

**Independent School District No. 271
Bloomington, Minnesota**

Communications Letter

June 30, 2017



Independent School District No. 271
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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. 271
Bloomington, 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. 271, Bloomington, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

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



The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated November 29, 2017, on such statements.

This communication is intended solely for the information and use of management, the School Board, 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.

BerganKDV Ltd.

Minneapolis, Minnesota
November 29, 2017

Independent School District No. 271
Material Weakness

MATERIAL AUDIT ADJUSTMENTS

During the course of our audit, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements.

In order to ensure financial statements were free from material misstatement, audit adjustments were required to properly adjust cash and investments, debt, and contracts payable.

Independent School District No. 271
Required Communication

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District for the year ended June 30, 2017, and have issued our report thereon dated November 29, 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with 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 taken as a whole.

**Independent School District No. 271
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.

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 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 programs based on an estimate of the benefit to that particular program. Examples are salaries, benefits, 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 dependent on the availability of monies and complex formulas that are finalized after reporting deadlines.

Net Other Post Employment Benefits (OPEB) Obligation – This balance is 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.

**Independent School District No. 271
Required Communication**

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. We identified uncorrected misstatements of the financial statements for the understatement of capital assets and state aid and related receivable. Management has determined its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Material misstatements were detected as a result of audit procedures and corrected by management for contracts payable and debt activity related to bond refunding.

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.

Independent School District No. 271
Required Communication

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. 271 Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours.

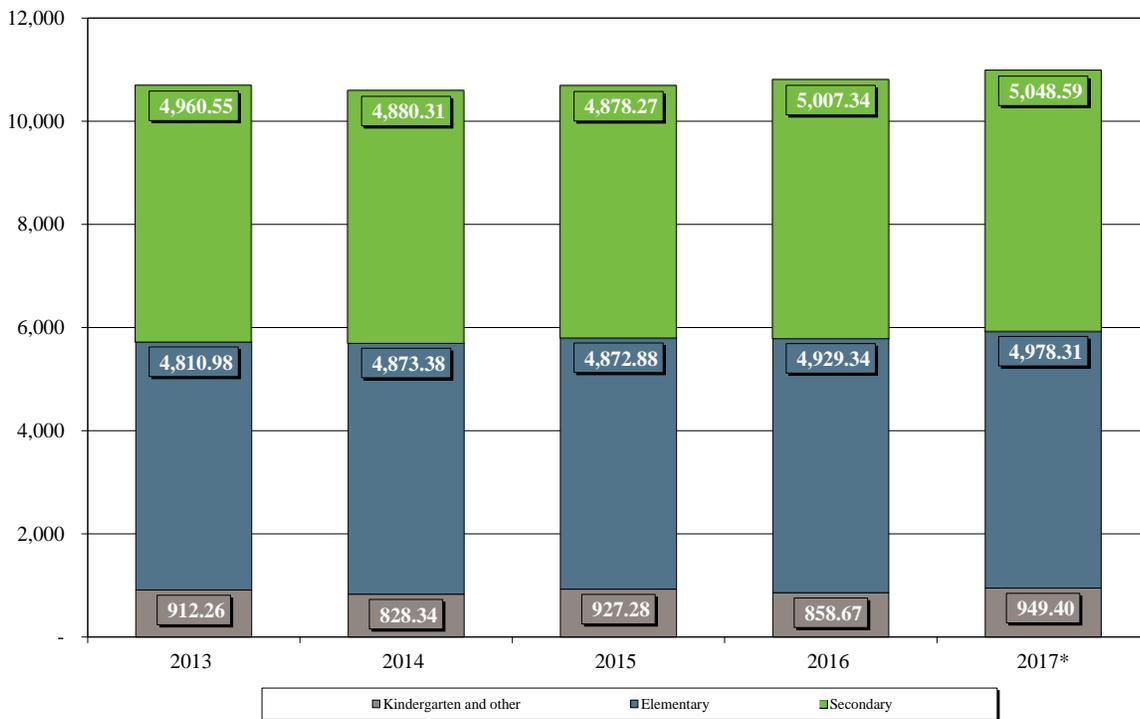
AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

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.

The following chart and graph summarizes resident ADM of the District over the past five years.

Resident ADM	2013	2014	2015	2016	2017*
Kindergarten and other	912.26	828.34	927.28	858.67	949.40
Elementary	4,810.98	4,873.38	4,872.88	4,929.34	4,978.31
Secondary	4,960.55	4,880.31	4,878.27	5,007.34	5,048.59
Total resident ADM	10,683.79	10,582.03	10,678.43	10,795.35	10,976.30

Resident Students - ADM



* Estimate as of November 21, 2017

The chart and graph above demonstrate the relative stability in resident ADM over the past five years with 2017 reporting 10,976.30, an increase of 98.43 ADM from 2016.

Independent School District No. 271 Financial Analysis

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

The total pupil units are converted to adjusted pupil units, which also may be used to calculate the District's education aids. Adjusted pupil units are calculated by multiplying 77% of current year pupil units and 23% of prior year, or 100% of current year, whichever is greater. The adjusted pupil unit data is used for districts with declining enrollment, to lessen the negative impact.

Pupil Units Weighting	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
Fiscal Years 2013-2014	1.250	1.000	0.612	1.115	1.060	1.300
Fiscal Years 2015-2017	1.000	1.000	1.000	1.000	1.000	1.200

Pupil units are computed by weighting ADM (WADM/PUN) using the factors on the table above. The WADM/PUN served table and graph below converts resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

	2013	2014	2015	2016	2017
Residents	12,314.18	12,232.26	11,653.93	11,796.69	11,985.07
Residents going elsewhere	(1,083.12)	(1,227.19)	(1,310.14)	(1,388.68)	(1,478.80)
Nonresidents coming in	734.93	821.60	831.00	882.28	882.45
Total weighted/adjusted ADM served	11,965.99	11,826.67	11,174.79	11,290.29	11,388.72

