Independent School District No. 22
Detroit Lakes, Minnesota

Communications Letter

June 30, 2017

bergan KDV
CPAS | ADVISORS

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 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, 2017, 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 a certain deficiency in internal control that we consider to be a significant deficiency.

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.

BerganKDV, Ltd.
bergankdv.com

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 31, 2017, 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 and is not intended to be, and should not be, used by anyone other than these specified parties.

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 31, 2017

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 processes 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, 2017. 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 supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

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

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 application of existing policies was not changed during the year ended June 30, 2017. 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.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)

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 known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

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

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

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

MANAGEMENT CONSULTATIONS WITH OTHER ACCOUNTANTS

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

OTHER AUDIT FINDINGS OR ISSUES

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

OTHER MATTERS

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

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

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.

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.

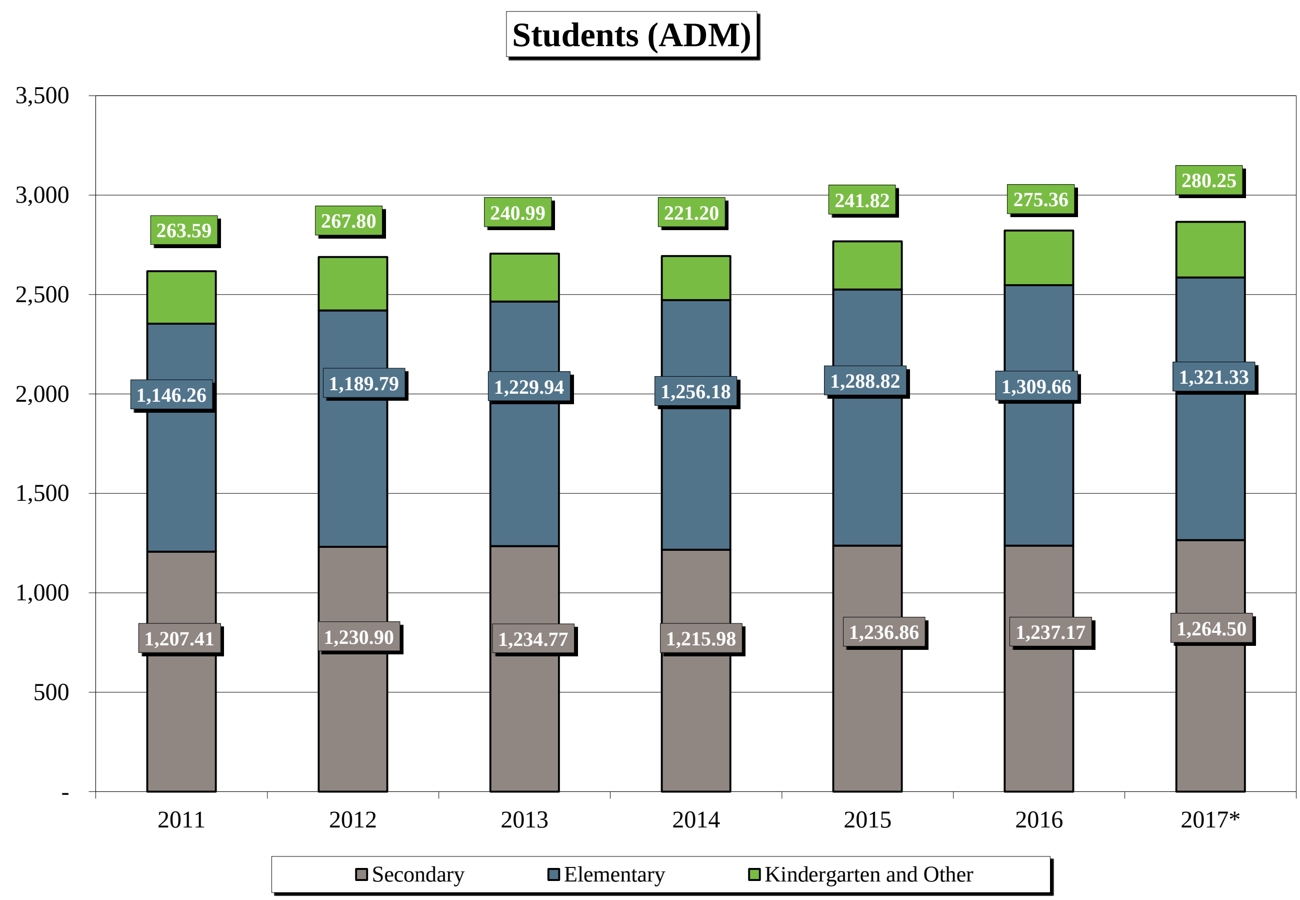
	General Education Aid Formula Allowance	
Year	Amount	Percent Increase
2008	$ 5,074	2.0%
2009	5,124	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%

* 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.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

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

ADM	2011	2012	2013	2014	2015	2016	2017*
Other	95.83	106.62	91.18	86.79	94.64	98.78	112.90
Kindergarten	167.76	161.18	149.81	134.41	147.18	176.58	167.35
Elementary	1,146.26	1,189.79	1,229.94	1,256.18	1,288.82	1,309.66	1,321.33
Secondary	1,207.41	1,230.90	1,234.77	1,215.98	1,236.86	1,237.17	1,264.50
Total Resident ADM	**2,617.26**	**2,688.49**	**2,705.70**	**2,693.36**	**2,767.50**	**2,822.19**	**2,866.08**

