	\$ 26,624,198	\$ 28,130,115	\$ 29,158,868	\$ 29,501,425	\$ 30,375,633	\$ 32,468,590	\$ 33,891,978



State sources represent 83.5% of the General Fund's total revenue, with local tax payers contributing 9.4% of the funding and federal and other sources making up the remaining 7.1%. 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. Tax revenue further increased in 2016 due to an increase in the levy. State sources of revenue increased \$1,402,333 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 decreased \$280,883 due to a decrease in medical assistance and less federal special education funding.

**Independent School District No. 22
Financial Analysis**

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.

General Fund	2012	2013	2014	2015	2016
Property taxes	\$ 947	\$ 928	\$ 536	\$ 886	\$ 1,029
Other local sources	386	441	429	439	354
State aid	7,774	7,851	8,606	8,672	9,125
Federal aid	713	440	458	470	421
Total general fund revenue	\$ 9,820	\$ 9,660	\$ 10,029	\$ 10,467	\$ 10,929

Districts with 2,200-4,499 ADM**					
General Fund	2012	2013	2014	2015	2016
Property taxes	\$ 1,252	\$ 1,218	\$ 723	\$ 1,240	N/A
Other local sources	499	486	549	559	N/A
State aid	7,831	8,010	8,796	8,856	N/A
Federal aid	467	369	352	345	N/A
Total general fund revenue	\$ 10,049	\$ 10,083	\$ 10,420	\$ 11,000	N/A

State-Wide**					
General Fund	2012	2013	2014	2015	2016
Property taxes	\$ 1,550	\$ 1,608	\$ 923	\$ 1,564	N/A
Other local sources	444	442	477	485	N/A
State aid	8,033	8,234	9,136	9,114	N/A
Federal aid	590	494	463	450	N/A
Total general fund revenue	\$ 10,617	\$ 10,778	\$ 10,999	\$ 11,613	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. 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.

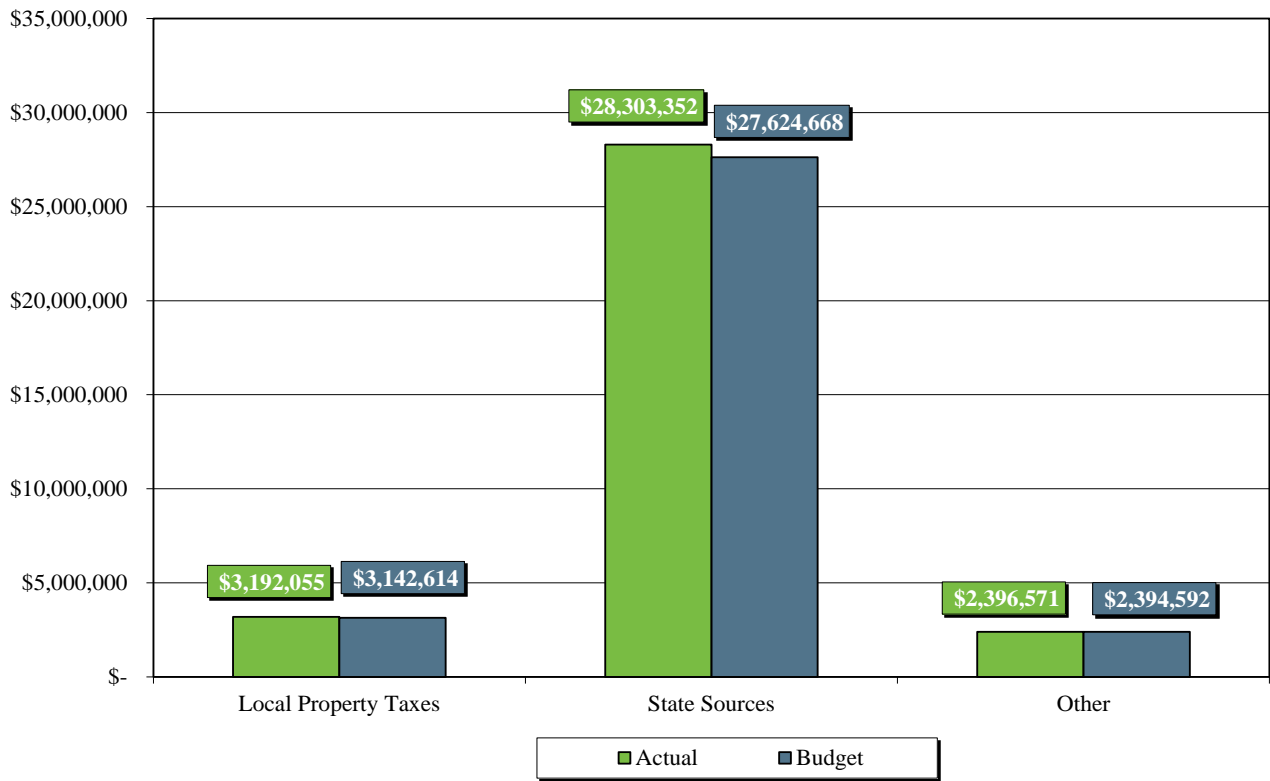
From 2015 to 2016, the District's revenue per ADM served increased an estimated \$462 per unit. This increase in the current year reflects a higher percentage increase in revenue compared to the increase in AMDs. Property taxes increased with an increase in the levy. State aid revenues increased with an increase in the formula allowance and additional special education funding. Other local sources decreased due to less medical assistance and federal aid decreased due to less special education funding.