Students Served - WADM/PUN



*Estimate as of November 21, 2017

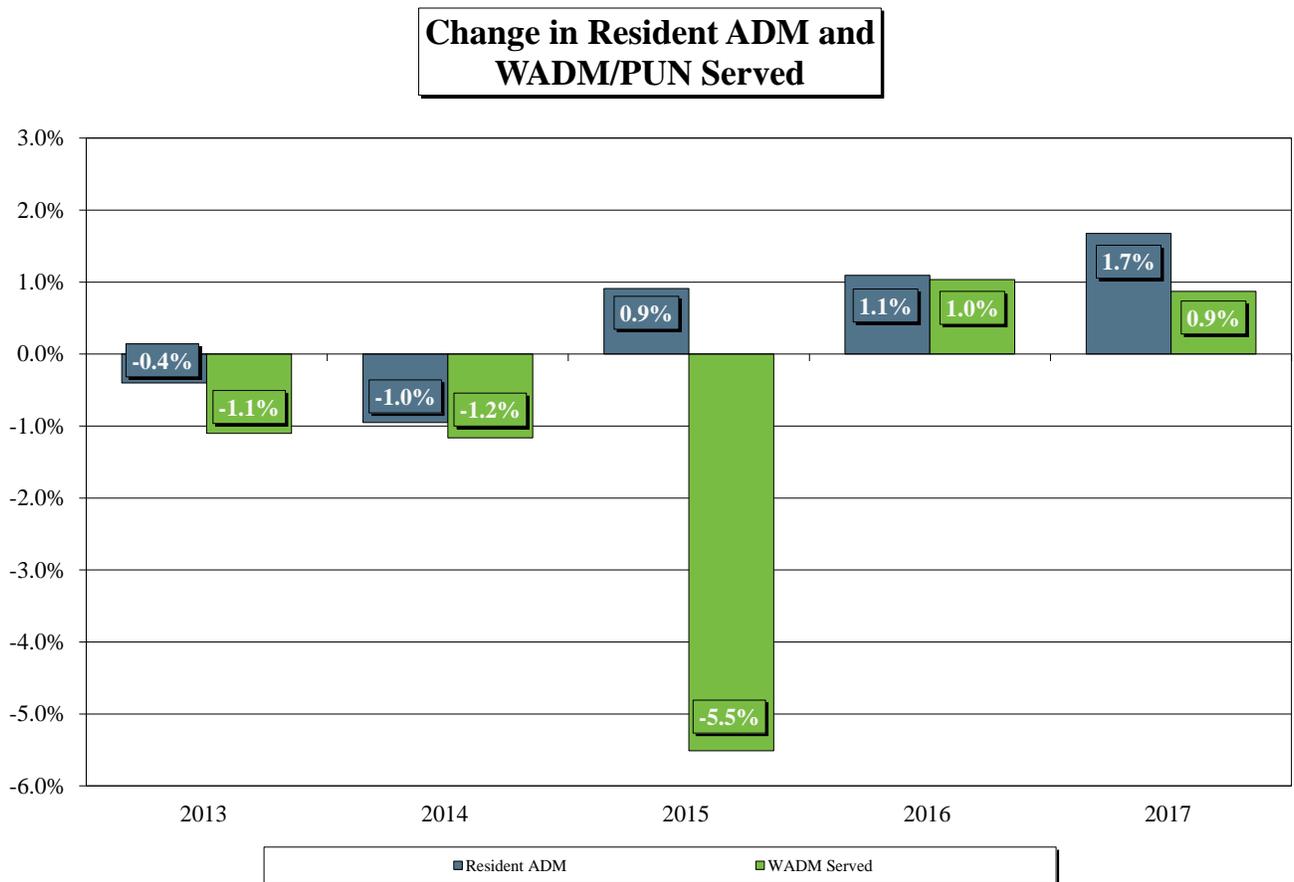
**Independent School District No. 271
Financial Analysis**

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

Resident ADM and WADM/PUN served increased slightly from 2016 to 2017.

Open enrollment is a large factor in the District's ADM fluctuation. For the five years shown, the District has experienced a net loss of WADM/PUN. In 2013, the net loss was 348.19 and in 2017 the net loss grew to the highest margin of the five years presented at 596.35. The net loss increased 90.12 from 506.40 in 2016, to 596.35 in 2017. These losses are due to resident students leaving the District through open enrollment and the growing number of students attending charter schools. A large factor in the WADM/PUN increase from 2016 to 2017 is due to an increase in resident ADM which offset the net loss from open enrollment.

The following graph illustrates the percentage change from year-to-year in resident ADM and WADM/PUN served.