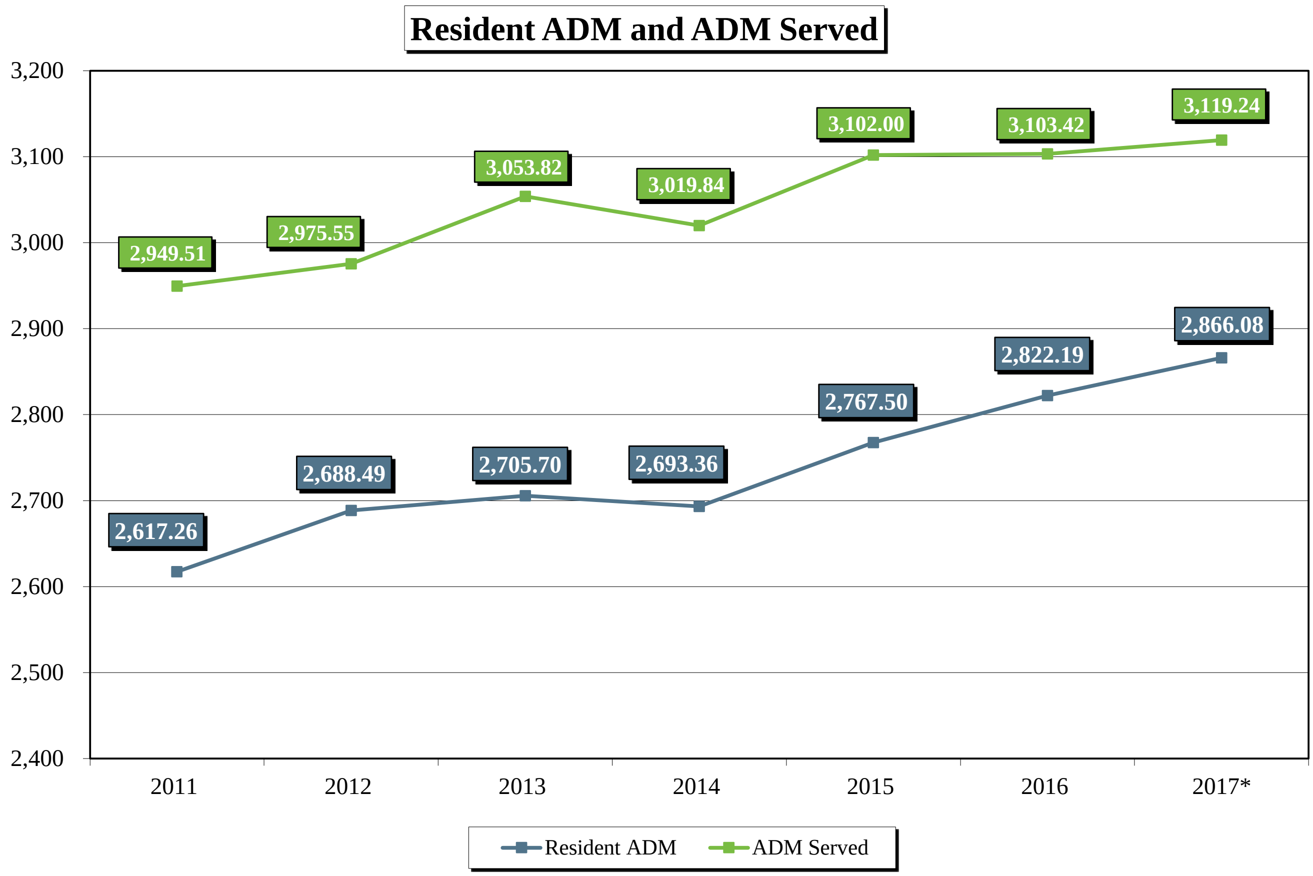


* The resident ADM for 2017 are estimated.

As the above chart indicates, total resident ADM has fluctuated over the last seven years. ADM increased by 43.89 pupil units from 2016 to 2017. 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 248.82 resident students, or 9.5%.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

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



* The resident ADM for 2017 are estimated.

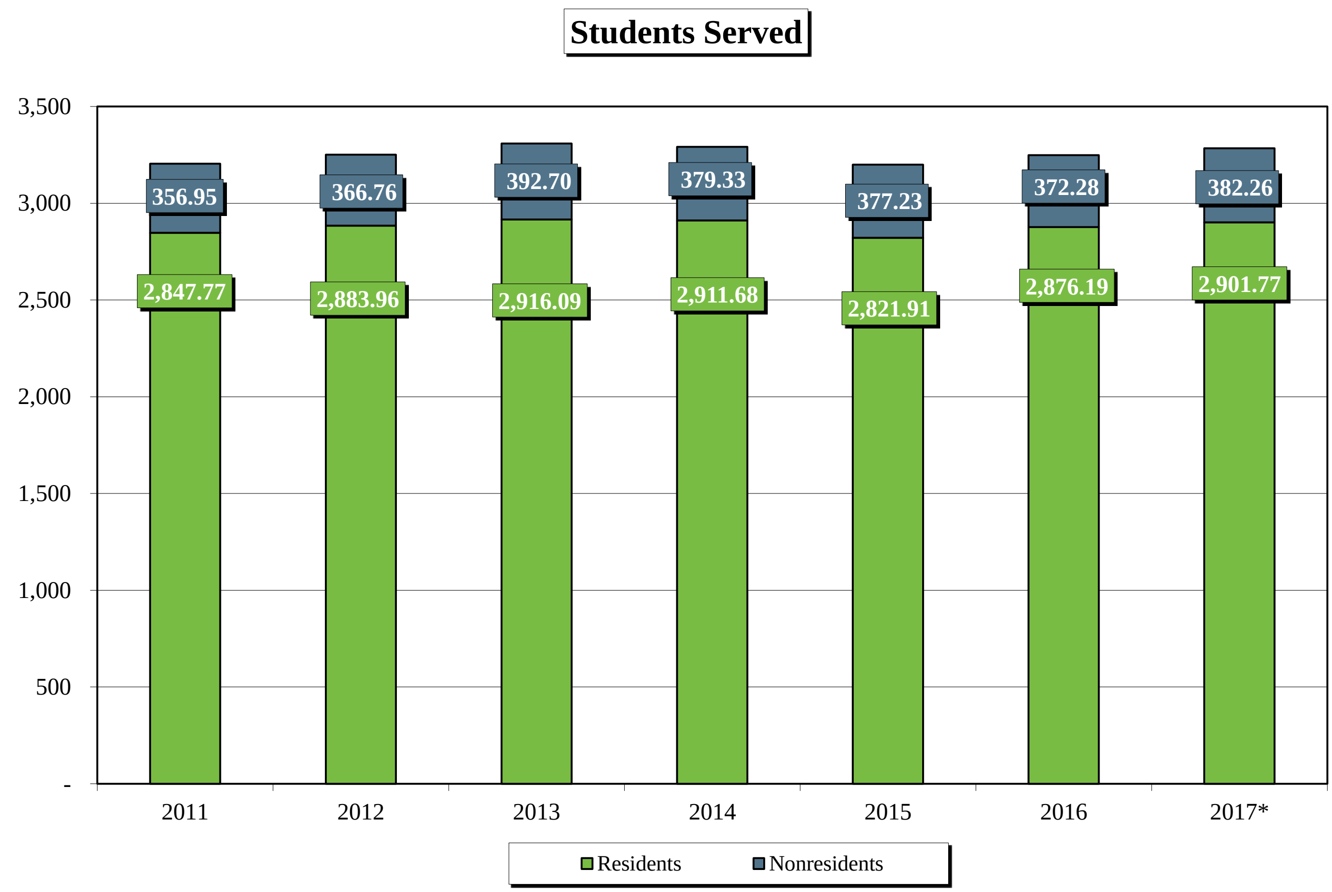
As the graph above shows, total ADM served increased 15.82 from 2016 to 2017. The ADM amounts are weighted based on the number of students in each grade level and are used to calculate the majority of the District's education aids. The following table displays that weighting.

Pupil Units Weighting				
	Pre-Kindergarten and Handicapped Kindergarten	Half/Full Kindergarten	Elementary	Secondary
2011-2014	1.250/1.000	N/A/0.612	1.115/1.060	1.300
2015-2017	1.000/1.000	0.550/1.000	1.000/1.000	1.200

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

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 2011 through 2017.

