

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

Communications Letter

June 30, 2018



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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 over financial reporting, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows: reasonably possible – the chance of the future event or events occurring is more than remote but less than likely; probable – the future event or events are likely to occur. We did not identify any deficiencies in internal control that we consider to be material weaknesses.



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

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated October 30, 2018, 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 30, 2018

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

OUR RESPONSIBILITY IN RELATION TO THE FINANCIAL STATEMENT AUDIT

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

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

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

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which 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.

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

PLANNED SCOPE AND TIMING OF THE AUDIT

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

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

COMPLIANCE WITH ALL ETHICS REQUIREMENTS REGARDING INDEPENDENCE

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

QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during the year ended June 30, 2018. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

Expense Allocation – Certain expenses 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.

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

QUALITATIVE ASPECTS OF SIGNIFICANT ACCOUNTING PRACTICES (CONTINUED)

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

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

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

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

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE AUDIT

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

UNCORRECTED AND CORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Management 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, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

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

REPRESENTATIONS REQUESTED FROM MANAGEMENT

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

MANAGEMENT'S CONSULTATIONS WITH OTHER ACCOUNTANTS

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

OTHER SIGNIFICANT MATTERS, FINDINGS, OR ISSUES

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

OTHER MATTERS

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

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

**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.

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

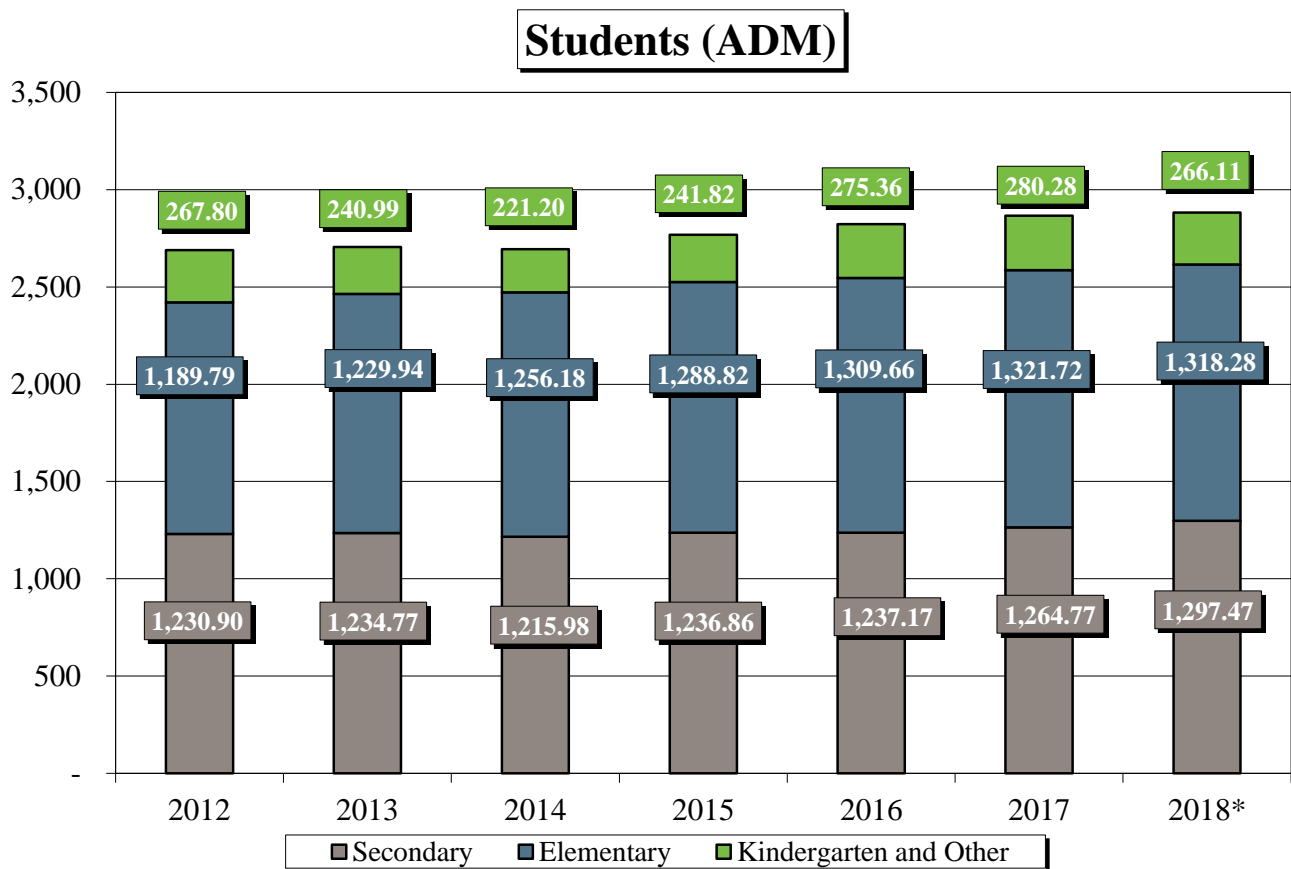
* General Education Aid - Of the \$529 increase over 2014, \$105 is for inflation at 1.9%; the remaining \$424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

Independent School District No. 22 Financial Analysis

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	2012	2013	2014	2015	2016	2017	2018*
Other	106.62	91.18	86.79	94.64	98.78	112.26	103.54
Kindergarten	161.18	149.81	134.41	147.18	176.58	168.02	162.57
Elementary	1,189.79	1,229.94	1,256.18	1,288.82	1,309.66	1,321.72	1,318.28
Secondary	1,230.90	1,234.77	1,215.98	1,236.86	1,237.17	1,264.77	1,297.47
Total Resident ADM	2,688.49	2,705.70	2,693.36	2,767.50	2,822.19	2,866.77	2,881.86