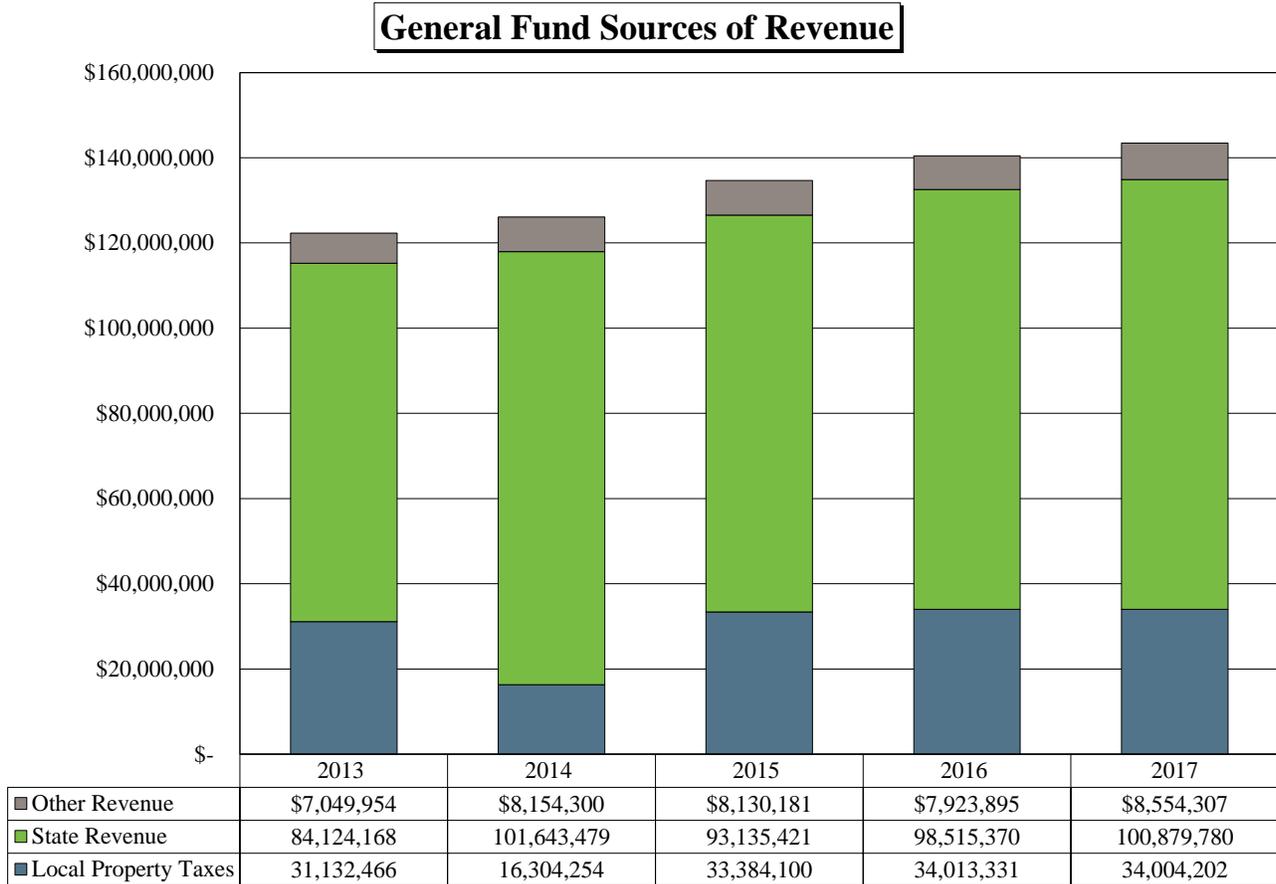


*Estimate as of November 21, 2017

**Independent School District No. 271
Financial Analysis**

GENERAL FUND SOURCES OF REVENUE

The following table displays the sources of revenue for the General Fund.



Total General Fund revenues of \$143,438,289 increased \$2,985,693, or 2.1%, from 2016 to 2017 and increased \$21,131,701, or 17.3% over the course of the five years presented.

State revenue, which makes up the largest percentage of the District's revenue at 70.3%, increased \$2,364,410, due primarily to an increase in formula allowance, enrollment and special education aid.

Other revenue increased \$630,412 due primarily to an increase in federal funds received related to Special Education expenditures.

Independent School District No. 271
Financial Analysis

GENERAL FUND BUDGET AND ACTUAL

The chart below highlights 2017 General Fund budget and actual results. Originally, in June 2016, the District budgeted to deficit spend by approximately \$2,100,000 for 2017. Budget revisions increased revenues by approximately \$3,300,000 and expenditures by approximately \$3,900,000. At the end of the fiscal year, actual revenues and other financing sources exceeded expenditures and other financing uses by \$4,934,758.

Overall, General Fund revenues were over budget by \$1,633,913. Revenue from state sources were over budget due to a conservative budget for general education and special education aid. Revenue from other local and county revenues was under budget due to certain Richfield community service funds being budgeted in the General Fund that were placed in the Community Service Fund. General Fund expenditures were under budget by \$2,305,423, producing a 1.6% variance. The variance was the result of General Fund capital expenditures coming in well under budgeted amounts.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 34,403,288	\$ 34,400,165	\$ 34,004,202	\$ (395,963)
Other local and county revenues	4,617,316	5,319,289	4,138,066	(1,181,223)
Revenue from state sources	95,639,708	98,204,783	100,879,780	2,674,997
Revenue from federal sources	3,862,139	3,862,139	4,408,142	546,003
Sales and other conversion of assets	18,000	18,000	8,099	(9,901)
Total revenues	138,540,451	141,804,376	143,438,289	1,633,913
Expenditures				
Administration	5,717,769	5,780,352	5,284,242	(496,110)
District support services	3,533,823	2,638,887	4,250,353	1,611,466
Regular instruction	65,249,812	67,457,447	66,824,228	(633,219)
Vocational education instruction	1,647,217	1,647,752	1,606,623	(41,129)
Special education instruction	29,316,238	29,670,565	30,685,328	1,014,763
Instructional support services	7,174,418	7,570,003	9,572,688	2,002,685
Pupil support services	11,256,154	11,437,777	10,816,235	(621,542)
Sites and buildings	9,102,884	9,102,884	8,652,988	(449,896)
Fiscal and other fixed cost programs	387,000	387,000	339,803	(47,197)
Capital outlay	7,191,014	8,800,452	4,155,208	(4,645,244)
Debt service	69,844	69,844	69,844	-
Total expenditures	140,646,173	144,562,963	142,257,540	(2,305,423)
Excess of revenues over (under) expenditures	(2,105,722)	(2,758,587)	1,180,749	3,939,336
Net Other Financing Sources (Uses)	(94,529)	(194,529)	3,754,009	3,948,538
Net Change in Fund Balances	\$ (2,200,251)	\$ (2,953,116)	\$ 4,934,758	\$ 7,887,874

Independent School District No. 271 Financial Analysis

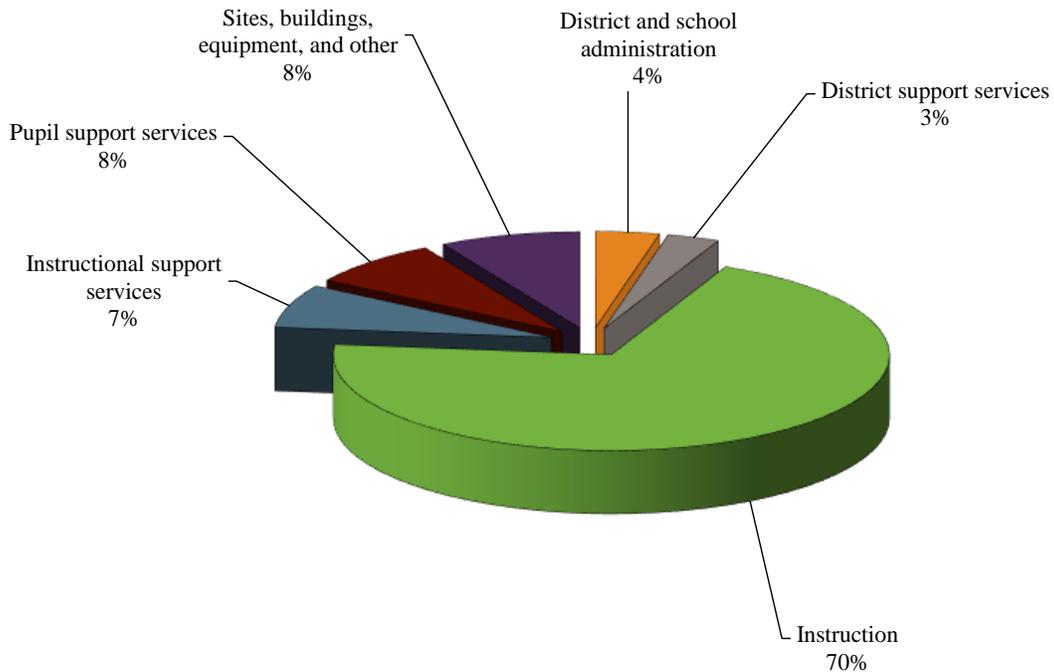
GENERAL FUND EXPENDITURES

General Fund expenditures by program for the past five years are summarized below.