Independent School District No. 22 Financial Analysis

GENERAL FUND BUDGET AND ACTUAL

The following graph outlines the budget and actual of the General Fund revenue. Overall, actual revenue was \$730,104 over budget. State aids were over budget \$678,684 due to a contribution from the State on the District's behalf for TRA that was not budgeted for, as well as a higher student count than budgeted. All other revenue sources were consistent with budgeted amounts.

2016 General Fund Revenues Budget and Actual

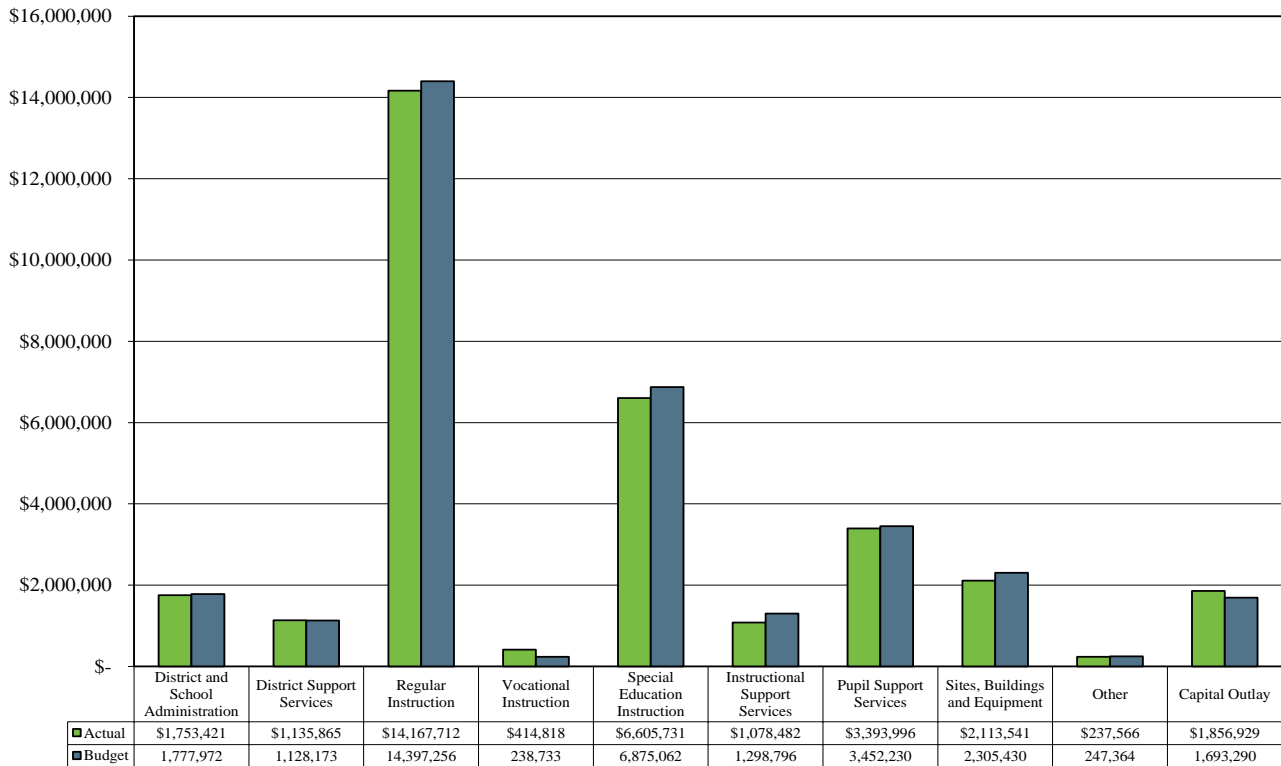


Independent School District No. 22 Financial Analysis

GENERAL FUND BUDGET AND ACTUAL (CONTINUED)

The following graph outlines the budget and actual of the General Fund's expenditures. Overall, actual expenditures were \$656,245 under budget. Regular instruction was under budget \$229,544 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. Special education was under budget \$269,331 due to not spending as much medical assistance as budgeted. Instructional support services were under budget \$220,314 due to budgeting to spend an award that was not received during the year. Sites, buildings, and equipment was under budget \$191,889 due to spending less than anticipated on snow removal and gas for heating. Vocational instruction was over budget \$176,085.

2016 General Fund Expenditures Budget and Actual



**Independent School District No. 22
Financial Analysis**

EXPENDITURES PER STUDENT

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

Detroit Lakes Schools	2010*	2011*	2012*	2013*	2014*	2015*	2016
General fund	\$ 9,156	\$ 9,358	\$ 9,503	\$ 9,353	\$ 9,813	\$ 10,027	\$ 10,561

State Average	2010	2011	2012	2013	2014	2015	2016
General fund - ADM size**	\$ 9,754	\$ 9,776	\$ 9,849	\$ 9,927	\$ 10,398	\$ 10,864	N/A
General fund - state-wide Average***	10,228	10,207	10,297	10,634	11,011	11,527	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 2016, General Fund expenditures increased 5.3% from the prior year, while ADM served remained stable causing expenditures per student to increase 5.3%.