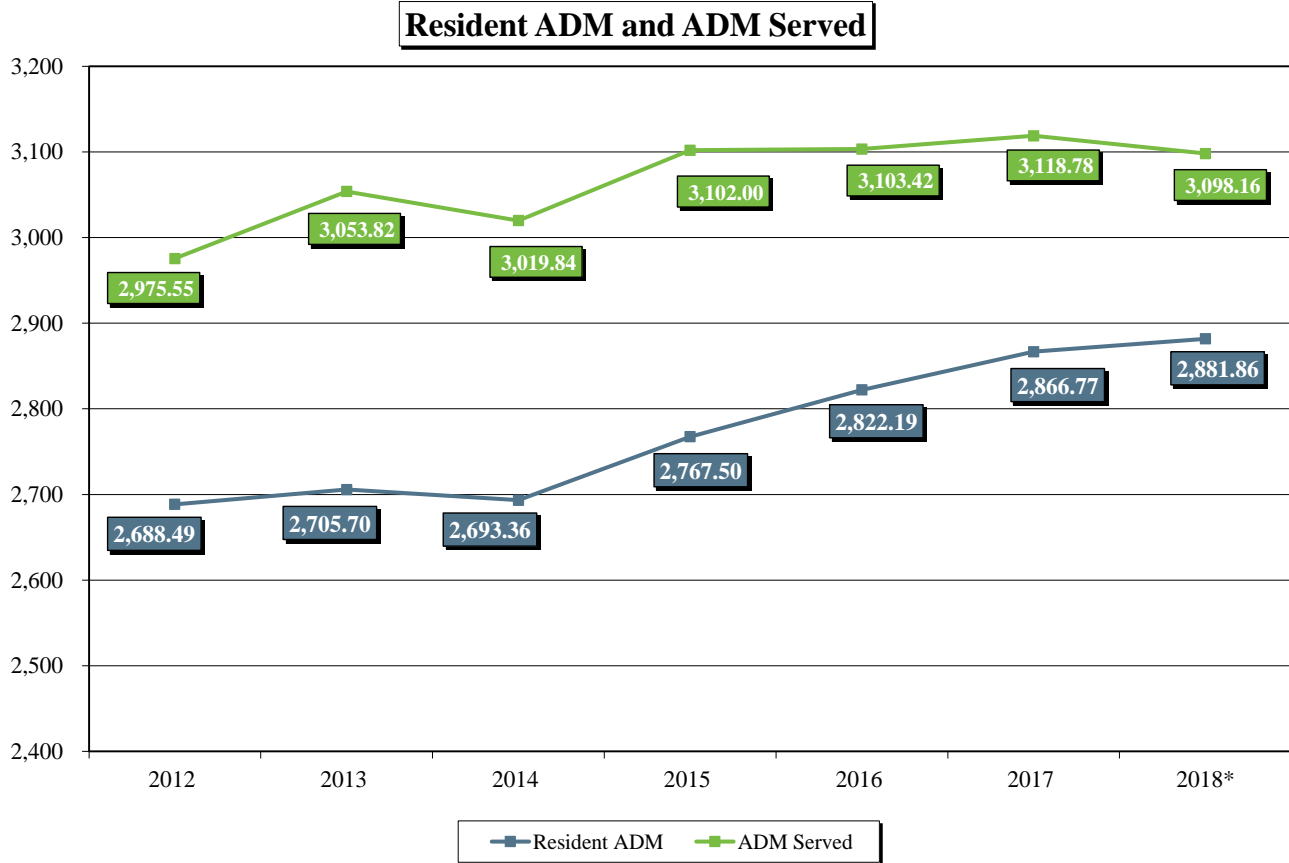
* The resident ADM for 2018 are estimated.

As the above chart indicates, total resident ADM has fluctuated over the last seven years. ADM increased by 15.09 pupil units from 2017 to 2018. As the chart above indicates, this increase came in the secondary level. Over the past seven years shown, the District has experienced an increase of 193.37 resident students, or 7.2%.

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

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 2018 are estimated.

As the graph above shows, total ADM served decreased 20.62 from 2017 to 2018. 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
2012-2014	1.250/1.000	N/A/0.612	1.115/1.060	1.300
2015-2018	1.000/1.000	0.550/1.000	1.000/1.000	1.200

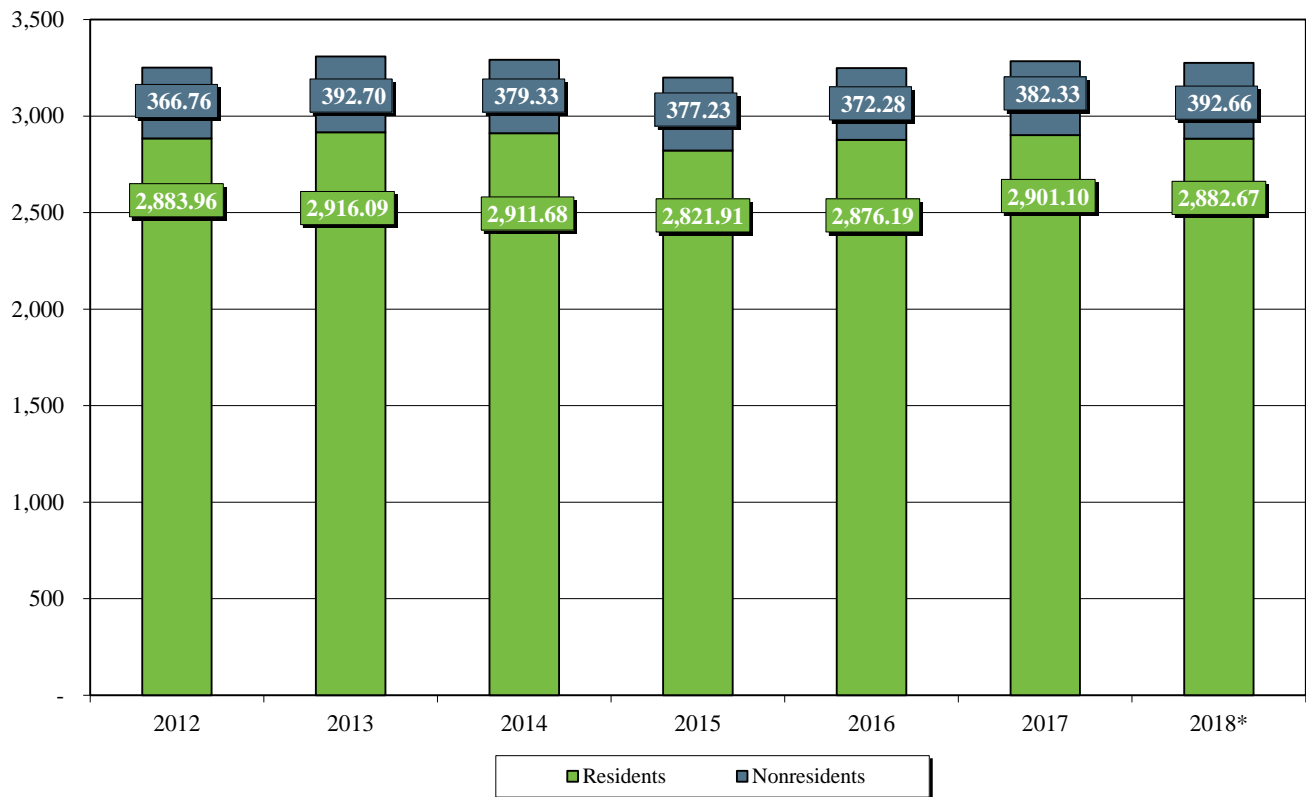
Independent School District No. 22 Financial Analysis