General Fund Expenditures	2013	2014	2015	2016	2017
District and school administration	\$ 5,633,798	\$ 6,094,591	\$ 5,919,283	\$ 5,694,287	\$ 5,285,324
District support services	3,770,883	6,078,226	7,878,381	4,985,838	4,321,155
Instruction	82,151,158	85,133,903	94,861,387	98,258,556	99,470,151
Instructional support services	8,017,541	8,389,776	8,458,954	9,745,289	10,350,500
Pupil support services	9,025,420	9,750,397	10,890,237	11,859,991	11,166,039
Sites, buildings, equipment, and other	13,108,715	9,755,924	13,155,732	11,865,798	11,664,371
Total	\$ 121,707,515	\$ 125,202,817	\$ 141,163,974	\$ 142,409,759	\$ 142,257,540

Total expenditures decreased by \$152,219, or 0.1%, from 2016 to 2017.

General Fund Expenditure Allocation



Total instruction expenditures (regular, special education and vocational) for 2017 represents approximately 70% of total General Fund expenditures.

**Independent School District No. 271
Financial Analysis**

EXPENDITURES PER ADM SERVED

Expenditures per ADM served for all programs are summarized as follows:

District	2013*	2014*	2015*	2016*	2017**
General Fund	\$ 11,544	\$ 12,060	\$ 13,555	\$ 13,598	\$ 13,454
Food Service	453	532	488	488	493
Community Service	1,116	1,319	1,203	1,182	1,116
Building Construction	677	1,345	1,518	1,347	1,335
Debt Service	987	2,208	3,432	4,502	4,459
Total	\$ 14,777	\$ 17,464	\$ 20,196	\$ 21,117	\$ 20,857

State-Wide Average***	2013*	2014*	2015*	2016*	2017
General Fund	\$ 10,968	\$ 11,266	\$ 11,821	\$ 12,271	N/A
Food Service	495	509	523	536	N/A
Community Service	619	633	612	645	N/A
Building Construction	643	801	982	1,427	N/A
Debt Service	1,223	1,540	1,465	1,521	N/A
Total	\$ 13,948	\$ 14,749	\$ 15,403	\$ 16,400	N/A

* Source: *School District Profiles*

** Estimate as of November 21, 2017, as final numbers are not available

*** Source: *School District Profiles*, state-wide averages are for districts in the 4,450 and above ADM group for 2013, and the 4,000 and above ADM group for 2014 through 2016.

Independent School District No. 271 Financial Analysis

GENERAL FUND OPERATIONS

The chart below illustrates the General Fund revenue, expenditures, and fund balances for the past five years.

Year Ended June 30,	2013	2014	2015	2016	2017
Revenues	\$ 122,306,588	126,102,033	134,649,702	140,452,596	143,438,289
Expenditures	121,707,515	125,202,817	141,163,974	142,409,759	142,257,540
Excess of revenues over (under) expenditures	599,073	899,216	(6,514,272)	(1,957,163)	1,180,749
Add other sources	40,045	20,876	241,833	58,203	59,116
Add transfers in	-	-	-	-	4,000,000
Less transfers out	(780,070)	(680,404)	(927,147)	(302,494)	(305,107)
Fund balance, July 1	33,439,403	33,298,451	33,538,139	26,338,553	24,137,099
Fund Balance, June 30	\$ 33,298,451	\$ 33,538,139	\$ 26,338,553	\$ 24,137,099	\$ 29,071,857
Nonspendable for					
Inventory	\$ 467,551	\$ 468,463	\$ 405,106	\$ 405,186	\$ 262,086
Prepaid items	72,316	102,844	46,698	72,908	189,452
Restricted/reserved for					
Health and safety*	(53,747)	(54,276)	(131,293)	(191,583)	-
Capital projects levy	834,915	1,439,727	1,432,498	2,524,462	4,284,126
Operating capital	5,217,862	5,432,289	3,602,139	5,287,810	8,119,541
Area learning center	140,777	418,353	785,852	-	-
Career technical programs	-	8,000	-	-	-
Medical assistance/third party	-	-	-	-	573,886
State approved alternative program	-	-	-	1,089,663	1,145,695
Committed for					
Severance insurance	2,317,902	2,193,875	2,461,627	-	-
Technology replacement	1,799,045	1,799,045	-	-	-
Uniform and instrument replacement	77,919	84,259	89,633	98,025	106,324
LCTS repayment	-	-	-	-	-
Wellness	81,092	82,629	66,055	90,965	90,965
Workers compensation	235,000	235,000	-	-	-
Energy savings	1,000,000	1,000,000	-	-	-
Security systems	250,000	250,000	-	-	-
Operating referendum	10,027,568	7,684,455	4,279,405	1,323,054	1,323,054
Medical assistance/third party	220,637	214,246	182,030	413,100	-
Transportation bus purchases	1,000,000	1,000,000	1,000,000	1,000,000	-
Transportation building	1,000,000	1,000,000	1,000,000	870,188	-
Transportation	2,944,736	3,299,780	3,793,360	3,761,142	4,235,550
Athletic activities	36,058	122,159	95,976	170,945	1,090,438
Staff development	250,023	253,075	262,769	185,150	166,254
Q comp	-	97,400	82,600	-	-
All day kindergarten	-	878,219	-	-	-
Site department carryover funds	-	-	-	746,189	757,824
Assigned for					
Site 402 funds	-	-	696,908	-	-
Unassigned	5,378,797	5,528,597	6,187,190	6,289,895	6,726,662
Fund Balance, June 30	\$ 33,298,451	\$ 33,538,139	\$ 26,338,553	\$ 24,137,099	\$ 29,071,857