PUN	2011	2012	2013	2014	2015	2016	2017*
Residents	3,025.97	3,111.89	3,137.30	3,126.83	3,014.86	3,069.65	3,118.99
Resident PUN going Elsewhere	(178.20)	(227.93)	(221.21)	(215.15)	(192.95)	(193.46)	(217.22)
Nonresident PUN coming in	356.95	366.76	392.70	379.33	377.23	372.28	382.26
Total PUN Served	**3,204.72**	**3,250.72**	**3,308.79**	**3,291.01**	**3,199.14**	**3,248.47**	**3,284.03**

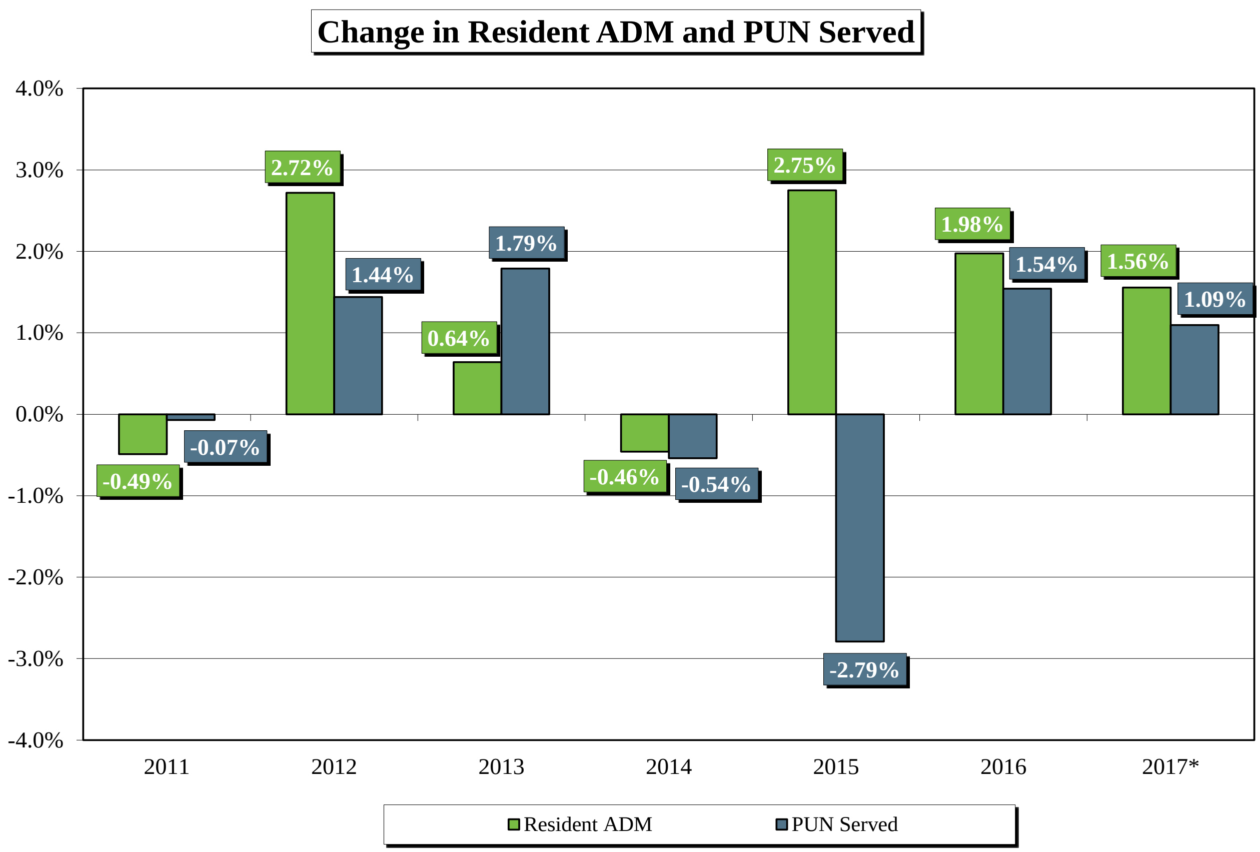


* The resident PUN served for 2017 are estimated.

Comparing 2016 and 2017, total PUN served increased by 35.56, or 1.1%. Resident students increased by 0.9%, while the net gain from open enrollment decreased 7.7% as a result of the increase in students from other school districts enrolling with the District, being smaller than the increased in resident students going to other school districts. The District continues to benefit from open enrollment. Net gains in open enrollment totaled 165.04 in 2017, a decrease from 178.82 in 2016. This amount also includes students attending the Detroit Lakes Area Learning Center.

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 2017 are estimated.

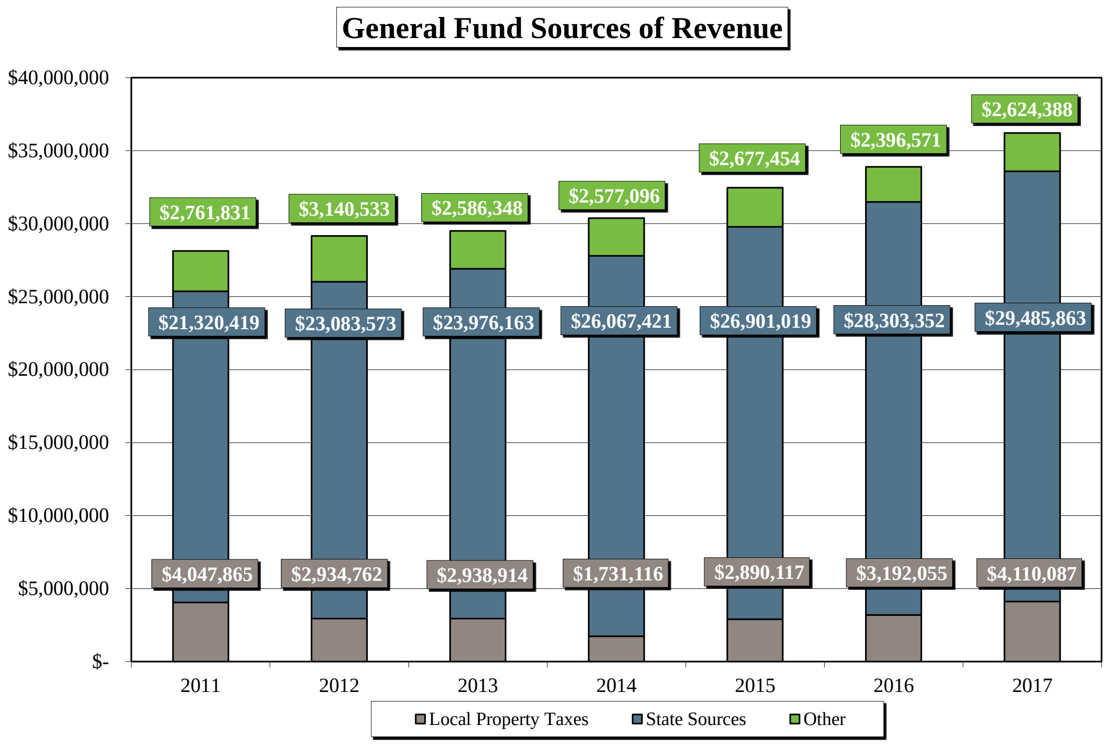
During 2017, ADM and PUN increased. Open enrollment has helped offset the overall relatively consistent resident enrollment numbers. The net gain from open enrollment has decreased from 178.75 in 2011 to 165.04 in 2017. Student enrollment in the District is projected to continue to increase through 2020.

