INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA

EXECUTIVE AUDIT SUMMARY (EAS)

JUNE 30, 2013

CliftonLarsonAllen

CliftonLarsonAllen LLP
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November 22, 2013

Board of Education
Independent School District No. 108
Norwood Young America, Minnesota

This Executive Audit Summary and Management Report presents information which we believe is important to you as members of the school board. We encourage you to review the sections of this report, the audited financial statements and the auditors' reports.

We would be pleased to furnish additional information with respect to these suggestions and discuss this memorandum with you at your convenience. We wish to express our appreciation to the District for the courtesies, cooperation and assistance extended to us during the course of our work.

CliftonLarsonAllen LLP

Craig Popenhagen, CPA
Partner

INDEPENDENT SCHOOL DISTRICT NO. 108
INDEPENDENT SCHOOL DISTRICT
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JUNE 30, 2013

EXECUTIVE AUDIT SUMMARY (EAS) FOR
INDEPENDENT SCHOOL DISTRICT NO. 108
YEAR ENDED JUNE 30, 2013

We prepared this Executive Audit Summary and Management Report in conjunction with our audit of the District's financial records for the year ended June 30, 2013.

Audit Opinion

The financial statements are fairly stated. We issued what is known as a "clean" audit report.

Internal Control Over Financial Reporting

Two material weaknesses in internal control over financial reporting were noted. These related to oversight of the financial reporting process and material audit adjustments.

Compliance and Other Matters (Yellow Book)

No compliance issues were noted in our review of laws, regulations, contracts and grants that could have significant financial implications to the District.

Single Audit Opinion

There was one finding for Single Audit, regarding documentation of review and approval of required reports in the Child Nutrition program, prior to the reports being filed.

Minnesota Legal Compliance

No findings were noted for Minnesota Legal Compliance.

Audit Opinion – Student Activity Funds

The student activity financial statements are prepared on the regulatory basis prescribed or permitted by the Minnesota Department of Education, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial statements are fairly stated, except for such adjustments, if any, as might have been determined necessary had the cash collections been susceptible to satisfactory audit tests. This is what is known as a "modified" opinion and is expected for audits of student activity funds.

Minnesota Legal Compliance – Student Activity Funds

One legal compliance finding was noted in our review of compliance with the *Manual for Activity Fund Accounting in Minnesota School Districts*. This finding related to an improper activity fund account.

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FORMAL REQUIRED COMMUNICATIONS

Board of Education
Independent School District No. 108
Norwood Young America, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District 108 (the District) as of and for the year ended June 30, 2013, and have issued our report thereon dated November 22, 2013. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements.

For the year ended June 30, 2013, the financial statements include the impact of adoption of Governmental Accounting Standards Board Statement (GASBS) numbers 62 and 63.

GASBS 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes GASBS 20. GASBS 20 gave governments the choice to elect to follow only the authoritative literature of the Governmental Accounting Standards Board (GASB) or to follow Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements that did not conflict with GASB pronouncements. Upon adoption of GASBS 62, all governmental accounting guidance is codified into the GASB literature.

GASBS 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance on reporting deferred outflows and inflows of resources. It also renames the residual of all other amounts presented in the statement of financial position from "net assets" to "net position." The financial statements include the statement of net position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Adoption of future GASB standards will include reporting of some items previously reported as assets and liabilities as deferred outflows and inflows of resources.

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.

Board of Education
Independent School District 108

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

Accounting Estimates

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 estimate(s) affecting the financial statements was (were):

- Due from Minnesota Department of Education
- Due from Federal through the Minnesota Department of Education
- Estimated useful lives of depreciable capital assets
- Estimated severance benefits payable
- Other post employment benefits

Management's estimate of the due from Minnesota Department of Education is based on amounts anticipated to be received from the state for various aid entitlements for fiscal 2012-13. The most significant of these is the aid portion of general education revenue. General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a statewide database – MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for fiscal year 2013 is not finalized until well into fiscal year 2014. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of due from Federal through the Minnesota Department of Education is based on amounts anticipated to be received through the state for various federal aid entitlements for fiscal 2012-13. Many federal entitlements require that supporting financial reporting information be provided both in the UFARS accounting system and also the SERVS reporting system. To the extent that these two separate systems are not in agreement and reported in a timely manner, the estimated aid entitlement may be adversely affected. Management expects any differences between estimated and actual data will be insignificant.

Management's estimate of useful lives for depreciable assets is based on guidance recommended by the Minnesota Department of Education and other sources. The useful life of a depreciable asset determines the amount of depreciation that will be recorded in any given reporting period as well as the amount of accumulated depreciation that is reported at the end of a reporting period.

Management's estimate of severance benefits payable is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting). The current portion of this liability is based on the specific identification of those expected to retire in the following year.

Management's estimate of other post employment benefits is based on an actuarially determined calculation, less actual payments incurred on behalf of retirees and an actuarially determined estimate of implicit rate subsidy, which is the estimated increased cost of premiums due to inclusion of retirees in the same plan as the District's active employees.

Significant Audit Findings (Continued)

Qualitative Aspects of Accounting Practices (Continued)

Accounting Estimates (Continued)
Management's estimate of the prefunded pension is based on an actuarially determined calculation, less actual payments incurred on behalf of retirees, which estimates future pension payments for eligible principals and directors.

We reviewed and tested management's procedures and underlying supporting documentation in the areas discussed above and evaluated the key factors and assumptions used to develop the estimates noted above in determining that they are reasonable in relation to the financial statements taken as a whole. We concluded that the accounting estimates and management judgments appeared to consider all significant factors and resulted in appropriate accounting recognition.

Financial Statement Disclosures
Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

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.

Uncorrected Misstatements
Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We noted the following uncorrected misstatement of the financial statements. As of June 30, 2012 the other receivables balance in the General Fund was understated by approximately $33,000 due to a payment for targeted services not being received until after completion of the audit resulting in the revenue being accounted for in the current year. Management has determined that the effects of uncorrected misstatements are immaterial to the financial statements taken as a whole.

Corrected Misstatements
The following material misstatements detected as a result of audit procedures were corrected by management:

- To adjust state aid receivables and revenues
- To adjust long-term liability balances
- To adjust local receivables to actual.