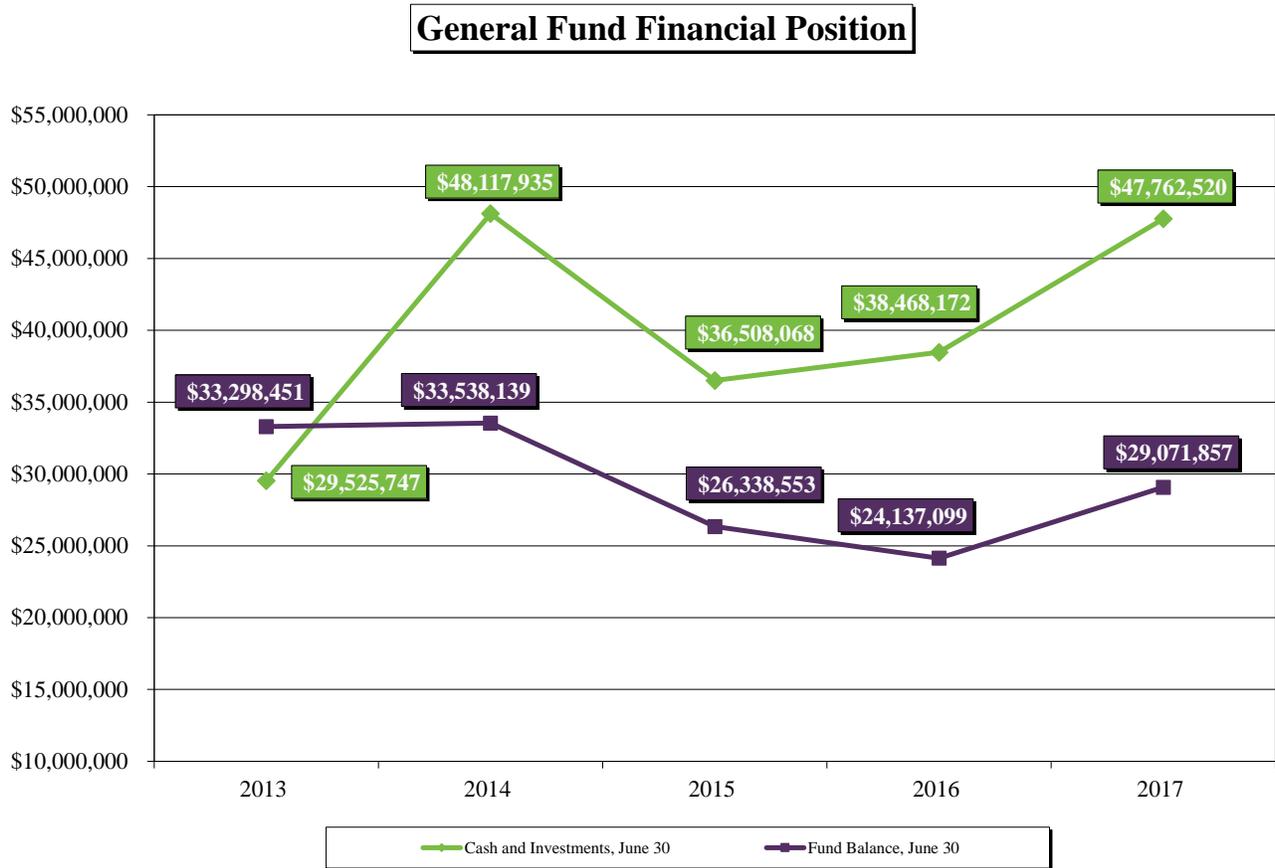
* Negative UFARS restrictions are reclassified to unassigned fund balance on the face of the financial statements to be in accordance with accounting principles general accepted in the United States of America.

From 2016 to 2017, revenues increased 2.1% and expenditures decreased 0.1%. Included in this illustration are all the general activities of the District, including all categorical or reserved programs such as state approved alternative programs, operating capital, etc. All of these activities comprise the General Fund, per the Uniform Financial Accounting and Reporting Standards (UFARS) definition. In addition to normal 2017 operating activities, the General Fund recorded transfers out to the Community Service Fund and transfers in from the Internal Service Fund. After all transactions, the General Fund balance increased \$4,934,758.

**Independent School District No. 271
Financial Analysis**

GENERAL FUND FINANCIAL POSITION

The graph below presents the fund balance for the General Fund at June 30 for each of the past five years with cash and investment balances for the same periods.



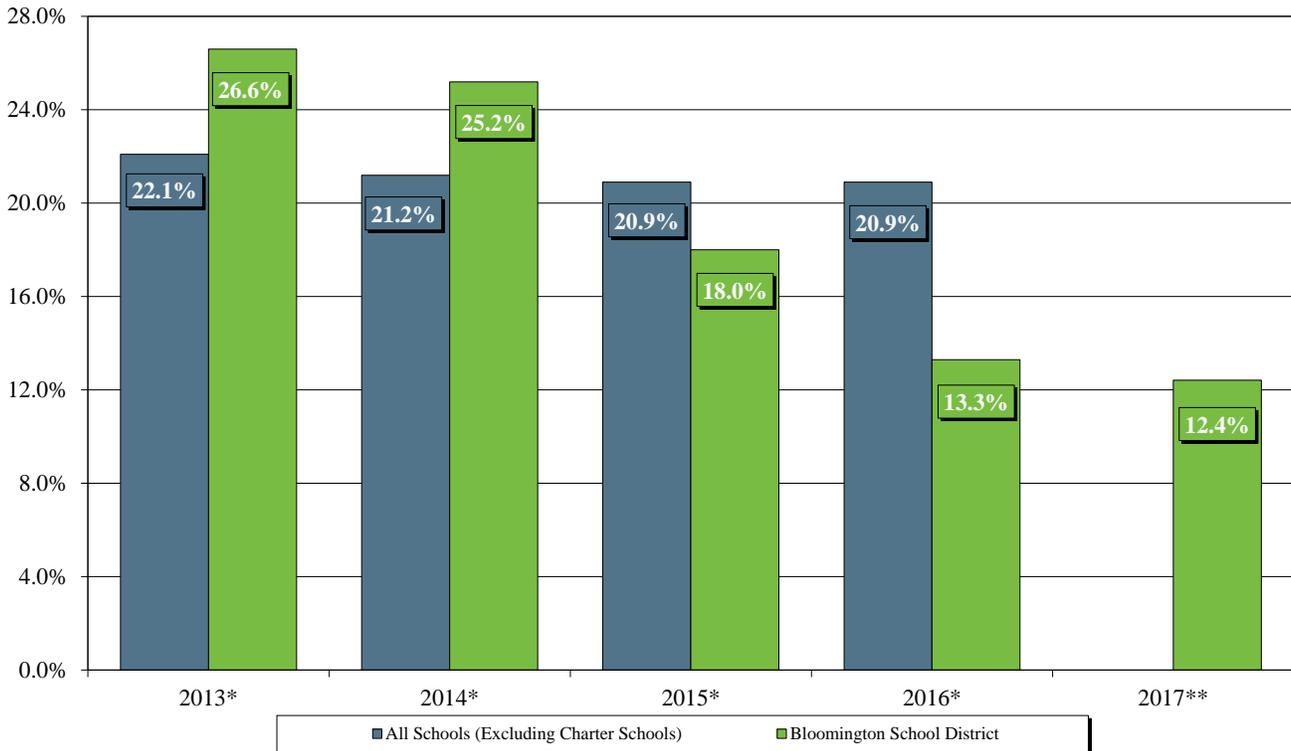
Cash and investment balances increased \$9,294,348 which was primarily due to receiving state aids earlier at year end 2017 and an increase in liabilities from 2016 to 2017. The increase in fund balance of \$4,934,758 was due to revenues exceeding budgeted revenues by \$1,633,913, expenditures coming in less than budgeted expenditures by \$2,305,423, and a transfer from the Internal Service Fund of \$4,000,000.