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (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 2012 through 2018.

PUN	2012	2013	2014	2015	2016	2017	2018*
Residents	3,111.89	3,137.30	3,126.83	3,014.86	3,069.65	3,119.72	3,141.35
Resident PUN going Elsewhere	(227.93)	(221.21)	(215.15)	(192.95)	(193.46)	(218.62)	(258.68)
Nonresident PUN coming in	366.76	392.70	379.33	377.23	372.28	382.33	392.66
Total PUN Served	3,250.72	3,308.79	3,291.01	3,199.14	3,248.47	3,283.43	3,275.33

Students Served



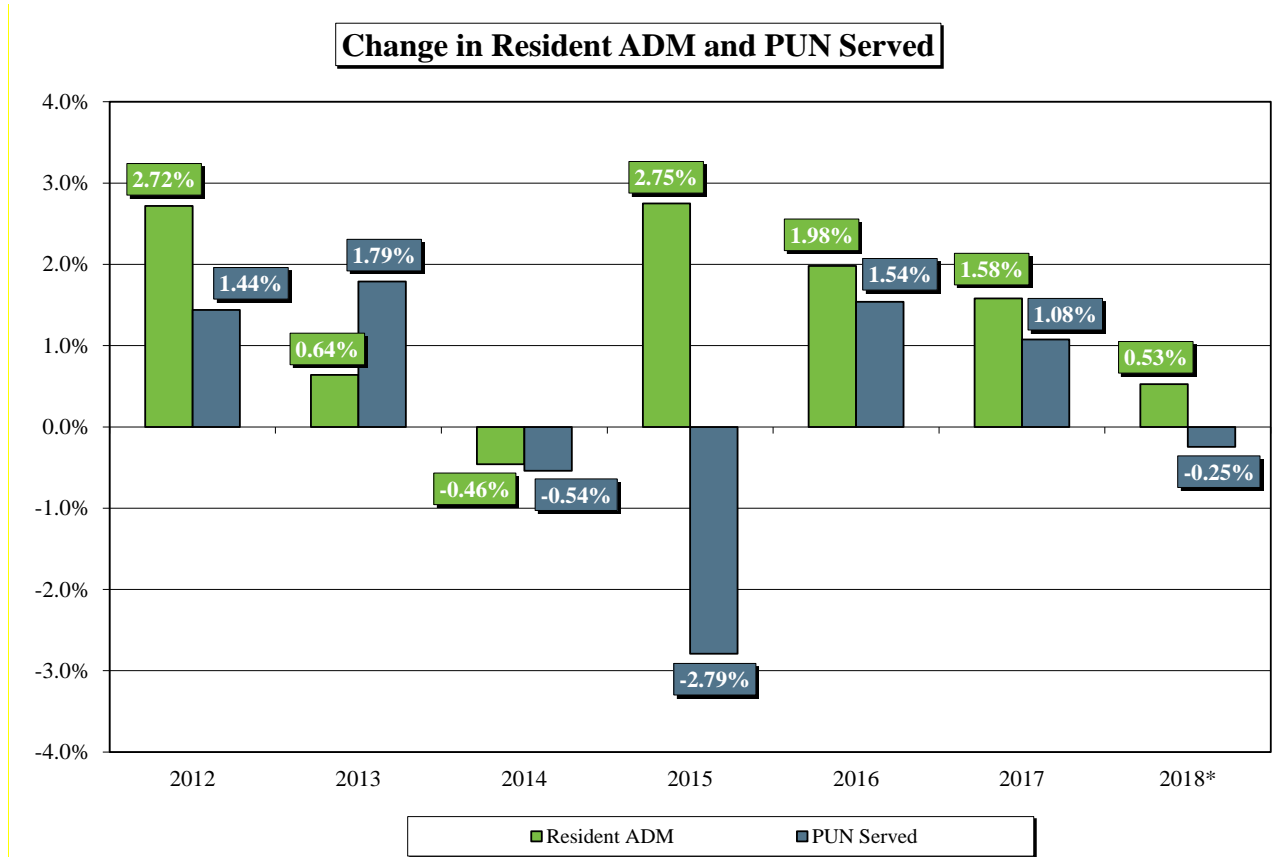
* The resident PUN served for 2018 are estimated.