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

Management Representations
We have requested certain representations from management that are included in the management representation letter dated November 22, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

With respect to the Schedule of Expenditures of Federal Awards (SEFA) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the SEFA to determine that the SEFA complies with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the method of preparing it has not changed from the prior period or the reasons for such changes, and the SEFA is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the SEFA to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 22, 2013.

With respect to the Uniform Financial Reporting and Accounting Standards Compliance Table (the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, 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 or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated November 22, 2013.

Our auditors' opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

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Board of Education
Independent School District 108

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
November 21, 2013

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Board of Education
Independent School District No. 108
Norwood Young America, 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. 108 (the District) as of and for the year ended June 30, 2013, 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 our auditing 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 first 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.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Material Weaknesses

The following material weaknesses were identified and communicated in a prior period; remedial action has not yet been taken:

- **Oversight of the Financial Reporting Process**
  Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial position, results of operations and disclosures in the financial statements, in conformity with accounting principles generally accepted in the United States of America (GAAP). The District does have a system of internal controls over the review of the financial statements. The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the District's internal controls. However, the District does not have the expertise that would enable management to conclude the disclosures are complete and presented in accordance with GAAP. As such, management requested us to prepare a draft of the financial statements including the related footnote disclosures. The outsourcing of these services is not unusual in entities of your size and is a result of management's cost benefit decision to rely on our accounting expertise rather than incurring this internal resource cost.

- **<u>Material Audit Adjustments</u>**
  As part of the audit, we proposed various journal entries related to receivables, long-term liabilities, and revenue and expenditure coding. The absence of a complete control procedure or process in this area is considered a material weakness because the potential exists that a material misstatement of the financial statements could occur and not be prevented or detected by the District's internal control processes. The District should continue to evaluate their internal processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP.

Management's Response
Independent School District 108's written response to the material weakness identified in our audit was not subjected to the audit procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

We will review the status of this comment during our next audit engagement. We have already discussed this comment with various District personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
November 22, 2013

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Board of Education
Independent School District 108
Norwood Young America, Minnesota

In planning and performing our audit of the financial statement of the student activity funds of Independent School District 108 as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Activity Fund'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 Activity Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Activity Fund'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 fraud or error 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 material weakness.

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Material Weaknesses
The material weakness related to student activity receipts that is included in the attached Schedule of Findings and Responses was identified and communicated in a prior period; remedial action has not yet been taken.

Management's Response
Independent School District 108's written response to the material weakness identified in our audit was not subjected to the audit procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Board of Education
Independent School District No. 108

* *

This communication is intended solely for the information and use of management, the Board of Education, others within the entity, and the Minnesota Department of Education, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
November 22, 2013

Schedule of Findings and Responses:

Condition: The Activity Funds have not established accounting procedures to provide assurance that all cash collections are recorded in the accounting records. The Activity Funds record student activity revenues on the cash basis and does not have an accounting system and internal controls in place to ensure student activity revenues and receipts have been properly recorded. The potential exists that a material misstatement could occur in the financial statements and not be prevented or detected by the Activity Fund's internal controls. The accounting system and internal controls could be improved by (a) use of pre-numbered receipts with reconciliation of the numerical sequence, (b) reconciliation of merchandise purchased to items sold and items remaining at the end of the fundraiser, and (c) calculation of expected sales compared to cash receipts or various other procedures determined by management.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement With Audit Findings
There is no disagreement with the audit finding.

Actions Planned in Response to Finding
The District is conscious of the lack of accounting procedures involved with student activity receipts. In consideration of the guiding principles under which the student activity fund was established, the District provides opportunities for substantial student involvement in the selection, direction, and management of fundraisers. This student involvement, although of immeasurable value to those students, is an inherent internal control weakness. Implementation of further internal controls may provide limited improvement in internal controls, but may also reduce the relative value of the student experience. At this time, the District does not intend to implement further internal controls in this area.

Official Responsible for Ensuring CAP
Brian Corlett, Superintendent, is the official responsible for ensuring corrective action of the deficiency

Planned Completion Date for CAP
December 31, 2013

Plan to Monitor Completion of CAP
The School Board will be monitoring this corrective action plan.

APPENDIX A

FINANCIAL TRENDS OF YOUR DISTRICT

The following graphs reflect financial trends of Independent School District No. 108. Information related to fund balances on pages 13 through 18 were obtained from current and prior year audit reports. Information from Independent School District No. 108 has been included when appropriate for comparison purposes.

The graphs on pages 18 through 24 show expenditures per student served compared to the four most recent years, state averages and the averages for comparable size school districts (students served of 875 - 1,149). Prior year expenditure data and state wide averages were obtained from the Minnesota Department of Education. At the time this report was prepared, this data was preliminary. Current year expenditures were obtained from the current year's audit report.

ISD NO. 108 NORWOOD YOUNG AMERICA

	Nonspenable and Assigned Unassigned	Non-Capital Related Restrictions	Capital Expenditures Operating Capital	Capital Expenditures Health & Safety	Capital Expenditures Deferred Maintenance	Capital Expenditures Total	General Fund Total
Revenues	$ 8,907,742	$ 551,996	$ 243,041	$ 124,788	$ (3,783)	$ 364,046	$ 9,823,784
Expenditures and Operating Transfers	9,153,366	571,187	298,241	68,123	-	366,364	10,090,917
Excess (Deficit) Revenues Over Expenditures	$ (245,624)	$ (19,191)	$ (55,200)	$ 56,665	$ (3,783)	$ (2,318)	$ (267,133)
Fund Balance June 30, 2012	1,200,221	75,610	453,123	(263,504)	(18,908)	170,711	1,446,542
Fund Balance June 30, 2013	$ 954,597	$ 56,419	$ 397,923	$ (206,839)	$ (22,691)	$ 168,393	$ 1,179,409
Nonspendable, Assigned, & Unassigned Fund Balance as a % of Operating Expenditures	9.46%						