Independent School District No. 22
Financial Analysis

GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows:

	2011	2012	2013	2014	2015	2016	2017
Local property tax levies	$ 4,047,865	$ 2,934,762	$ 2,938,914	$ 1,731,116	$ 2,890,117	$ 3,192,055	$ 4,110,087
State revenue	21,320,419	23,083,573	23,976,163	26,067,421	26,901,019	28,303,352	29,485,863
Other revenue	2,761,831	3,140,533	2,586,348	2,577,096	2,677,454	2,396,571	2,624,388
Total	**$ 28,130,115**	**$ 29,158,868**	**$ 29,501,425**	**$ 30,375,633**	**$ 32,468,590**	**$ 33,891,978**	**$ 36,220,338**



State sources represent 81.4% of the General Fund's total revenue, with local tax payers contributing 11.3% of the funding and federal and other sources making up the remaining 7.3%. 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 and 2017 due to an increase in the General Fund's share of the levy, with the levy for 2017 increasing $949,259. State sources of revenue increased $1,182,511 in 2017 as a result of increased student counts and an increase in the general education aid formula allowance. 2017 was also the first year of long-term facilities maintenance (LTFM) aid and the first year the District participated in Q comp, which increased state aid by approximately $122,000 and $512,000, respectively.

Included in other revenues are local, county, and federal revenues. Other revenues increased $227,817 in 2017 due to an increase in medical assistance revenue and increases in most federal awards.

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 and 4,499, and by all Minnesota school districts.

General Fund		2013		2014		2015		2016		2017
Property taxes	$	928	$	536	$	886	$	993	$	1,318
Other local sources		441		429		439		387		382
State aid		7,851		8,606		8,672		9,121		9,453
Federal aid		440		458		470		421		460
Total General Fund Revenue	**$**	**9,660**	**$**	**10,029**	**$**	**10,467**	**$**	**10,922**	**$**	**11,612**

				Districts with 2,200-4,499 ADM**						
General Fund		**2013**		**2014**		**2015**		**2016**		**2017**
Property taxes	$	1,218	$	723	$	1,240	$	1,352		N/A
Other local sources		486		549		559		519		N/A
State aid		8,010		8,796		8,856		9,136		N/A
Federal aid		369		352		345		331		N/A
Total General Fund Revenue	**$**	**10,083**	**$**	**10,420**	**$**	**11,000**	**$**	**11,338**		**N/A**

				State-Wide**						
General Fund		**2013**		**2014**		**2015**		**2016**		**2017**
Property taxes	$	1,608	$	923	$	1,564	$	1,673		N/A
Other local sources		442		477		485		498		N/A
State aid		8,234		9,136		9,114		9,435		N/A
Federal aid		494		463		450		442		N/A
Total General Fund Revenue	**$**	**10,778**	**$**	**10,999**	**$**	**11,613**	**$**	**12,048**		**N/A**

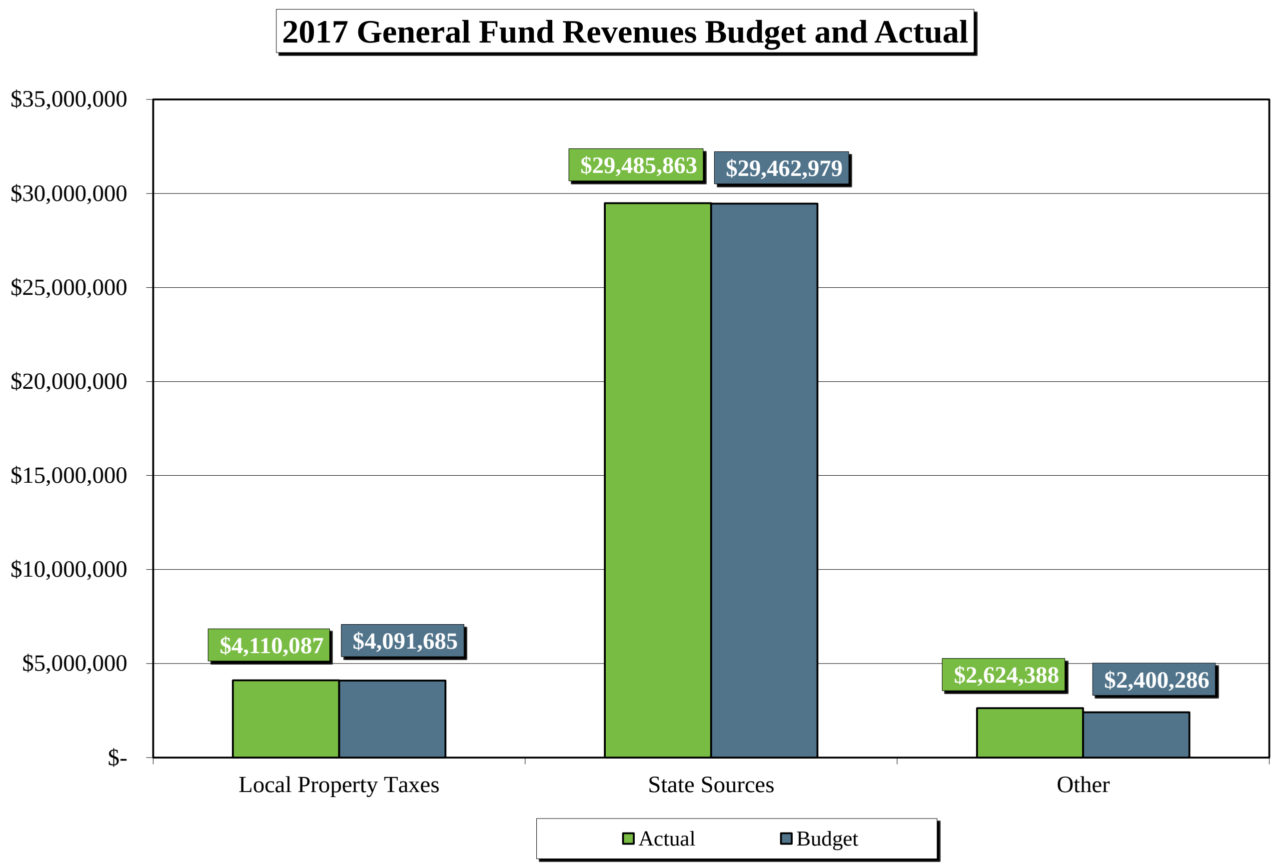
** Source of districts with 2,200-4,499 ADM and state-wide data: *School District Profiles* report published by the Minnesota Department of Education (MDE)

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 2016 to 2017, the District's revenue per ADM served increased an estimated $690 per ADM served. This increase in the current year reflects a higher percentage increase in revenue compared to the increase in ADM served. Property taxes increased with an increase in the levy. State aid revenues increased with an increase in the formula allowance, an increase in students served, and new Q comp and LTFM aid. Other local sources is consistent with the prior year and federal aid increased due to increases across all programs.