Comparing 2017 and 2018, total PUN served decreased by 8.1, or 0.2%. Resident students increased by 0.7%, while the net gain from open enrollment decreased 18.2% as a result of the increase in students from other school districts enrolling with the District being smaller than the increase in resident students going to other school districts. The District continues to benefit from open enrollment. Net gains in open enrollment totaled 133.98 in 2018, a decrease from 163.71 in 2017. 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 2018 are estimated.

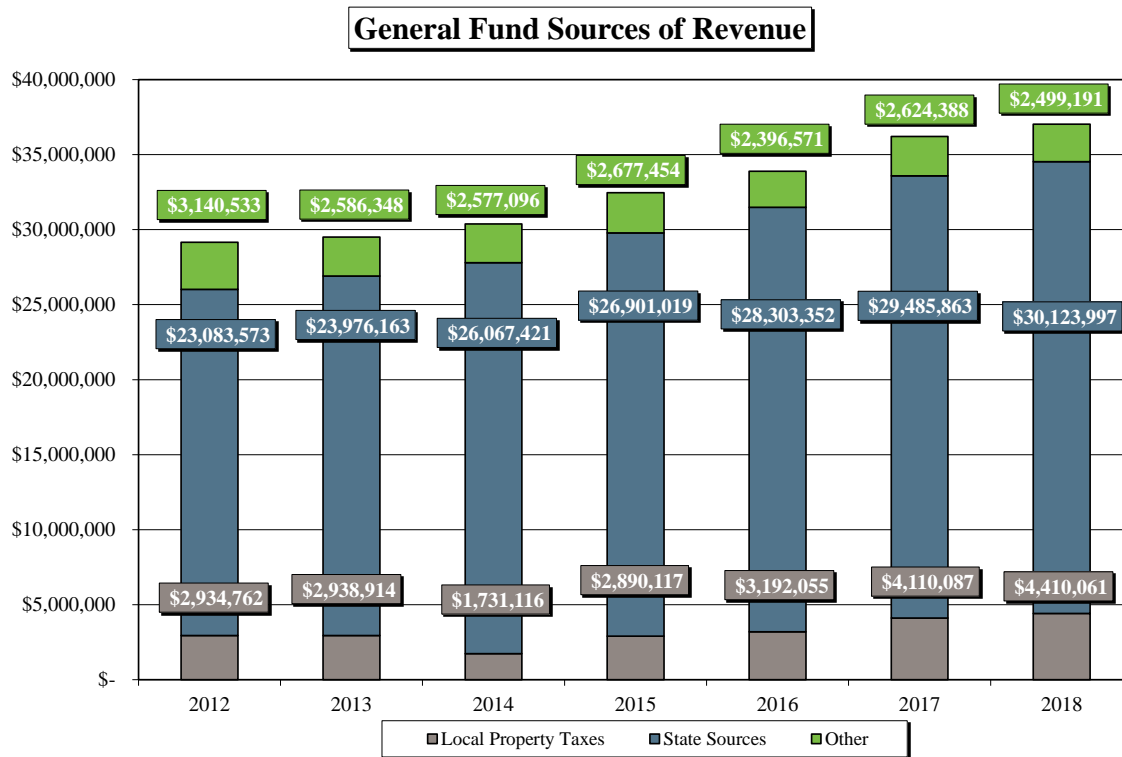
During 2018, resident ADM increased while PUN decreased slightly. Open enrollment has helped offset the overall relatively consistent resident enrollment numbers. The net gain from open enrollment has decreased from 138.83 in 2012 to 133.98 in 2018. Student enrollment in the District is projected to remain steady for two years and increase in subsequent years.

Independent School District No. 22 Financial Analysis

GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows:

	2012	2013	2014	2015	2016	2017	2018
Local property tax levies	\$ 2,934,762	\$ 2,938,914	\$ 1,731,116	\$ 2,890,117	\$ 3,192,055	\$ 4,110,087	\$ 4,410,061
State revenue	23,083,573	23,976,163	26,067,421	26,901,019	28,303,352	29,485,863	30,123,997
Other revenue	3,140,533	2,586,348	2,577,096	2,677,454	2,396,571	2,624,388	2,499,191
Total	\$ 29,158,868	\$ 29,501,425	\$ 30,375,633	\$ 32,468,590	\$ 33,891,978	\$ 36,220,338	\$ 37,033,249



State sources represent 81.3% of the General Fund's total revenue, with local tax payers contributing 11.9% of the funding, and federal and other sources making up the remaining 6.8%. 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 through 2018 due to an increase in the General Fund's share of the levy, with the levy for 2018 increasing approximately \$326,000. State sources of revenue increased \$638,134 in 2018 as a result of a significant increase in special education aid due to a growing special education population.

Included in other revenues are local, county, and federal revenues. Other revenues decreased \$125,197 in 2018 due to a decrease in Title II awards and a decrease in federal special education.

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

General Fund	2014	2015	2016	2017	2018
Property taxes	\$ 536	\$ 886	\$ 993	\$ 1,286	\$ 1,423
Other local sources	429	439	387	413	377
State aid	8,606	8,672	9,121	9,417	9,723
Federal aid	458	470	421	460	430
Total General Fund Revenue	\$ 10,029	\$ 10,467	\$ 10,922	\$ 11,576	\$ 11,953

Districts with 2,200-4,499 ADM**					
General Fund	2014	2015	2016	2017	2018
Property taxes	\$ 723	\$ 1,240	\$ 1,352	\$ 1,424	N/A
Other local sources	549	559	519	589	N/A
State aid	8,796	8,856	9,136	9,309	N/A
Federal aid	352	345	331	335	N/A
Total General Fund Revenue	\$ 10,420	\$ 11,000	\$ 11,338	\$ 11,657	N/A

State-Wide**					
General Fund	2014	2015	2016	2017	2018
Property taxes	\$ 923	\$ 1,564	\$ 1,673	\$ 1,815	N/A
Other local sources	477	485	498	512	N/A
State aid	9,136	9,114	9,435	9,577	N/A
Federal aid	463	450	442	462	N/A
Total General Fund Revenue	\$ 10,999	\$ 11,613	\$ 12,048	\$ 12,366	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 2017 to 2018, the District's revenue per ADM served increased an estimated \$337 per ADM served. This increase in the current year reflects an increase in revenue and a decrease in ADM served. Property taxes increased with an increase in the levy. State aid revenues increased with an increase in the formula allowance and an increase in special education aid. Other local sources and federal aid are relatively consistent with the prior year.