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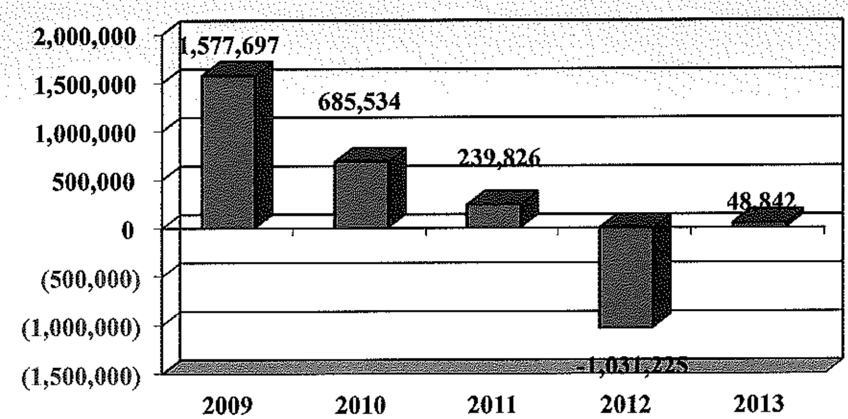

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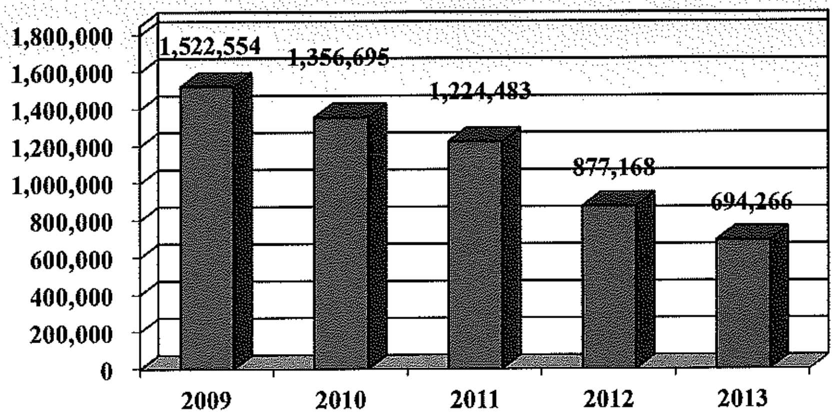

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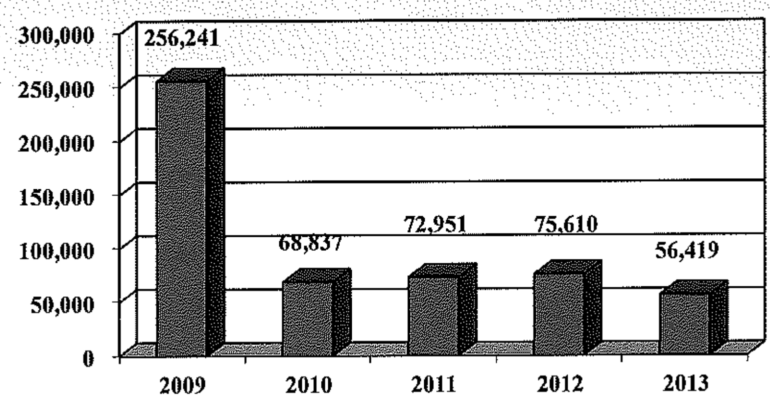

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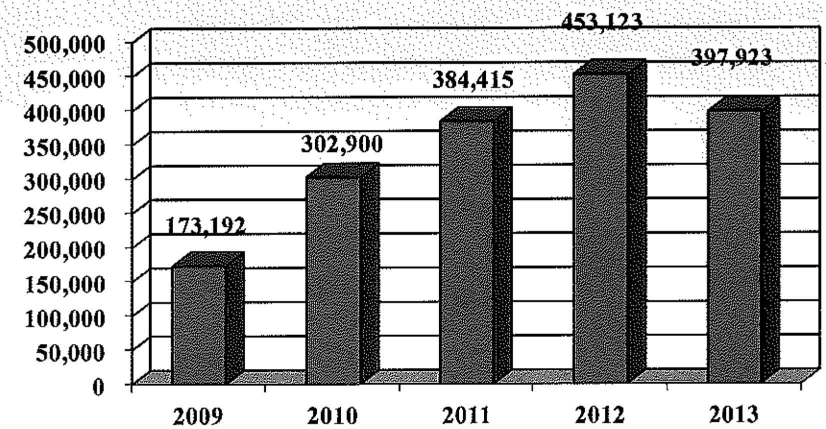

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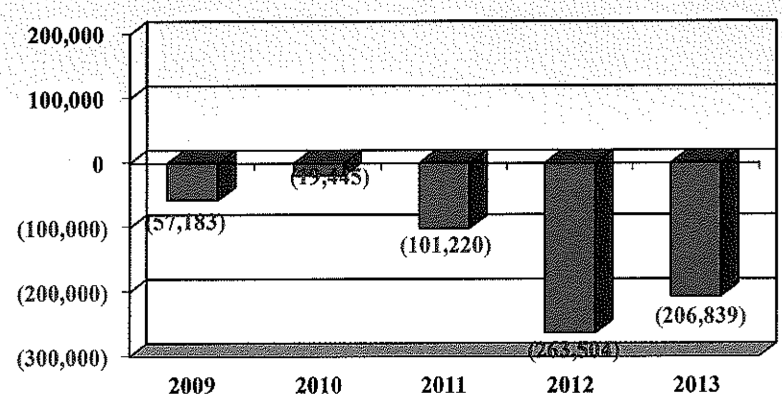

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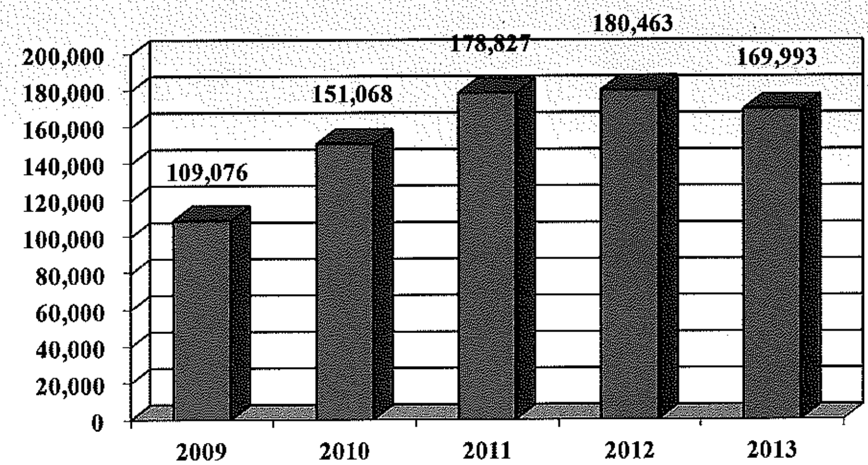