GENERAL FUND BUDGET AND ACTUAL

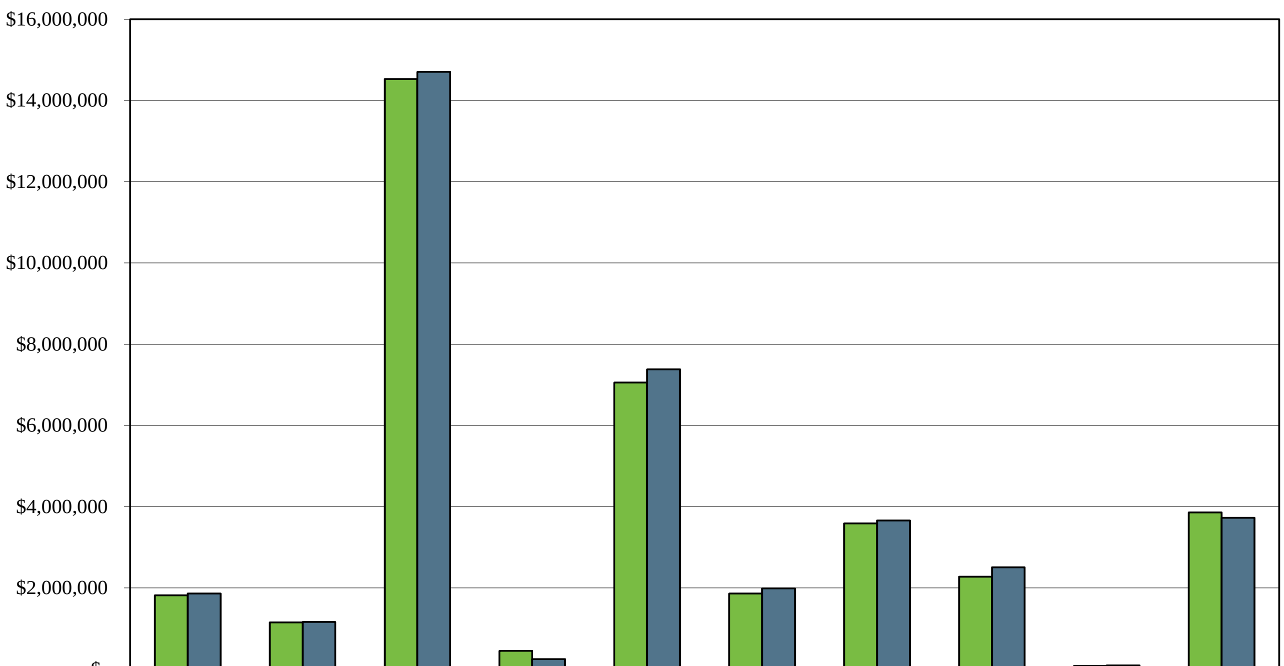
The following graph outlines the budget and actual of the General Fund revenue. Overall, actual revenue was $265,388 over budget. Other revenue had the largest budget variance, coming in $224,102 over budget. This was the result of medical assistance received being more than anticipated in the budget. All other revenue sources were consistent with budgeted amounts.



GENERAL FUND BUDGET AND ACTUAL (CONTINUED)

The following graph outlines the budget and actual of the General Fund's expenditures. Overall, actual expenditures were $660,838 under budget. Regular instruction was $175,816 under budget due to 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 by $206,265. Special education was under budget $324,399 due to not spending as much medical assistance as budgeted. Instructional support services were $130,958 under budget. Sites, buildings, and equipment was under budget $231,122 due to spending less than anticipated on heating and cooling as a result of a mild winter and spring. Capital outlay was $135,594 over budget as a result of buying Chromebooks earlier than anticipated to take advantage of discounts.

2017 General Fund Expenditures Budget and Actual



	District and School Administration	District Support Services	Regular Instruction	Vocational Instruction	Special Education Instruction	Instructional Support Services	Pupil Support Services	Sites, Buildings and Equipment	Other	Capital Outlay
Actual	$1,819,961	$1,152,610	$14,527,391	$453,331	$7,054,667	$1,860,391	$3,590,573	$2,275,169	$80,090	$3,859,141
Budget	1,865,265	1,165,217	14,703,207	247,066	7,379,066	1,991,349	3,660,392	2,506,291	92,762	3,723,547

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	2011*	2012*	2013*	2014*	2015*	2016*	2017
General fund	$ 9,358	$ 9,503	$ 9,353	$ 9,813	$ 10,027	$ 10,557	$ 11,757

State Average	2011	2012	2013	2014	2015	2016	2017
General fund - ADM size**	$ 9,776	$ 9,849	$ 9,927	$ 10,398	$ 10,864	$ 11,266	N/A
General fund - state-wide Average***	10,207	10,297	10,634	11,011	11,527	11,956	N/A

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

** State average expenditures per ADM served for the 2,200-4,499 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 2017, General Fund expenditures increased 12.0% from the prior year, while ADM served remained stable causing expenditures per student to increase 11.4%. The increase in expenditures is primarily the result of salary increases, additional employees, the implementation of Q comp, and the auditorium and Rossman parking LTFM projects