Independent School District No. 271 Financial Analysis

GENERAL FUND FINANCIAL HEALTH

One of the most common comparable statistics used to evaluate school district financial health is the operating fund balance as a percentage of operating expenditures.

**Unrestricted Fund Balance as a Percentage of
Unrestricted Expenditures**



* Information was obtained from the Minnesota Department of Education (MDE) web site report *General Fund Unreserved Balance for Fiscal Years 2013-2016*. Fiscal year 2017 information is not available.

** MDE 2017 UFARS Turnaround Compliance Report

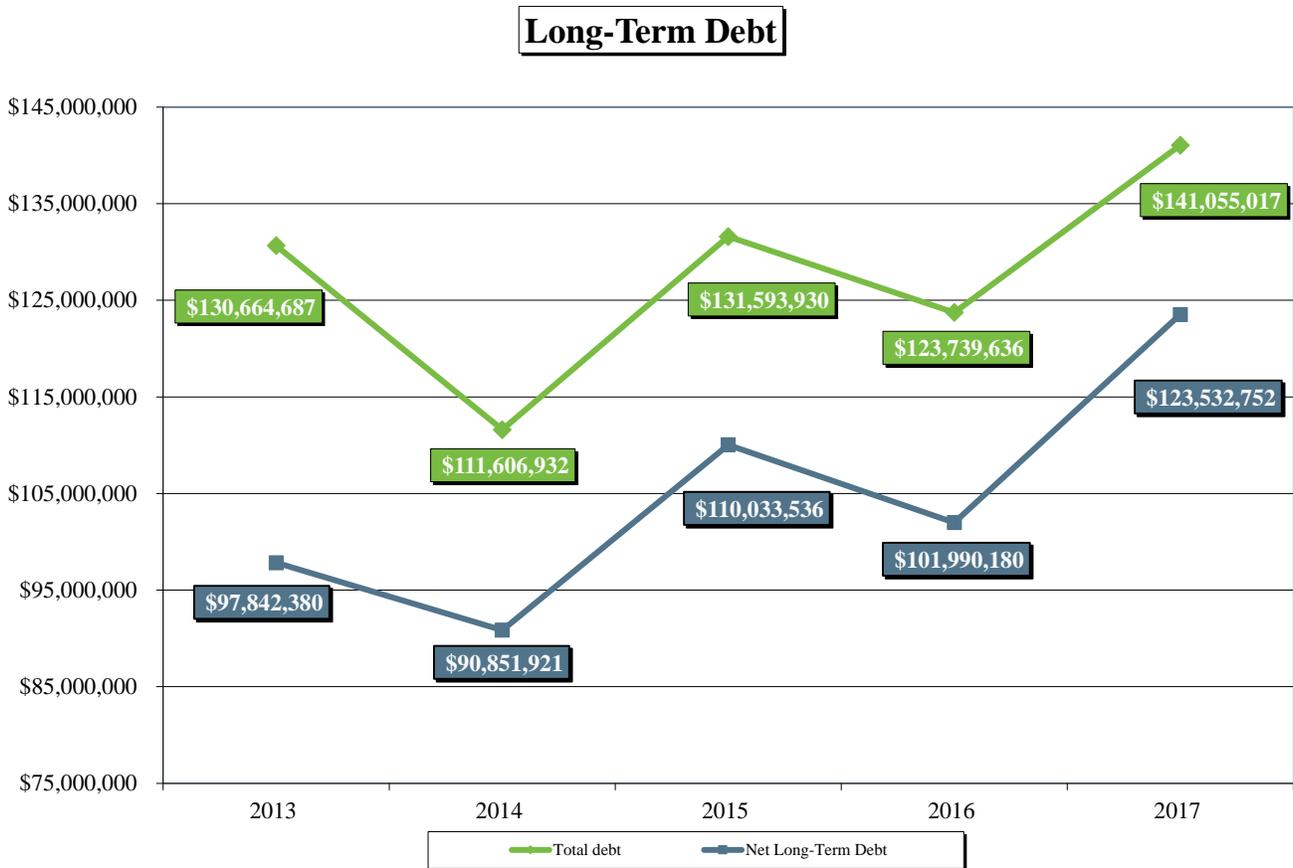
The District's fund balance policy states the District will strive to maintain a minimum unassigned General Fund balance of 5% of the year's expenditures (excluding operating capital and transportation) and a maximum of 8% of the year's expenditures.

Independent School District No. 271 Financial Analysis

LONG-TERM DEBT

The following chart and graph illustrate the District's general long-term debt outstanding and reserved funds at June 30 of each of the past five years.

Long-Term Debt	2013	2014	2015	2016	2017
Bonds and leases payable	\$ 127,527,330	\$ 107,996,123	\$ 127,012,444	\$ 118,062,916	\$ 135,121,612
Severance benefits payable and net OPEB	3,137,357	3,610,809	4,581,486	5,676,720	5,933,405
Total debt	130,664,687	111,606,932	131,593,930	123,739,636	141,055,017
Escrow reserved for debt retirement	(12,236,043)		-	-	-
Internal service fund net position	(20,586,264)	(20,755,011)	(21,560,394)	(21,749,456)	(17,522,265)
Net Long-Term Debt	\$ 97,842,380	\$ 90,851,921	\$ 110,033,536	\$ 101,990,180	\$ 123,532,752



During 2016, the District issued \$36,385,000 of G.O. Bonds. The District made payments of \$17.8 million in scheduled bond principal including paying off part of the 2009A Taxable Refunding OPEB Bonds with the proceeds received in 2017B Taxable Refunding OPEB Bonds.