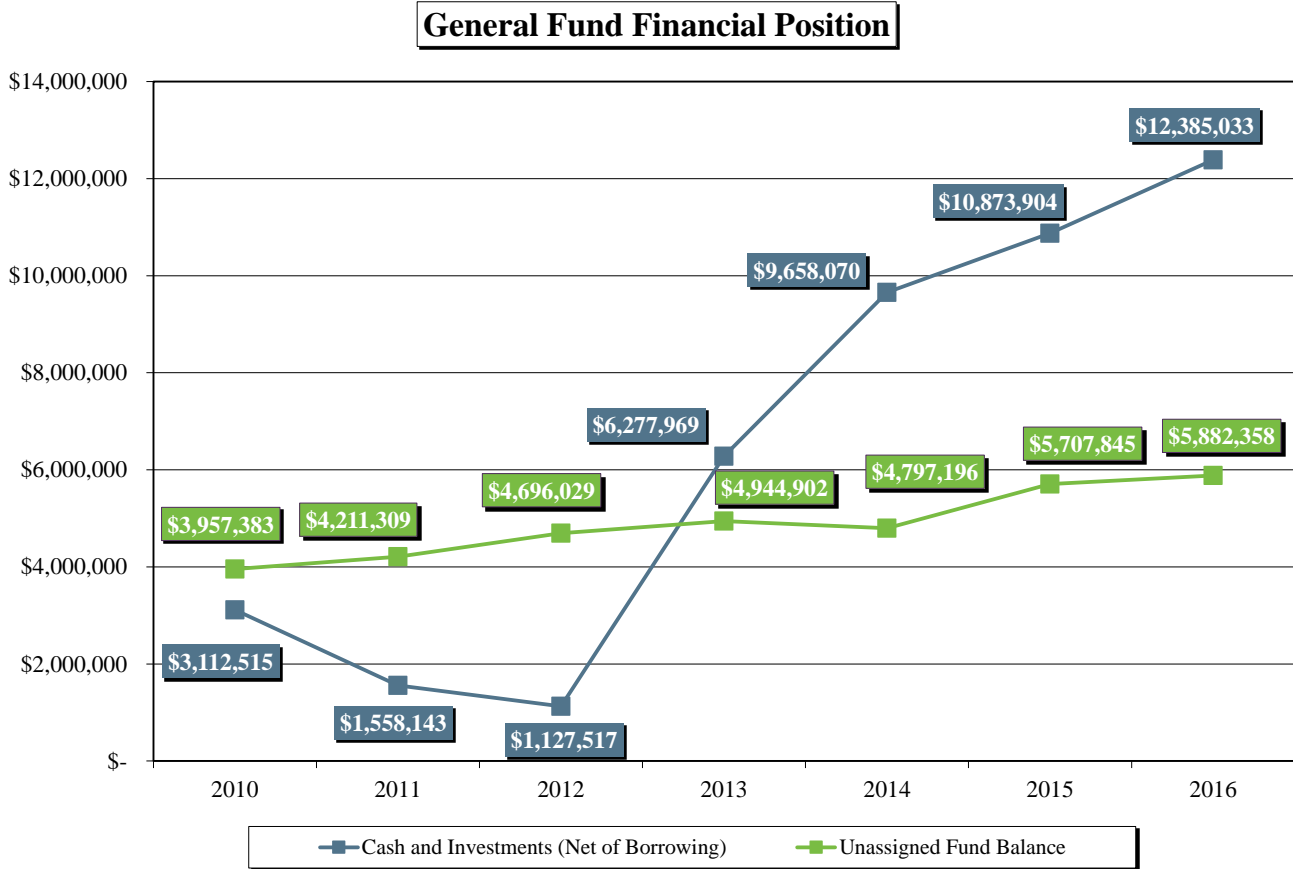
GENERAL FUND OPERATIONS

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

	2010	2011	2012	2013	2014	2015	2016
Revenue	\$ 26,624,198	\$ 28,130,115	\$ 29,158,868	\$ 29,501,425	\$ 30,375,633	\$ 32,468,590	\$ 33,891,978
Expenditures	26,599,768	27,550,575	28,215,865	28,561,064	30,031,868	31,101,699	32,758,061
Excess of revenue (over) expenditures	24,430	579,540	943,003	940,361	343,765	1,366,891	1,133,917
Other financing sources	502	-	400	-	318,250	3,746	4,500
Fund balance, July 1	7,328,842	7,353,774	7,933,314	8,876,717	9,817,078	10,479,093	11,849,730
Fund balance, June 30	7,353,774	7,933,314	8,876,717	9,817,078	10,479,093	11,849,730	12,988,147