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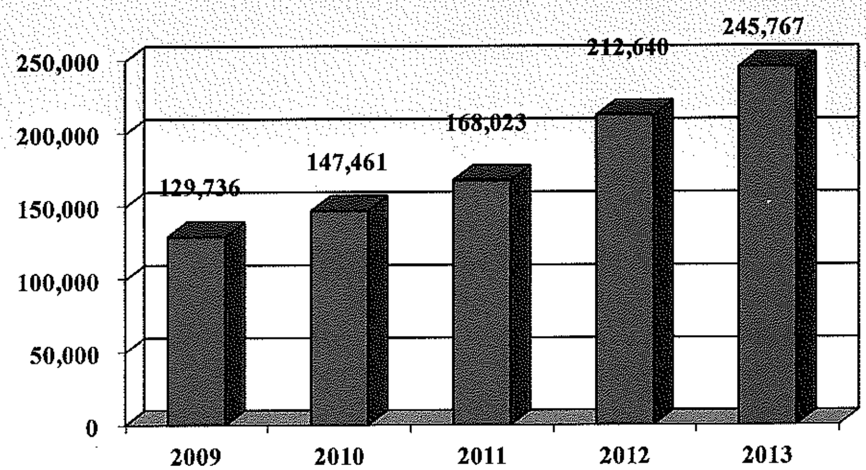

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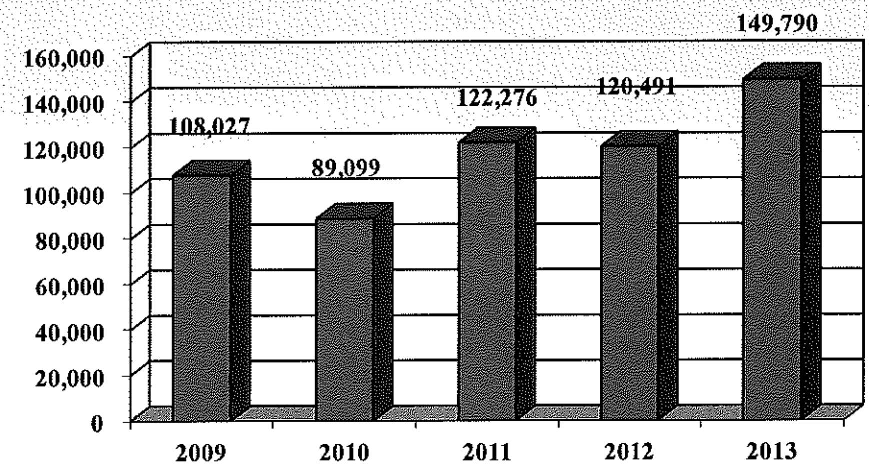

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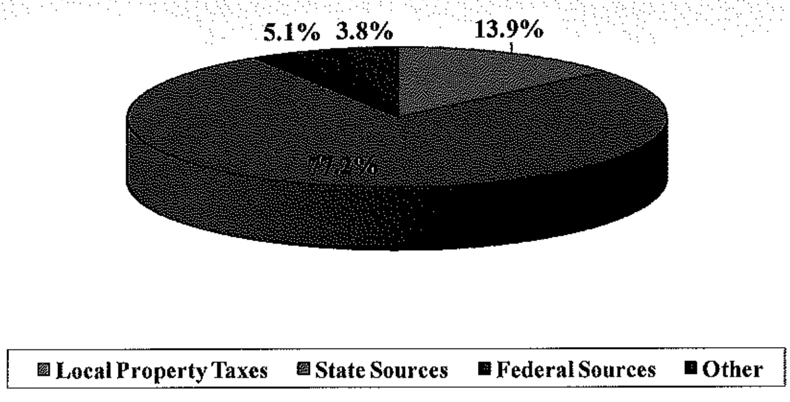

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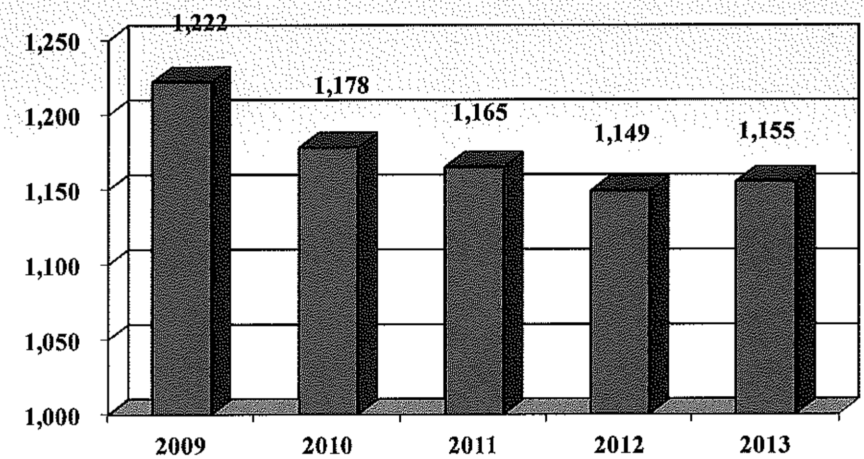

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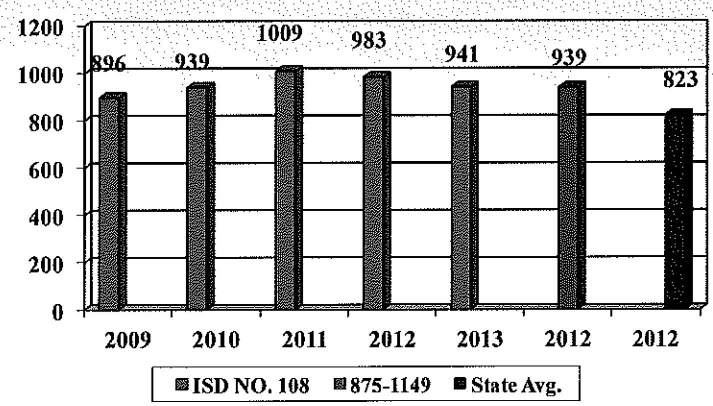
District and School Admin - all costs related to providing administration to the District (Board of Education, Superintendent, Principals, Line administrators, etc.) District Support Services - all activities provided by central office administrators (Business Services, Human Resources, Legal, Data processing, other district-wide support activities)