Independent School District No. 271 Financial Analysis

TAX LEVIES AND TAX CAPACITY RATES

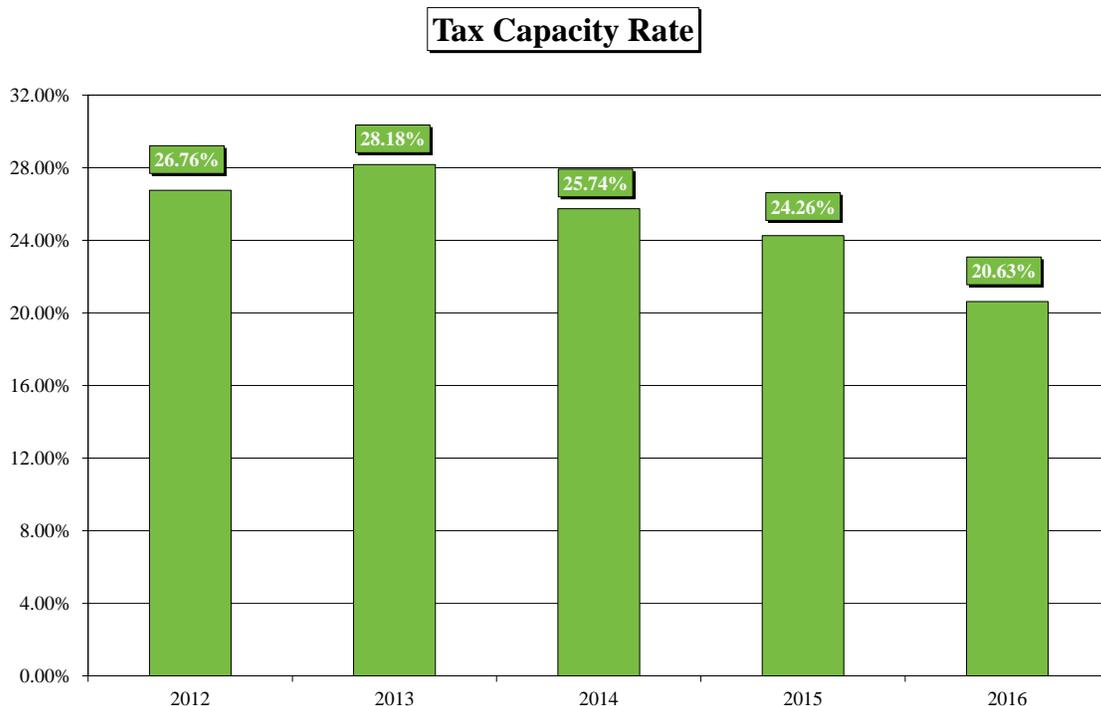
The following tables present the District's tax levies for the levy certified in 2012, payable in 2013 through the levy certified in 2016, and payable in 2017.

Certified	2012	2013	2014	2015	2016
Levy Payable	2013	2014	2015	2016	2017
Year Recognized	2014	2015	2016	2017	2018
School maintenance	\$ 14,545,840	\$ 16,506,630	\$ 15,460,251	\$ 16,596,294	\$ 16,388,208
Referendum	21,180,926	21,255,093	21,705,685	21,634,265	23,671,728
Community service	1,618,089	1,599,135	1,610,733	1,665,995	1,760,192
Debt service	9,803,144	8,400,467	9,872,505	9,482,907	8,896,002
OPEB	975,473	929,954	893,582	875,631	829,121
Total	\$ 48,123,472	\$ 48,691,279	\$ 49,542,756	\$ 50,255,092	\$ 51,545,251

The District's tax capacity rate for the similar time period is illustrated in the following chart and graph:

Certified	2012	2013	2014	2015	2016
Levy Payable	2013	2014	2015	2016	2017
Year Recognized	2014	2015	2016	2017	2018
School maintenance	14.44%	16.95%	14.29%	14.06%	12.13%
Community service	1.61%	1.64%	1.49%	1.42%	1.30%
Debt service	9.74%	8.63%	9.13%	8.04%	6.58%
OPEB	0.97%	0.96%	0.83%	0.74%	0.61%
Total	26.76%	28.18%	25.74%	24.26%	20.63%