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 \$721,934 over budget. State sources had the largest budget variance, coming in \$403,308 over budget. This was the result of general education aid and special education aid coming in higher than expected. Local property tax revenue was also \$250,992 over budget as a result of property tax collections being higher than expected. Other revenue was relatively consistent with budgeted amounts.

2018 General Fund Revenues Budget and Actual

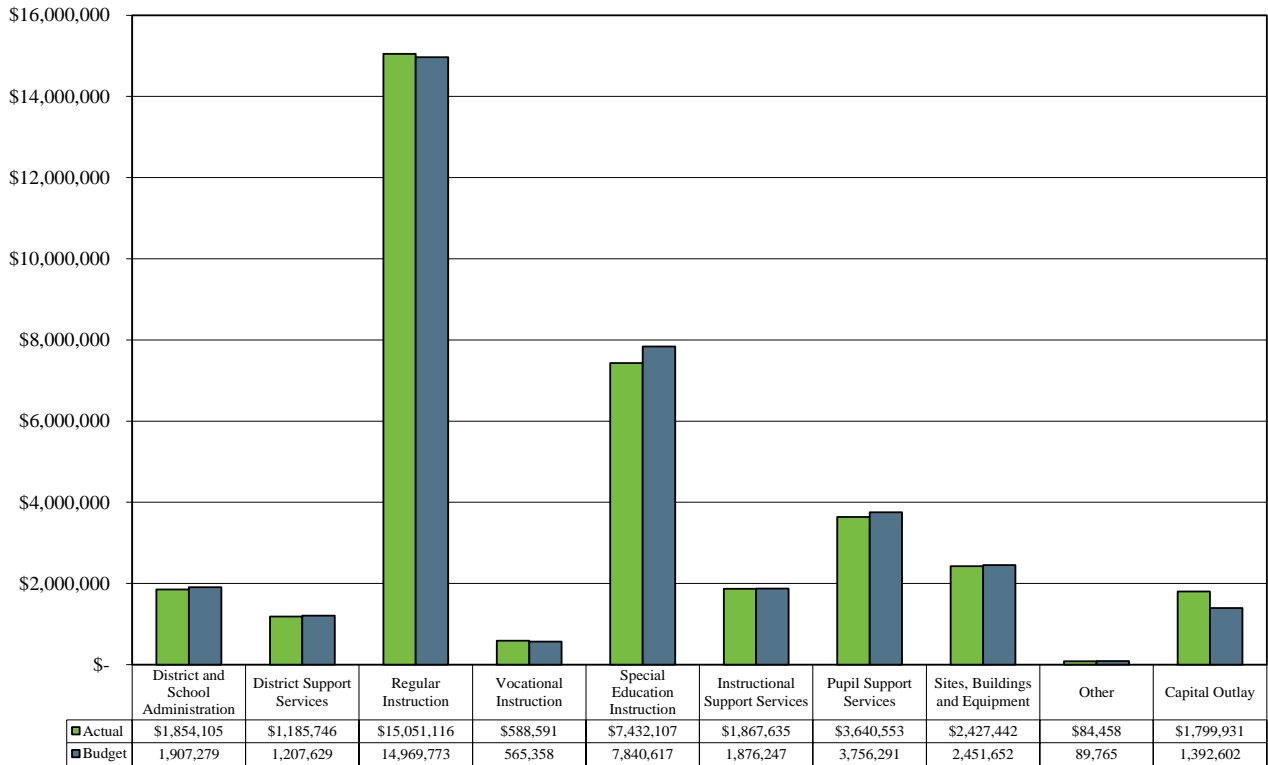


Independent School District No. 22 Financial Analysis

GENERAL FUND BUDGET AND ACTUAL (CONTINUED)

The following graph outlines the budget and actual of the General Fund's expenditures. Overall, actual expenditures were \$125,529 under budget. Special education was under budget \$408,510 due to budgeting for mental health services but paying for them out of regular instruction. Capital outlay was \$407,329 over budget as a result of project costs coming in higher than anticipated.

2018 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	2012*	2013*	2014*	2015*	2016*	2017*	2018
General Fund	\$ 9,503	\$ 9,353	\$ 9,813	\$ 10,027	\$ 10,557	\$ 11,721	\$ 11,598
State Average	2012	2013	2014	2015	2016	2017	2018
General fund - ADM size**	\$ 9,849	\$ 9,927	\$ 10,398	\$ 10,864	\$ 11,266	\$ 11,489	N/A
General fund - state-wide Average***	\$ 10,297	\$ 10,634	\$ 11,011	\$ 11,527	\$ 11,956	\$ 12,249	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 2018, General Fund expenditures decreased 2.0% from the prior year, while ADM served decreased causing expenditures per student to decrease 1.0%. The decrease in expenditures is primarily the result of having smaller LTFM projects in 2018 compared to 2017.