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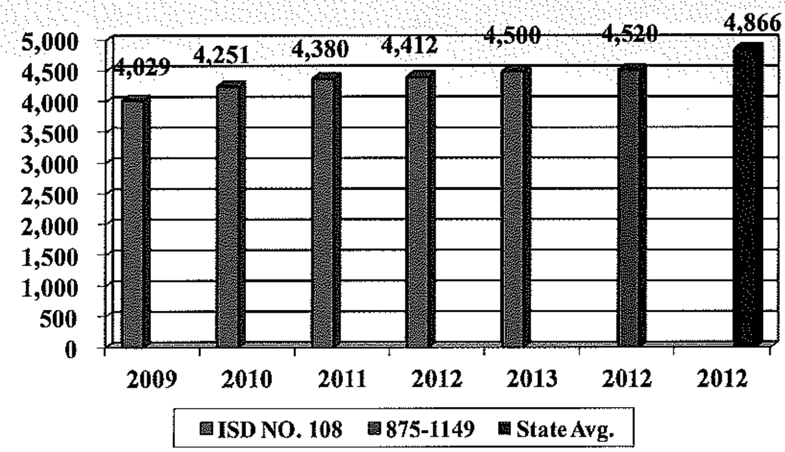
Regular Instruction - includes all activities dealing directly with the teaching of pupils including co-curricular and extra-curricular activities (excluding special ed, vocational and community education instruction)



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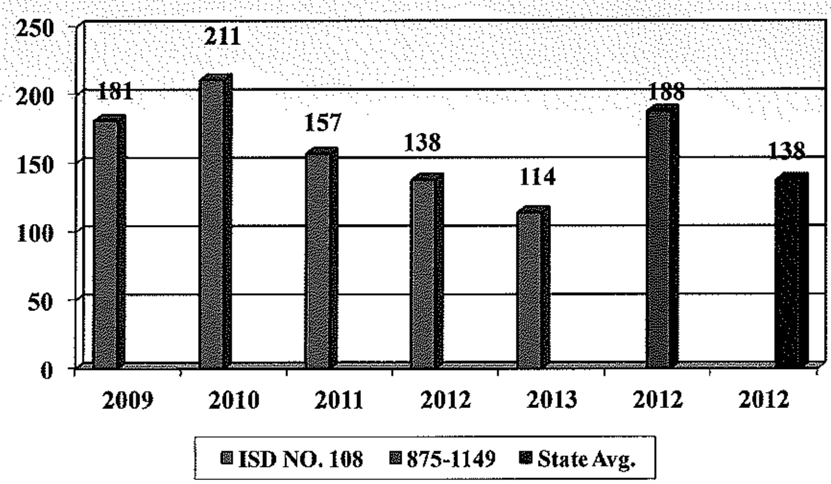
Vocational Instruction - consists of costs related to career exploration, job-entry skills, job upgrading, and occupational training



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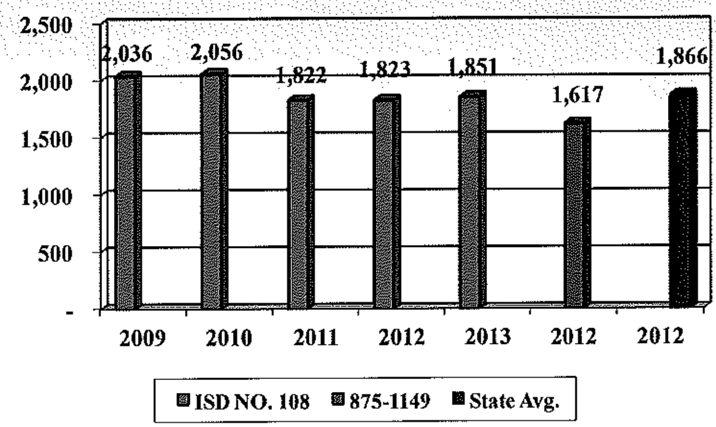
Special Education Instruction - consists of activities to provide learning experiences for pupils of any age with atypical characteristics or conditions



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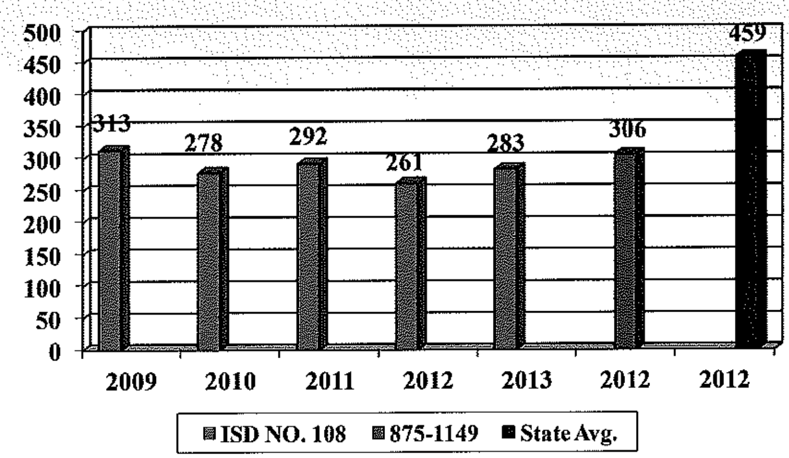
Instructional Support Services - activities to assist instructional staff with content & process of learning experiences for pupils in K-12 (curriculum, staff dev, etc.)