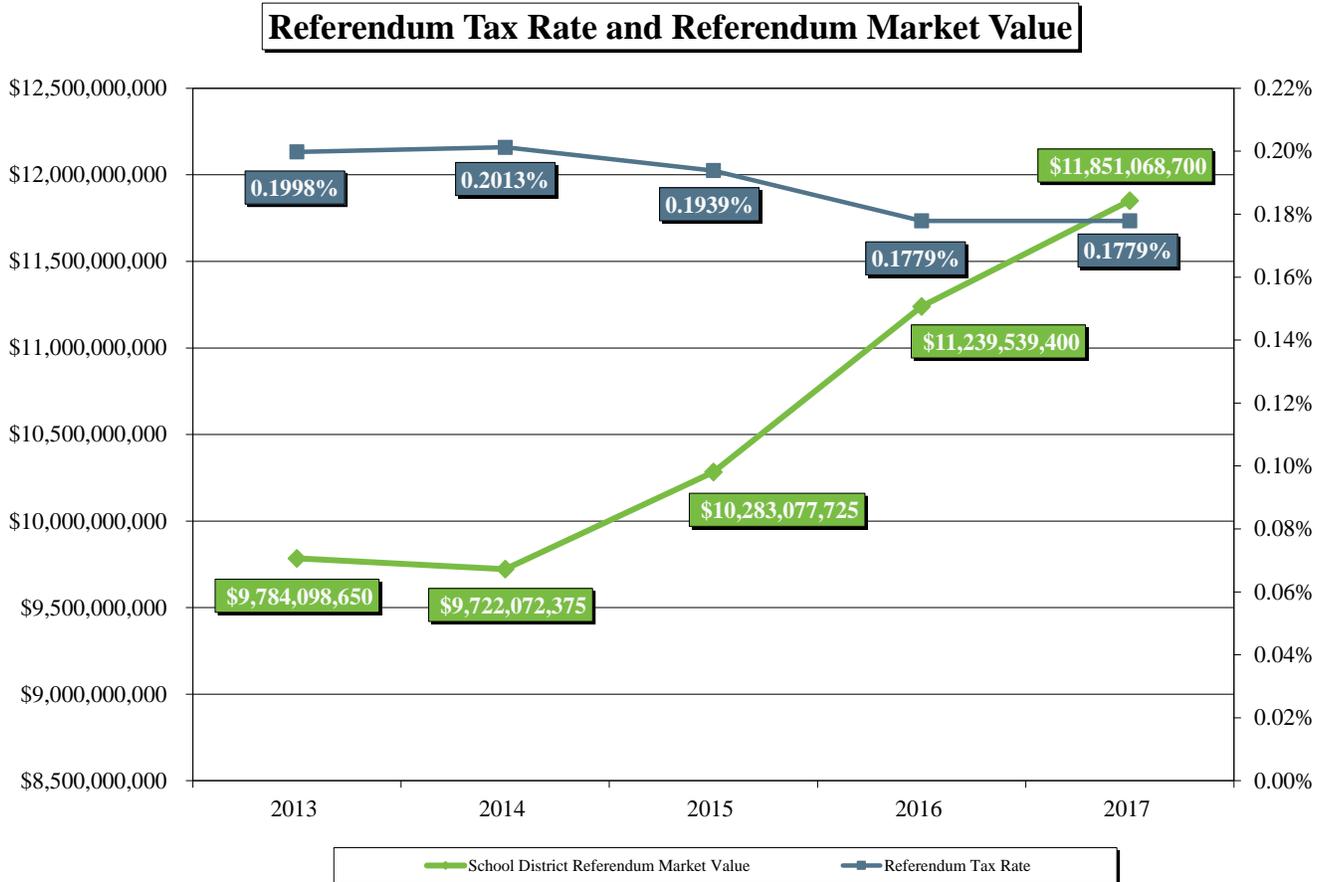
Rates do not include referendum rate which is spread on referendum market value. The referendum rate is shown on the following page.



**Independent School District No. 271
Financial Analysis**

REFERENDUM TAX RATE AND REFERENDUM MARKET VALUE

The following graph presents the District's referendum tax rate and referendum market value for tax levies for the levy certified in 2012, payable in 2013, through the levy certified in 2016, and payable in 2017.



**Independent School District No. 271
Financial Analysis**

FOOD SERVICE FUND

The following table presents five years of comparative operating results for the Food Service Fund.

Year Ended June 30,	2013	2014	2015	2016	2017
Revenues	\$ 5,052,835	\$ 4,863,915	\$ 4,963,800	\$ 5,118,987	\$ 5,243,131
Expenditures	4,775,524	5,523,572	5,077,462	5,106,705	5,215,672
Excess of revenues over (under) expenditures	277,311	(659,657)	(113,662)	12,282	27,459
Fund balance, July 1	1,627,919	1,905,230	1,245,573	1,131,911	1,144,193
Fund Balance, June 30	\$ 1,905,230	\$ 1,245,573	\$ 1,131,911	\$ 1,144,193	\$ 1,171,652

Overall, food service revenues increased 2.4% from 2016 to 2017, while expenditures increased 2.1%. The Fund finished the year with a 22% fund balance based on 2017 spending levels.

According to the MDE, a district must limit its net cash resources to an amount that does not exceed three months' average expenditures, based on a nine month year unless a higher amount has been approved by MDE Accountability and Improvement. The District's net cash resources as of June 30, 2017 did not exceed three months' average expenditures.

COMMUNITY SERVICE FUND

The following table presents five years of comparative operating results for the Community Service Fund.

Year Ended June 30,	2013	2014	2015	2016	2017
Revenues	\$ 11,538,198	\$ 11,932,080	\$ 11,899,250	\$ 12,637,406	\$ 13,268,415
Expenditures	11,765,614	13,698,418	12,525,110	12,379,683	11,799,077
Excess of revenues over (under) expenditures	(227,416)	(1,766,338)	(625,860)	257,723	1,469,338
Other financing sources	780,070	680,404	927,147	302,494	305,107
Fund balance, July 1	2,688,483	3,241,137	2,155,203	2,456,490	3,016,707
Fund Balance, June 30	\$ 3,241,137	\$ 2,155,203	\$ 2,456,490	\$ 3,016,707	\$ 4,791,152

As the table indicates, 2017 Community Service Fund revenues exceeded expenditures by \$1,469,338. After an operating transfer in from the General Fund, the total Community Service Fund balance increased \$1,774,445, from \$3,016,707 at June 30, 2016, to \$4,791,152 at June 30, 2017. Revenues increased primarily due to higher school readiness aid and expenditures decreased due to moving Under 21 expenditures to the General Fund.

Due to MDE regulations, the total Community Service Fund is segregated, or restricted, as follows: restricted for community education \$2,959,661, restricted for adult basic education \$761,370, restricted for early childhood and family education \$519,013, restricted for school readiness \$495,563, \$49,180 for community service and nonspendable for prepaid items \$6,365.

Independent School District No. 271 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 percentages 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.

Independent School District No. 271 Legislative Summary

MAXIMUM EFFORT LOAN AID

Effective for 2018 through 2022, there will be payments made to school districts with a maximum effort loan outstanding as of June 30, 2016 equal to the interest paid on the loan between December 1, 1990 and June 30, 2016. For districts with a capital loan outstanding as of June 30, 2017, the aid will be increased by the amount of interest paid on the loan between June 30, 2017 and June 30, 2021.

The aid must be used to reduce the current property tax levies or to finance a defeasance of future payments on outstanding bonded debt.

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.

NUTRITION CONTRACTS

There is now an exception to the statute limiting school district contracts to two years with an option on the part of the district to renew for an additional two years. The exception states that a contract between a school board and a food service management company that complies with Code of Federal Regulations, title 7, section 210.16, may be renewed annually after its initial term for not more than four years.

EQUITY REVENUE

For 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.

**Independent School District No. 271
Legislative Summary**

EQUITY REVENUE (CONTINUED)

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.

FOUR DAY WEEKS

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

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.

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.

**Independent School District No. 271
Legislative Summary**

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. 271 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 update includes:

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

The following 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 this issue with you further and their applicability to your District.

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

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

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

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

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

Independent School District No. 271
Emerging Issues

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

- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.
- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

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

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

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