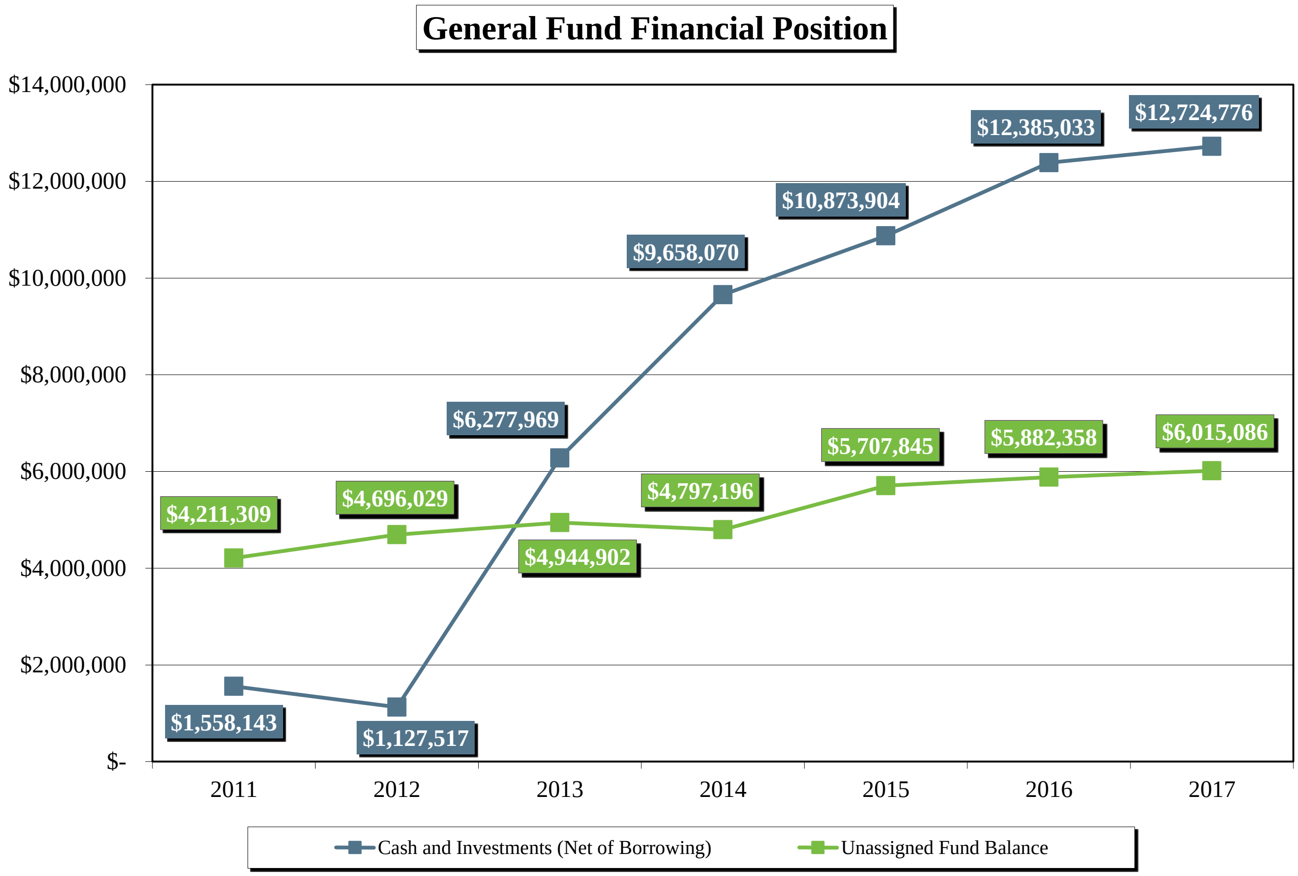
GENERAL FUND OPERATIONS

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

	2011	2012	2013	2014	2015	2016	2017
Revenue	$ 28,130,115	$ 29,158,868	$ 29,501,425	$ 30,375,633	$ 32,468,590	$ 33,891,978	$ 36,220,338
Expenditures	27,550,575	28,215,865	28,561,064	30,031,868	31,101,699	32,758,061	36,673,324
Excess of revenue over (under) expenditures	579,540	943,003	940,361	343,765	1,366,891	1,133,917	(452,986)
Other financing sources	-	400	-	318,250	3,746	4,500	5,931
Fund balance, July 1	7,353,774	7,933,314	8,876,717	9,817,078	10,479,093	11,849,730	12,988,147
Fund balance, June 30	7,933,314	8,876,717	9,817,078	10,479,093	11,849,730	12,988,147	12,541,092
Less restricted fund balances	1,339,391	1,696,432	1,919,073	2,654,901	2,915,056	2,616,594	1,064,546
Unrestricted Fund Balance, June 30	**$ 6,593,923**	**$ 7,180,285**	**$ 7,898,005**	**$ 7,824,192**	**$ 8,934,674**	**$ 10,371,553**	**$ 11,476,546**

The total fund balance in the General Fund decreased for the first time in the seven years presented, going from $12,988,147 in 2016 to $12,541,092 in 2017. This was a planned decrease and is primarily the result of LTFM projects occurring during 2017. These projects will be partially funded by future LTFM revenue, which resulted in a negative restricted fund balance for LTFM in the amount of $1,831,841.

GENERAL FUND OPERATIONS AND FINANCIAL POSITION



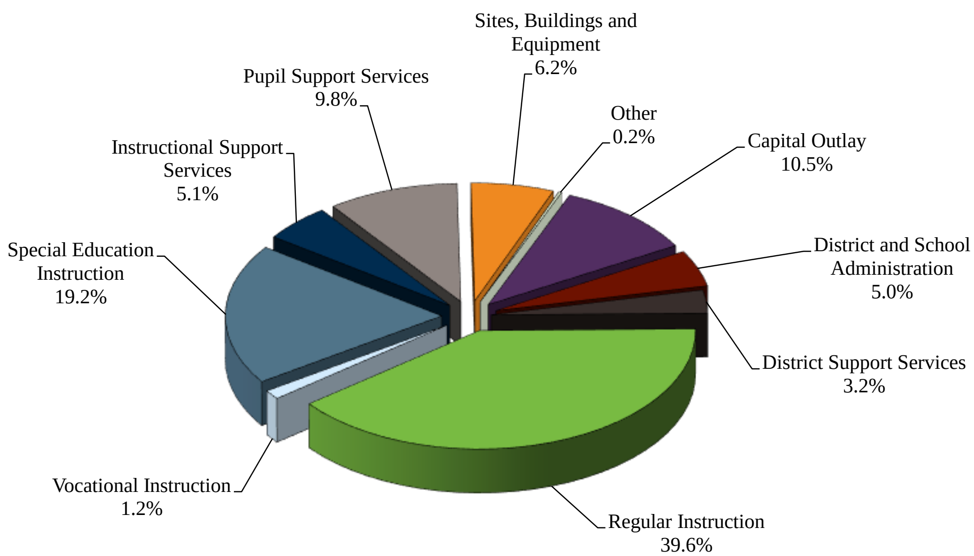
The District's unassigned General Fund balance as a percentage of total expenditures decreased from 18.0% in 2016 to 16.4% in 2017. Although the District is in adequate financial condition, it should continue to monitor its unassigned General Fund balance.

Over the course of the seven year-ends presented, the General Fund cash balance increased $11,166,633 and unassigned fund balance increased $1,803,777. 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. 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 back to the normal 10% and paid back the tax shift resulting in an increase in cash in the amount of $3,380,101. The overall positive trends in cash and unassigned fund balance continued in 2017. Cash increased $339,743 from 2016 while unassigned fund balance increased $132,728 due to spending restricted fund balances.