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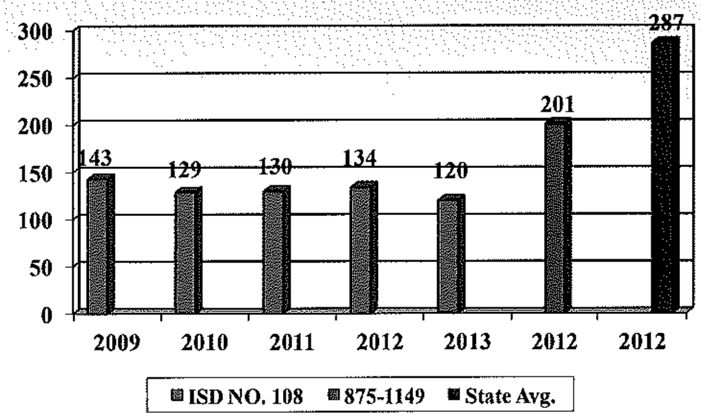
Pupil Support Services - services to pupils not classified as instructional (counseling & guidance, health services, psychological services, and social work) – excludes transportation



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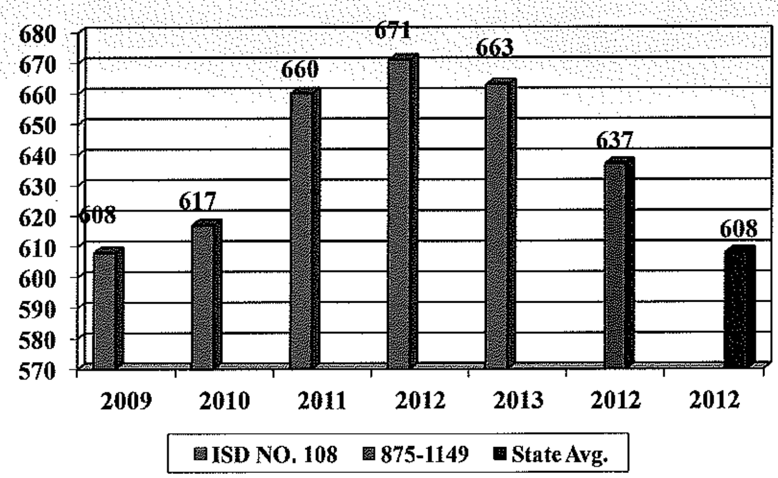
Transportation - all costs to provide student transportation



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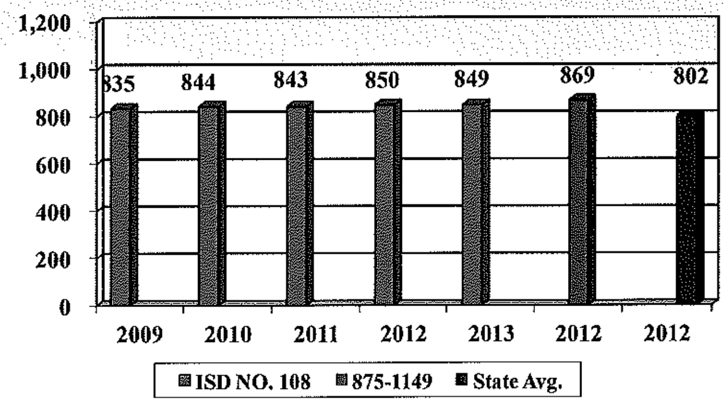
Operations and Maintenance - activities related to the operation, maintenance, repair and remodeling of all physical plant, facilities and grounds of the District (excluding capital items)



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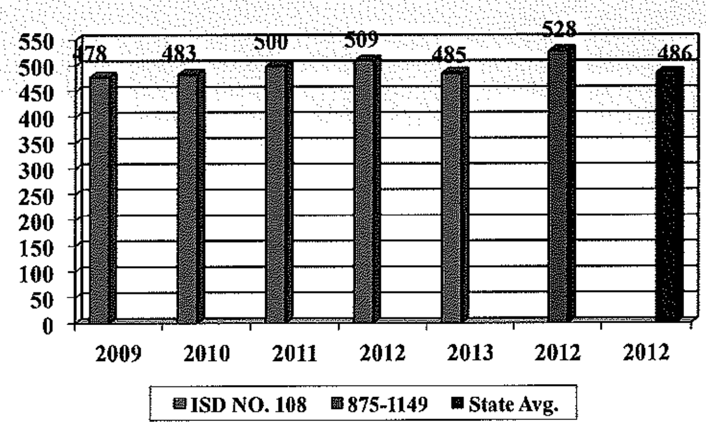
Food Service - all costs of the Food Service Fund



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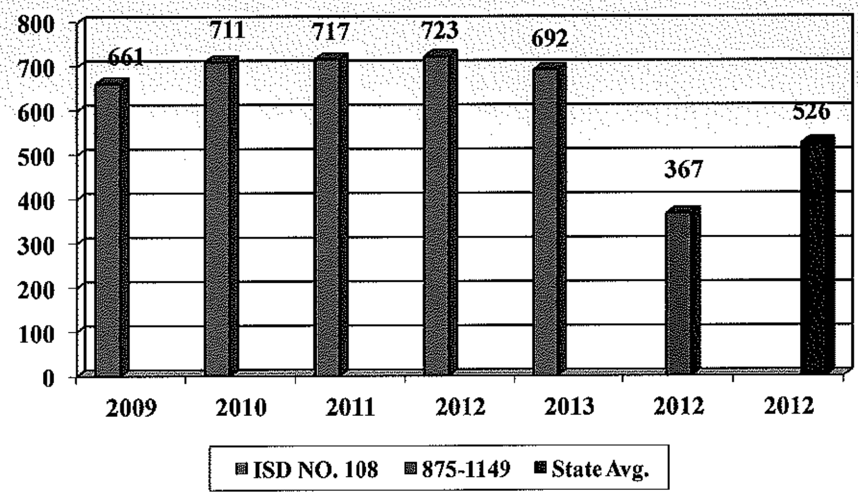
Community Service - all costs of the Community Service Fund



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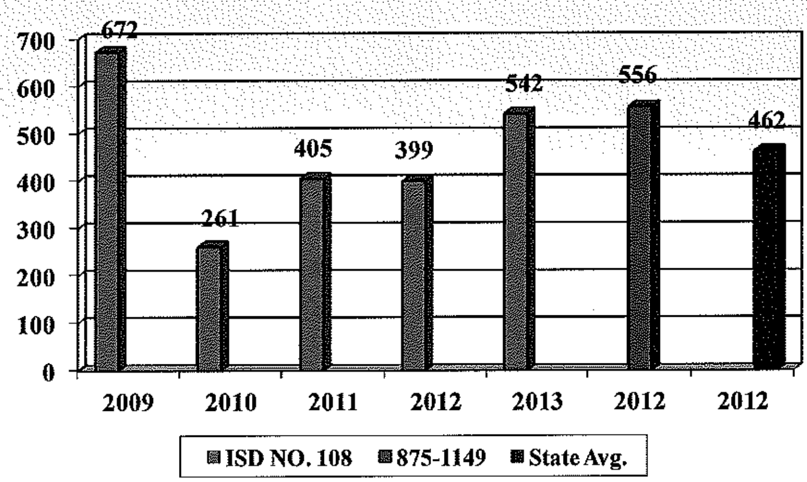
Capital Expenditures - all capital expenditures charged to operating funds