GENERAL FUND OPERATIONS

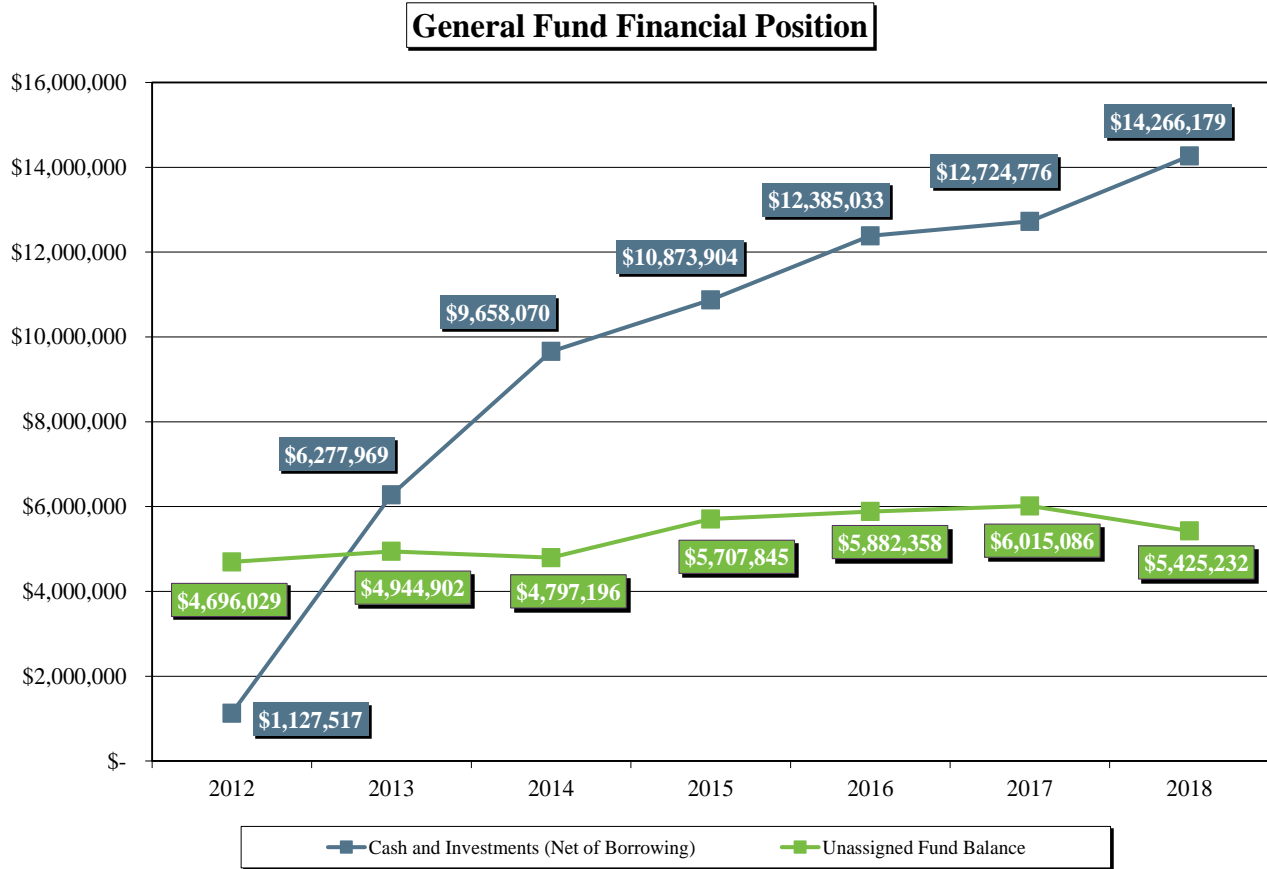
The following table presents seven years of comparative operating results for the District's General Fund.

	2012	2013	2014	2015	2016	2017	2018
Revenue	\$ 29,158,868	\$ 29,501,425	\$ 30,375,633	\$ 32,468,590	\$ 33,891,978	\$ 36,220,338	\$ 37,033,249
Expenditures	28,215,865	28,561,064	30,031,868	31,101,699	32,758,061	36,673,324	35,931,684
Excess of revenue over (under) expenditures	943,003	940,361	343,765	1,366,891	1,133,917	(452,986)	1,101,565
Other financing sources	400	-	318,250	3,746	4,500	5,931	8,880
Fund balance, July 1	7,933,314	8,876,717	9,817,078	10,479,093	11,849,730	12,988,147	12,541,092
Fund balance, June 30	8,876,717	9,817,078	10,479,093	11,849,730	12,988,147	12,541,092	13,651,537
Less restricted fund balances	1,696,432	1,919,073	2,654,901	2,915,056	2,616,594	1,064,546	2,296,487
Unrestricted Fund Balance, June 30	\$ 7,180,285	\$ 7,898,005	\$ 7,824,192	\$ 8,934,674	\$ 10,371,553	\$ 11,476,546	\$ 11,355,050

The total fund balance in the General Fund increased after decreasing in 2017, going from \$12,541,092 in 2017 to \$13,651,537 in 2018. This was the direct effect of General Fund expenditures decreasing due to the smaller LTFM projects.

Independent School District No. 22 Financial Analysis

GENERAL FUND OPERATIONS AND FINANCIAL POSITION



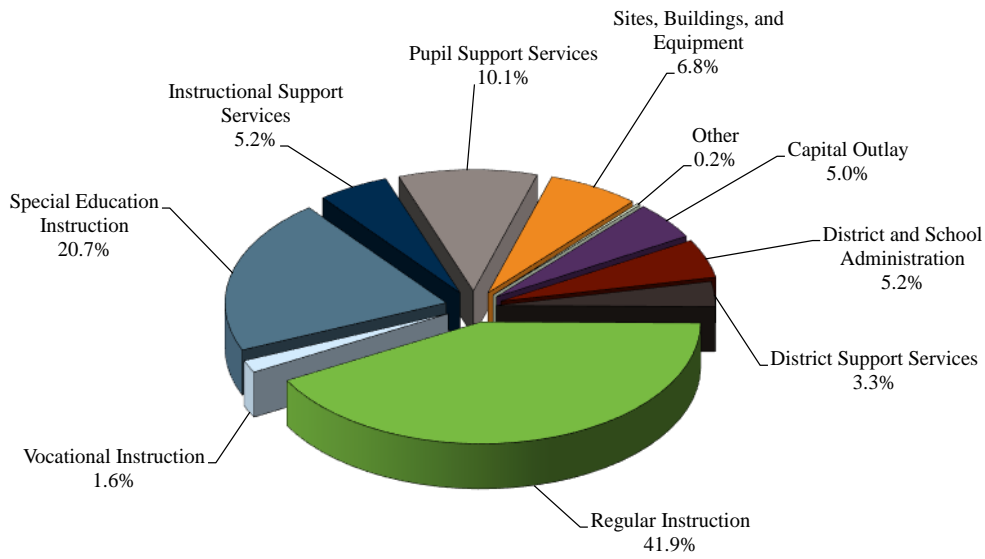
The District's unassigned General Fund balance as a percentage of total expenditures decreased from 16.4% in 2017 to 15.1% in 2018. Although the District is in adequate financial condition, it should continue to monitor its unassigned General Fund balance.