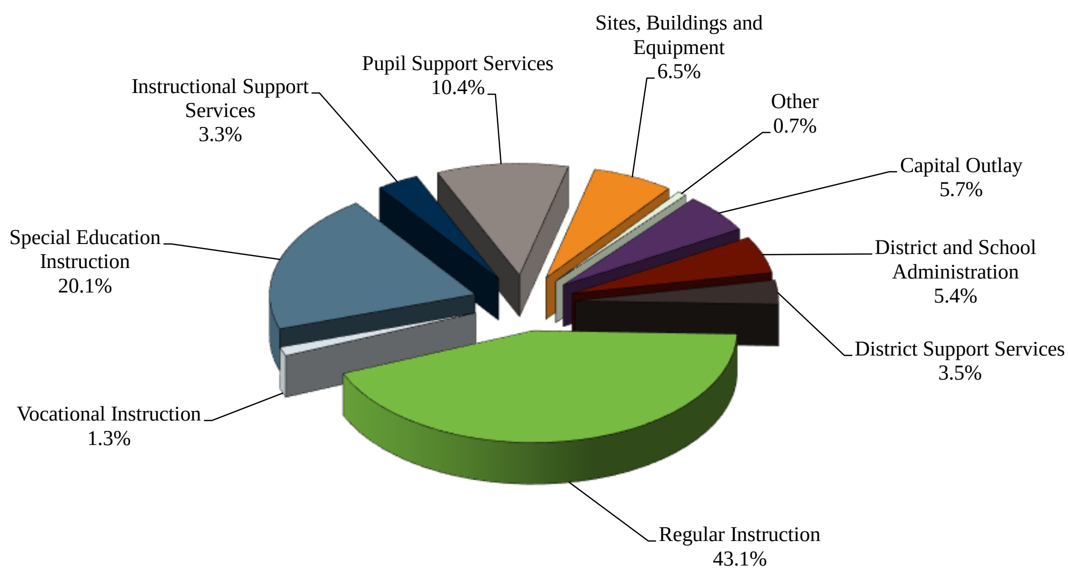
Independent School District No. 22
Financial Analysis