Less restricted fund balances	1,218,466	1,339,391	1,696,432	1,919,073	2,654,901	2,915,056	2,616,594
Unrestricted fund balance, June 30	\$ 6,135,308	\$ 6,593,923	\$ 7,180,285	\$ 7,898,005	\$ 7,824,192	\$ 8,934,674	\$ 10,371,553

Independent School District No. 22 Financial Analysis

GENERAL FUND OPERATIONS AND FINANCIAL POSITION



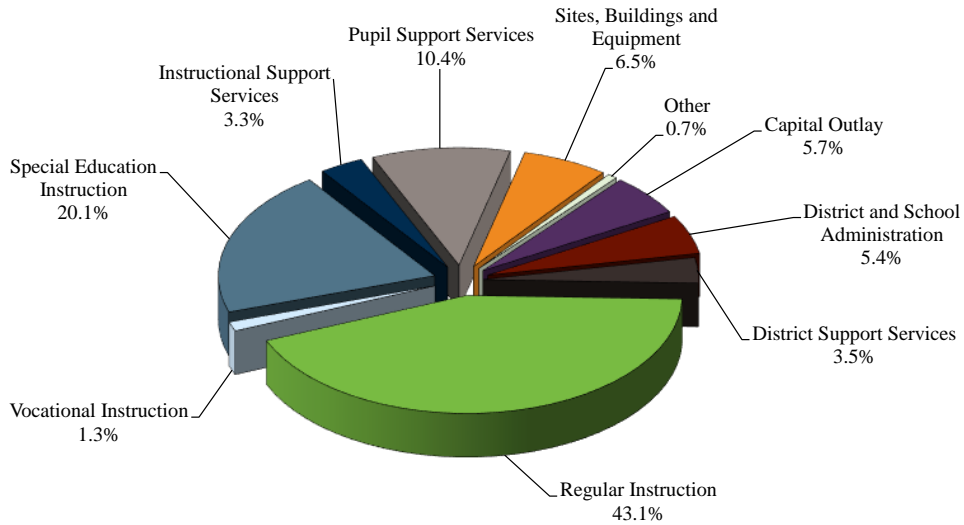
The District's unassigned General Fund balance as a percentage of total expenditures decreased from 18.3% in 2015 to 17.9% to 2016. Although the District is in adequate financial condition, it should continue to monitor its unassigned General Fund balance.