Over the course of the seven year-ends presented, the General Fund cash balance increased \$13,138,662 and unassigned fund balance increased \$729,203. 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 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 2018. Cash increased \$1,541,403 from 2017 while unassigned fund balance decreased \$589,854.

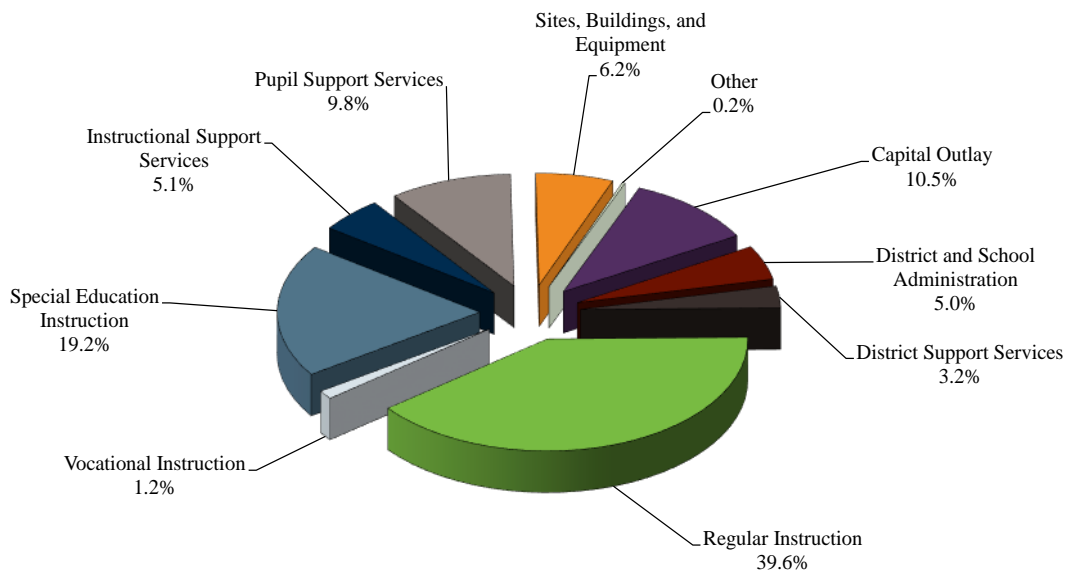
Independent School District No. 22 Financial Analysis

GENERAL FUND OPERATIONS

2018 District Expenditures

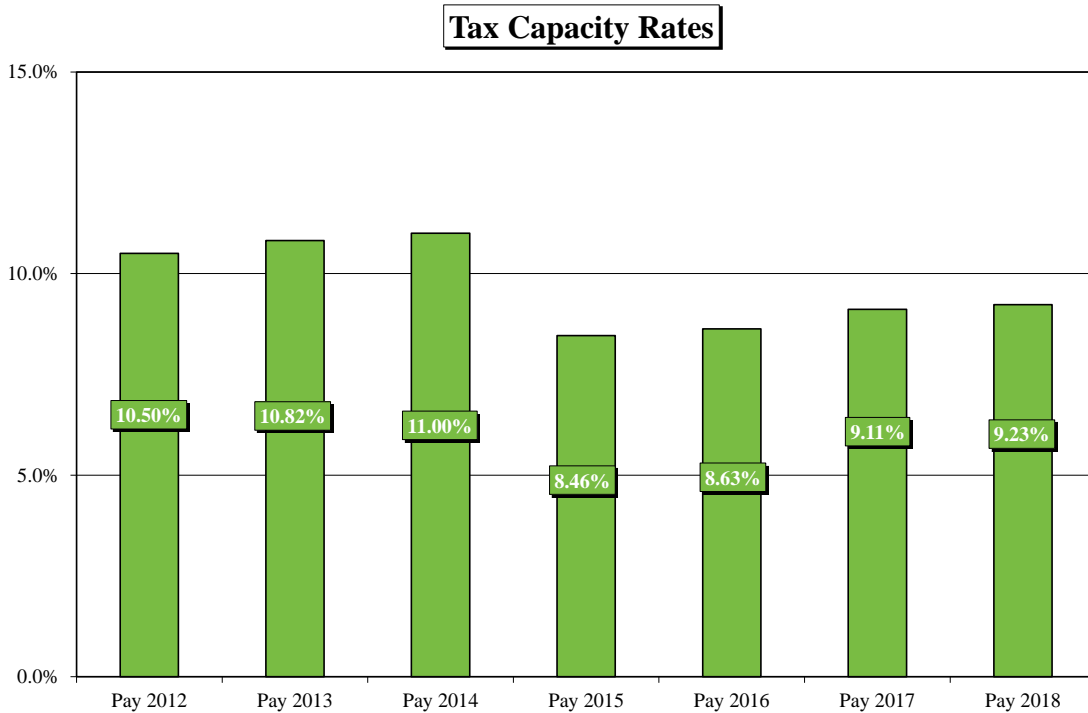
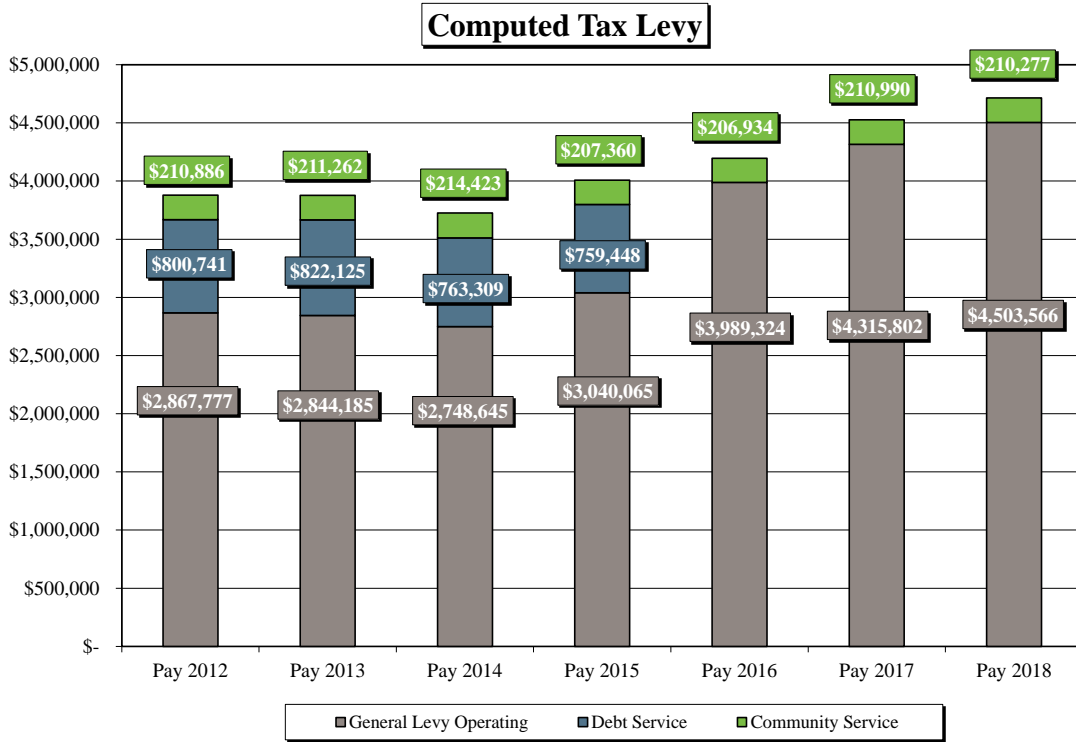