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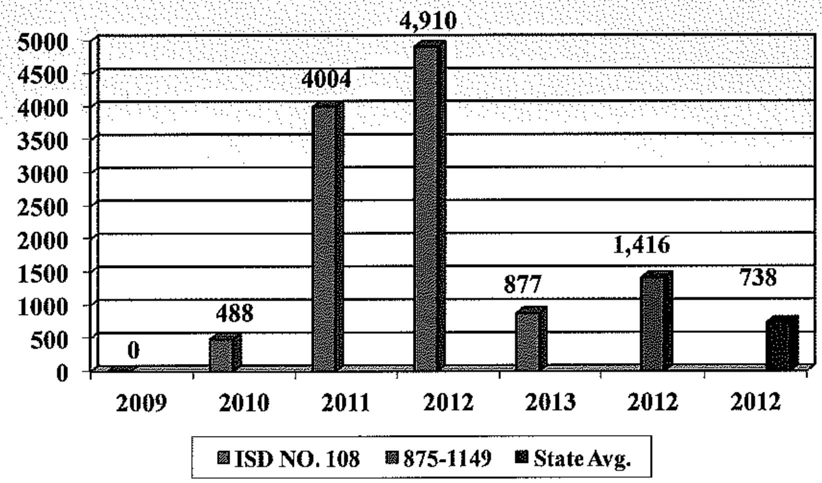

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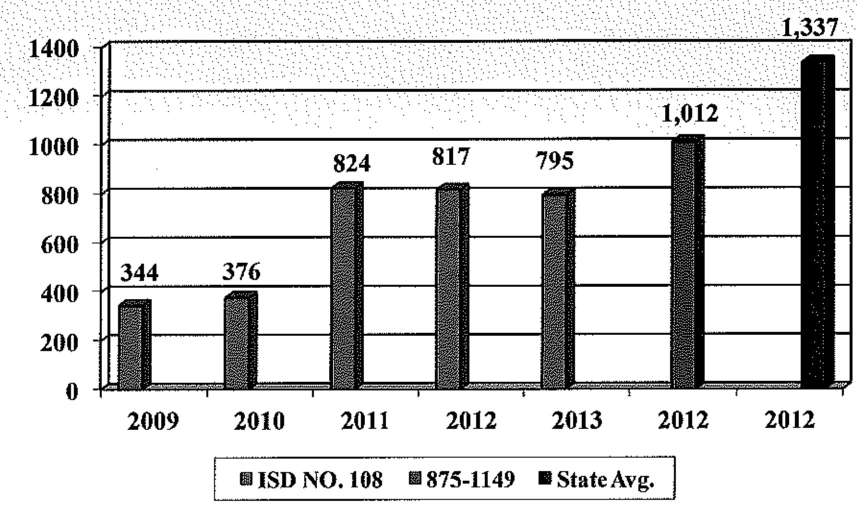
Debt Service - all costs of the Debt Service Fund



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APPENDIX B

TECHNICAL UPDATES

GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

This statement was effective for the fiscal year ended June 30, 2013, and provided financial reporting guidance for deferred outflows of resources and deferred inflows of resources; which are defined as the consumption or acquisition of net position, respectively, applicable to a future reporting period. The statement amended certain reporting requirements in GASB Statement No. 34 and related pronouncements, providing a format for a new Statement of Net Position, which will report, once GASB Statement No. 65 is effective, deferred outflows of resources and deferred inflows of resources separately from assets and liabilities. It also renamed the residual of assets, deferred outflows of resources, liabilities, and deferred inflows of resources as net position, rather than net assets.

GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities

This statement is a companion to GASB Statement No. 63 and will be effective for the school district's fiscal year ended June 30, 2014. Upon adoption of GASB 65, certain items previously reported as assets will be reported as deferred outflows, and certain items previously reported as liabilities will be reported as deferred inflows. One common liability —property taxes levied for subsequent year (deferred revenue) — demonstrates the significance of the changes in how financial statements will appear.

Minnesota school districts levy property taxes and have a tax calendar that looks like this:

- January 1 — Tax levy occurs and lien attaches
- May 1 — First half of annual taxes collected
- July 1 — New fiscal year begins
- October 1 — Second half of annual taxes collected

Currently, school districts would report a property tax receivable, and a comparable deferred revenue liability (property taxes levied for subsequent year), for the portion of the property tax levied but not yet collected as of June 30. Under GASB 65, the deferred revenue amount will be presented as a deferred inflow rather than a liability.

This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

GASB Statement No. 67 – Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25

The primary objective of this statement is to improve financial reporting by state and local governmental pension plans. In Minnesota this will be applicable to statewide pension plans such as PERA and TRA for the fiscal year ended June 30, 2014. GASB Statement No. 67 replaces the requirements of GASB Statements Nos. 25 and 50 for pension plans that are administered through trusts or equivalent arrangements that meet the following criteria: contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms; and pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. The requirements of GASB Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement. All retiree health care benefits and OPEB benefits are not subject to the GASB's new pension standards. Instead, they are subject to the GASB's current OPEB standards provided in Statements 43 and 45, although the OPEB standards are also currently under review by GASB.

GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27

The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This statement is effective for school district financial statements for the fiscal year ending June 30, 2015, although earlier application is encouraged. This statement replaces the requirements of GASB Statements Nos. 27 and 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria (as described above for GASB Statement No. 67). This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

Included in this statement are major changes in how employers that participate in cost-sharing pension plans, such as TRA and PERA, account for pension benefit expenses and liabilities. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting (government-wide and proprietary funds), a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability of all employers with benefits provided through the pension plan. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all active and inactive employees that are provided with pensions through the pension plan.