Over the course of the seven year-ends presented, the General Fund cash balance increased \$9,272,518 and unassigned fund balance increased \$1,924,975. 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 2016, cash further increased \$1,511,129 and unassigned fund balance increased \$174,513 due to positive operations of the District.

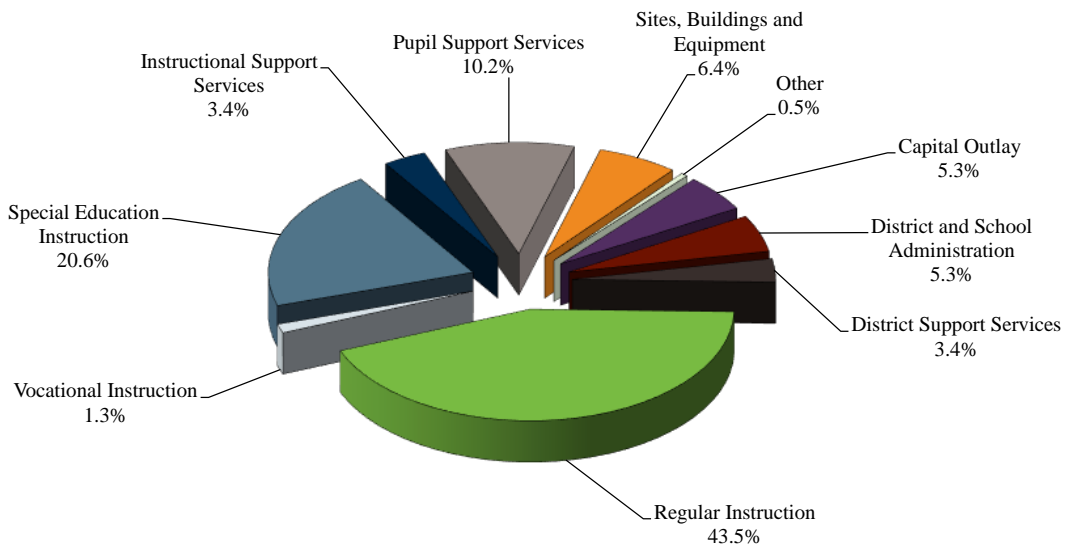
Independent School District No. 22 Financial Analysis