GENERAL FUND OPERATIONS

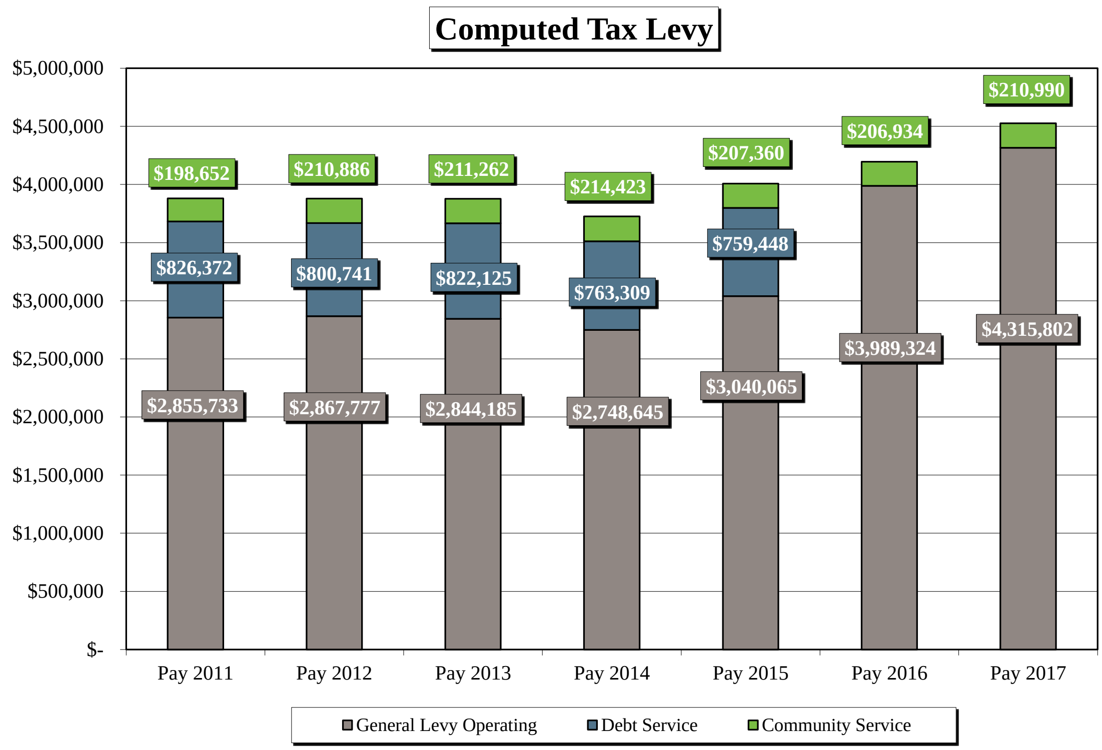
2017 District Expenditures

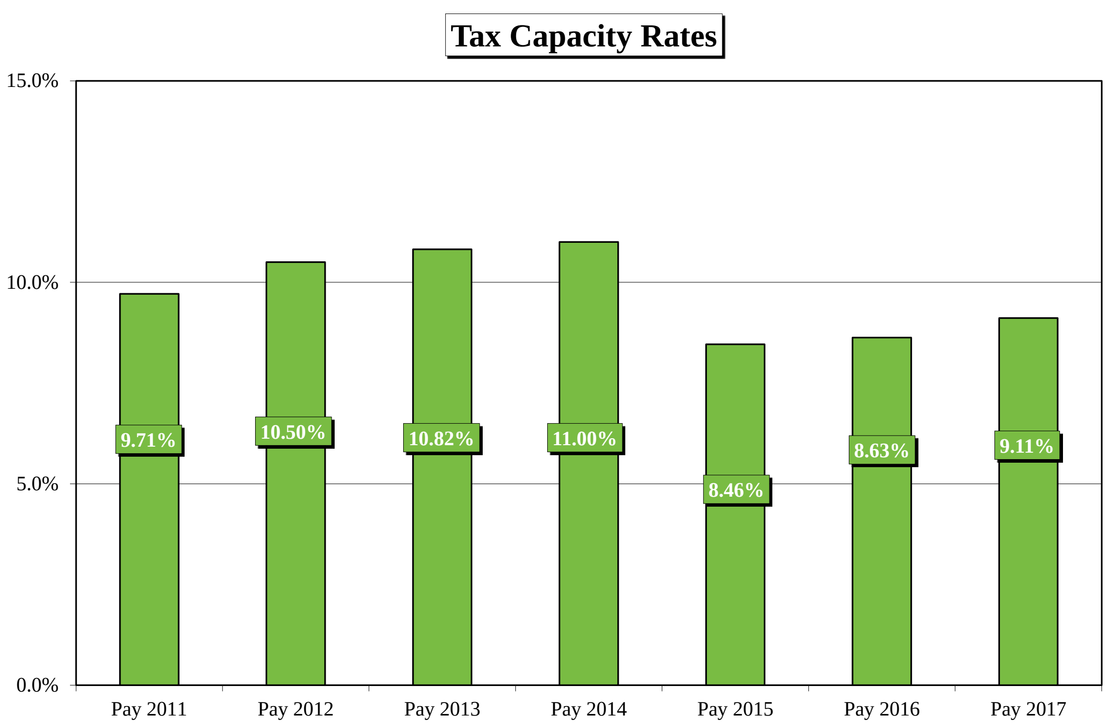


2016 District Expenditures



TAX LEVY


Computed Tax Levy
$5,000,000
$4,500,000
$4,000,000
$3,500,000
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$-
$198,652
$210,886
$211,262
$214,423
$207,360
$206,934
$210,990
$826,372
$800,741
$822,125
$763,309
$759,448
$2,855,733
$2,867,777
$2,844,185
$2,748,645
$3,040,065
$3,989,324
$4,315,802
Pay 2011
Pay 2012
Pay 2013
Pay 2014
Pay 2015
Pay 2016
Pay 2017
General Levy Operating
Debt Service
Community Service


Tax Capacity Rates
15.0%
10.0%
5.0%
0.0%
9.71%
10.50%
10.82%
11.00%
8.46%
8.63%
9.11%
Pay 2011
Pay 2012
Pay 2013
Pay 2014
Pay 2015
Pay 2016
Pay 2017

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,	2011	2012	2013	2014	2015	2016	2017
Revenue	$ 1,269,820	$ 1,352,430	$ 1,452,468	$ 1,428,651	$ 1,490,659	$ 1,546,697	$ 1,606,654
Expenditures	1,181,958	1,248,625	1,357,815	1,392,401	1,536,763	1,567,887	1,573,986
Excess of revenue over (under) expenditures	87,862	103,805	94,653	36,250	(46,104)	(21,190)	32,668
Other financing sources	600	-	900	-	-	-	-
Fund balance, July 1	475,582	564,044	667,849	763,402	799,652	753,548	732,358
Fund Balance, June 30	**$ 564,044**	**$ 667,849**	**$ 763,402**	**$ 799,652**	**$ 753,548**	**$ 732,358**	**$ 765,026**

The Food Service Fund fully supported its operations in five of the last seven years. In 2017, revenues exceeded expenditures by $32,668. This activity resulted in a Food Service Fund balance increase to $765,026 at the end of the year. Revenues and expenditures increased during the year due to additional participation due to moving to free breakfast for all students, higher commodities received, and a price increase. 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,	2011	2012	2013	2014	2015	2016	2017
Revenue	$ 692,681	$ 685,758	$ 700,850	$ 776,434	$ 849,804	$ 901,342	$ 942,019
Expenditures	701,725	663,686	700,749	748,004	814,366	876,055	888,508
Excess of revenue over (under) expenditures	(9,044)	22,072	101	28,430	35,438	25,287	53,511
Fund balance, July 1	127,424	118,380	140,452	140,553	168,983	204,421	229,708
Fund Balance, June 30	**$ 118,380**	**$ 140,452**	**$ 140,553**	**$ 168,983**	**$ 204,421**	**$ 229,708**	**$ 283,219**

In 2017, Community Service Fund revenues exceeded expenditures by $53,511, resulting in the fund balance increasing to $283,219. Revenues and expenditures fluctuate year to year depending on the number of classes and programs offered. During 2017, the District experienced an increase in state revenue as a result of an increase in the formula for school readiness funding. Expenditures were consistent with 2016.

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

The formula allowance for 2017 General Education Aid was increased $119 (2%) to $6,067. For 2018, the formula allowance is set at $6,188, which is also an increase of 2%.

COMPENSATORY REVENUE

The compensatory pilot grants have been added permanently to regular compensatory revenue at the 2017 level. A percentage of the total compensatory revenue must be used for extended time activities. These percentage are 1.7% for 2018, 3.5% for 2019, and for 2020 and later it will be 3.5% plus the percentage change in the formula from 2019.

STUDENT ACHIEVEMENT LEVY

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

LEAD IN SCHOOL DRINKING WATER

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

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

PAYMENTS TO NONOPERATING FUNDS

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

SCHOOL BUILDING BOND AGRICULTURAL CREDIT

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

LONG-TERM FACILITIES MAINTENANCE REVENUE

Beginning in 2017, deferred maintenance, health and safety and alternative facilities revenues were 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.

EQUITY REVENUE

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

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

For 2017, all revenue increases will be paid out as additional state aid.

SPECIAL EDUCATION

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

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

NONPUBLIC PUPIL AID

The definition of "textbook" has been modified to include the on-line books with annual subscription costs. The definition of "software or other educational technology" has been modified to include registration fees for online advanced placement courses.

Independent School District No. 22
Legislative Summary

VOLUNTARY PREKINDERGARTEN/SCHOOL READINESS PLUS

A new school readiness plus program has been created for 2018 and 2019 only. This program changes the voluntary preK cap from a limit on the total state aid entitlement to a limit on the number of participants. For 2018 this cap will be 6,160 for voluntary preK and school readiness plus and will be 7,160 for 2019. The cap of 6,160 for 2018 covers the 3,160 2017 voluntary preK participants that have renewed their applications for 2018 plus 3,000 new participants. After 2019 the school readiness plus will be eliminated and the cap for voluntary preK will be 3,160 participants.

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.

PUPIL TRANSPORTATION FUNDING

Beginning in 2018, sparsity revenue will increase by 18.2% of the difference between the lesser of the district's actual regular and excess transportation costs, including bus depreciation for the previous year or 105% of the district's cost for the second previous year, and the sum of 4.66% of the district's basic revenue, transportation sparsity revenue and charter school transportation adjustment from the previous year.

REVIEW AND COMMENT

The commissioner will now include comments from district residents in the review and comment on capital projects.

School boards must now hold a public meeting to review the commissioner's review and comment on a proposal before the bond election.

NEW FINANCE CODES

Starting in 2018, there are multiple new finance codes for tracking revenue. Finance code 175 will be used to track revenue related to Title VII – Impact Aid. This finance code will close to balance sheet code 475, Restricted for Title VII Impact Aid. Finance code 185 will be used to track revenue from private sources. This finance code will close to balance sheet 485, restricted for private sources. Finance code 176 will be used to track revenue from payments in lieu of taxes (PILT). This finance code will close to balance sheet 476, restricted for payments in lieu of taxes.

SPECIAL ELECTIONS

District's no longer have the ability to choose any date for special elections. Special elections must now be held on the second Tuesday in February, April, May, August or election day.

Independent School District No. 22
Emerging Issues

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

- **Accounting Standard Update – GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – GASB has issued GASB Statement No. 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 is an extensive summary of the current update. 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 No. 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.

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 No. 75 carries forward from Statement No. 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 No. 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.