2017 District Expenditures



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,	2012	2013	2014	2015	2016	2017	2018
Revenue	\$ 1,352,430	\$ 1,452,468	\$ 1,428,651	\$ 1,490,659	\$ 1,546,697	\$ 1,606,654	\$ 1,662,455
Expenditures	1,248,625	1,357,815	1,392,401	1,536,763	1,567,887	1,573,986	1,762,227
Excess of revenue over (under) expenditures	103,805	94,653	36,250	(46,104)	(21,190)	32,668	(99,772)
Other financing sources	-	900	-	-	-	-	-
Fund balance, July 1	564,044	667,849	763,402	799,652	753,548	732,358	765,026
Fund Balance, June 30	\$ 667,849	\$ 763,402	\$ 799,652	\$ 753,548	\$ 732,358	\$ 765,026	\$ 665,254

The Food Service Fund fully supported its operations in four of the last seven years. In 2018, expenditures exceeded revenues by \$99,772. This activity resulted in a Food Service Fund balance decrease to \$665,254 at the end of the year. Revenues and expenditures increased during the year due to additional participation in their catering services. They also purchased significant capital items in 2018 such as serving lines to spend down their fund balance.

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,	2012	2013	2014	2015	2016	2017	2018
Revenue	\$ 685,758	\$ 700,850	\$ 776,434	\$ 849,804	\$ 901,342	\$ 942,019	\$ 1,036,617
Expenditures	663,686	700,749	748,004	814,366	876,055	888,508	937,910
Excess of revenue over expenditures	22,072	101	28,430	35,438	25,287	53,511	98,707
Fund balance, July 1	118,380	140,452	140,553	168,983	204,421	229,708	283,219
Fund Balance, June 30	\$ 140,452	\$ 140,553	\$ 168,983	\$ 204,421	\$ 229,708	\$ 283,219	\$ 381,926

In 2018, Community Service Fund revenues exceeded expenditures by \$98,707, resulting in the fund balance increasing to \$381,926. Revenues and expenditures fluctuate year to year depending on the number of classes and programs offered. During 2018, the District experienced an increase in other local and county revenues due to adding a full day program and having higher participation in their after school care program. Expenditures increased due to the addition of these 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

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

COMPENSATORY REVENUE

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

STUDENT ACHIEVEMENT LEVY

The Student Achievement Levy eliminated for 2019.

LEAD IN SCHOOL DRINKING WATER

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

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

PAYMENTS TO NONOPERATING FUNDS

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

SCHOOL BUILDING BOND AGRICULTURAL CREDIT

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

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

LONG-TERM FACILITIES MAINTENANCE REVENUE

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

EQUITY REVENUE

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

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

SPECIAL EDUCATION

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

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

VOLUNTARY PREKINDERGARTEN (VPK)/SCHOOL READINESS PLUS

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

EMERGENCY SCHOOL FUNDING

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

STAFF DEVELOPMENT SET-ASIDE WAIVER

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

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

COMMUNITY SERVICE FUND TRANSFER

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

SAFE SCHOOLS REVENUE

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

Q COMP

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

SCHOOL SAFETY GRANTS

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

PENSION BILL

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

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

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

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

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

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

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

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

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

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

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

Independent School District No. 22
Emerging Issues

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

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

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

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

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

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

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

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

Independent School District No. 22
Emerging Issues

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

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

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

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

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