GENERAL FUND OPERATIONS

2016 District Expenditures

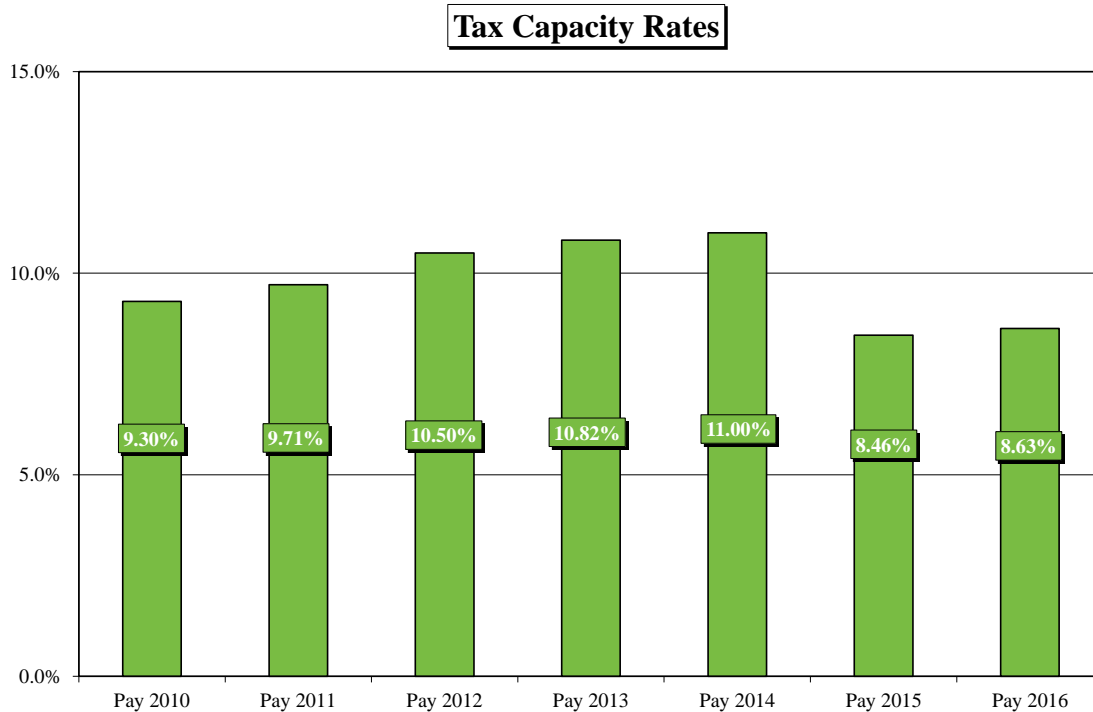
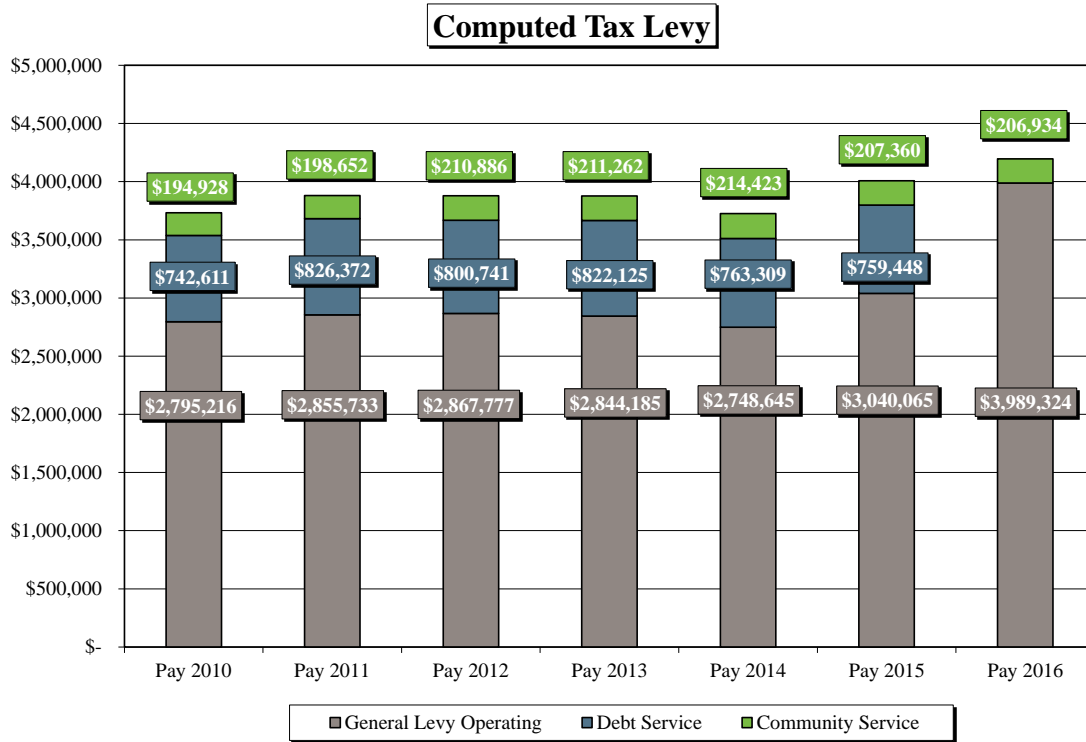


2015 District Expenditures



Independent School District No. 22 Financial Analysis

TAX LEVY



**Independent School District No. 22
Financial Analysis**

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,	2010	2011	2012	2013	2014	2015	2016
Revenue	\$ 1,219,673	\$ 1,269,820	\$ 1,352,430	\$ 1,452,468	\$ 1,428,651	\$ 1,490,659	\$ 1,546,697
Expenditures	1,107,183	1,181,958	1,248,625	1,357,815	1,392,401	1,536,763	1,567,887
Excess of revenue over (under) expenditures	112,490	87,862	103,805	94,653	36,250	(46,104)	(21,190)
Other financing sources	-	600	-	900	-	-	-
Fund balance, July 1	363,092	475,582	564,044	667,849	763,402	799,652	753,548
Fund balance, June 30	\$ 475,582	\$ 564,044	\$ 667,849	\$ 763,402	\$ 799,652	\$ 753,548	\$ 732,358

The Food Service Fund fully supported its operations in five of the last seven years. In 2016, expenditures exceeded revenues by \$21,190. This activity resulted in a Food Service Fund balance to \$732,358 at the end of the year. Revenues and expenditures increased during the year due to additional participation. Expenditures also increased as a result of increased food costs as additional students were served.

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,	2010	2011	2012	2013	2014	2015	2016
Revenue	\$ 690,154	\$ 692,681	\$ 685,758	\$ 700,850	\$ 776,434	\$ 849,804	\$ 901,342
Expenditures	684,685	701,725	663,686	700,749	748,004	814,366	876,055
Excess of revenue over (under) expenditures	5,469	(9,044)	22,072	101	28,430	35,438	25,287
Fund balance, July 1	121,955	127,424	118,380	140,452	140,553	168,983	204,421
Fund balance, June 30	\$ 127,424	\$ 118,380	\$ 140,452	\$ 140,553	\$ 168,983	\$ 204,421	\$ 229,708

In 2016, Community Service Fund revenues exceeded expenditures by \$25,287, resulting in the fund balance increasing to \$229,708. Revenues and expenditures fluctuate year to year depending on the number of classes and programs offered. During 2016, the District experienced an increase in students participating in the school readiness and latchkey programs.

Independent School District No. 22 Legislative Summary

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

STATE AID APPROPRIATIONS

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

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

ENGLISH LEARNER REVENUE

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

COMPENSATORY REVENUE

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

STUDENT ACHIEVEMENT LEVY

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

OPERATING CAPITAL LEVY

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

LEARNING AND DEVELOPMENT

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

Q COMP

The basic Q Comp aid cap was increased to \$88,118,000 beginning for 2017. This cap was set at \$75,636,000 previously. Eligibility was expanded to include cooperative units other than intermediate districts beginning in 2017.

Independent School District No. 22
Legislative Summary

ALTERNATIVE TEACHER PAY

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

STAFF DEVELOPMENT

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

AMERICAN INDIAN EDUCATION AID

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

LONG-TERM FACILITIES MAINTENANCE REVENUE

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

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

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

Districts may choose to issue bonds for the program, levy on a pay as you go basis, or a combination of the two.

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

Independent School District No. 22 Legislative Summary

MISCELLANEOUS LEVIES

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

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

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

LOCAL OPTIONAL REVENUE

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

ACCOUNTING

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

FINANCIAL REPORTING DATES

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

SPECIAL EDUCATION

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

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

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

**Independent School District No. 22
Legislative Summary**

SPECIAL EDUCATION (CONTINUED)

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

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

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

FOUR DAY WEEKS

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

VOLUNTARY PREKINDERGARTEN

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

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

HOME VISITING REVENUE

Effective for 2018, on the Pay 2017 levy, the formula for home visiting revenue is increased from \$1.60 to \$3.00 times the population under age 5 residing in the District on September 1 of the last school year.

SCHOOL BOARD ELECTIONS

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

Independent School District No. 22 Emerging Issues

Executive Summary

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

- **Accounting Standard Update – GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities.

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

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

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

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

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

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

Independent School District No. 22
Emerging Issues

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

- 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.