GASB Statement No. 68 – Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27 (Continued)

When GASB Statement No. 68 is implemented, pension costs will be much more prominent in school district financial statements – each employer's share of the TRA or PERA unfunded liability will have to be shown on the face of the government-wide financial statements. Previously school districts showed the annual contributions they paid to the pension systems to pay down that unfunded liability. Both TRA and PERA will regularly report actuarial valuation results for each school district. The unfunded portion of the school district's pension obligation will be reported to the school district so that it can show it as a liability in its financial statements and that amount may be substantial for many. School districts currently have no comparable reporting requirements in statements, footnotes or schedules. Instead, they report their annual contributions to the pension systems.

APPENDIX C

This year's Omnibus Education Finance and Policy bill included $485 million in new spending over the next biennium (FY14-15), including annual increases in the basic general education formula, statewide all day, every day kindergarten, early learning scholarships, and special education funding reform.

Pupil Accounting Changes Effective FY 2014

Length of School Year

A school district is required to have at least 165 days of instruction for grades 1 through 12 in each school year unless the Commissioner has approved a four-day week schedule.

Extended Time Revenue for Grade Level Acceleration

The ability of school districts and charter schools to generate extended time revenue for programs designed to accelerate grade level advancement so that students graduate before their peers was eliminated.

Pupil Accounting Changes Effective FY 2015

Pupil unit weights were simplified with the changes as follows:

- Pre-kindergarten Disabled: from 1.25 to 1.0
- Part-time Kindergarten: from .612 to .55
- All-Day Kindergarten: from .612 to 1.0
- Grades 1-3: from 1.115 to 1.0
- Grades 4-6: from 1.06 to 1.0
- Grades 7-12: from 1.3 to 1.2

Marginal Cost Pupil Units

Eliminates "marginal cost" calculations from the definition of pupil units. Beginning in FY 2015, establishes a new component of general education revenue, "declining enrollment revenue," to replace funding previously provided to districts with declining enrollment through marginal cost pupil units. Sets declining enrollment revenue equal to the decline in adjusted pupil units between the prior year and the current year times 28 percent of the formula allowance.

All Day Kindergarten

To qualify for the higher 1.0 kindergarten weight, a pupil must be enrolled in a free all-day program that is available free to all kindergarten students at the pupil's school, and the annual school calendar for the kindergarten program must have at least 850 hours of instruction.

For purposes of calculating extended time revenue, an all-day kindergarten pupil must first receive at least 850 hours of instruction during the year before generating extended time pupil units.

Early Admission to Kindergarten

Requires that board-adopted policies for early admission be based on a comprehensive evaluation to determine the child's ability to meet kindergarten expectations and progress to first grade in the subsequent year. Requires a school board that has adopted a policy to allow a child under the age of five to enroll in kindergarten to establish a comprehensive evaluation to be used to determine the kindergarten pupil's cognitive, social, and emotional development. Requires parents and the commissioner to have access to the board's early kindergarten admission policy.

Pupil Accounting Changes Effective FY 2015 (Continued)

Early Admission to Kindergarten

Requires that board-adopted policies for early admission be based on a comprehensive evaluation to determine the child's ability to meet kindergarten expectations and progress to first grade in the subsequent year. Requires a school board that has adopted a policy to allow a child under the age of five to enroll in kindergarten to establish a comprehensive evaluation to be used to determine the kindergarten pupil's cognitive, social, and emotional development. Requires parents and the commissioner to have access to the board's early kindergarten admission policy.

Pension Adjustment Effective FY 2015

The aid reduction for the 1997 change in employer contribution rate for Teachers Retirement Association (TRA) and other pension rate changes was eliminated. Districts with a below average reduction for pension adjustment will be provided pension adjustment revenue to guarantee state average gain from elimination of pension adjustment. The basic formula will be adjusted to neutralize the overall statewide impact.

General Education Formula Allowance

For FY 2014 the formula allowance was increased by $78 from $5,224 to $5,302 (1.5%). The old pupil unit and formula structure remain in effect.

For FY 2015 the formula allowance increases to $5,806 (1.5% after adjusting for new pupil weights and the elimination of the aid subtraction for pension rate changes). The formula allowance was determined by: 1) Calculating the state total general education revenue for FY 2015 with an $80 (1.5%) increase in the formula allowance and no change in pupil weights or other formula changes, and 2) Setting the formula allowance at the amount that generates the same state total general education revenue with the new pupil weights, pension adjustment change and other formula changes in place. Of the $504 increase over FY 2014, $80 is for inflation at 1.5%; the remaining $424 is to adjust for the pupil weight change, pension adjustment change and other restructuring.

Examples of Rate Adjustments to Neutralize Pupil Weighting Changes FY 2015

- Extended time allowance was increased from $4,601 to $5,017
- Adjusts the compensatory revenue formula for fiscal year 2015 and later by deducting $839 from the formula allowance for compensatory revenue calculations instead of $415
- Deducts $530 from the formula allowance used in calculating elementary and secondary sparsity revenue for FY 2015 and later
- Gifted & Talented allowance was increased from $12 to $13
- Adjusts the transportation sparsity formula to account for the removal of marginal cost pupil unit accounting and the new pupil weights including a change in the deduction factor from 4.85% to 4.66% of basic revenue
- Includes small high schools in geographically isolated school districts with more than one high school in the small schools revenue formula. Small Schools adjusted from $522.40 to $544 and the threshold was adjusted from 1,000 to 960 pupil units
- Operating Capital was adjusted from $73 + $100 x building age index to $79 + $109 x building age index and the learning year rate increases from $30 to $31
- Equity sliding scale was increased from $75 to $80; the basic allowance for a district with no referendum revenue increases from $13 to $14; and the equity flat rate that applies to all districts was increased from $46 to $50
- EL (LEP) rate was adjusted from $700 to $704

Uses of General Education Revenue (Effective FY14 unless noted)

- Statute was clarified that operating capital revenue may be used to purchase or lease computers and related hardware, software, and annual licensing fees.
- Teacher evaluation was added to the allowable uses of staff development revenue.
- A district is allowed to use up to 5% of its compensatory revenue for programs designed to prepare children for entry into school including early education programs, parent-training programs, school readiness programs, early kindergarten programs for four-year olds, and voluntary home visits and other outreach. This is in addition to the 5 percent that districts currently have flexibility with. The remaining 90 percent of compensatory revenue must be spent at the site where the revenue is generated.
- A district is allowed to use revenue generated for all-day K to meet the needs of 3 and 4 years olds in the district. (Effective FY 15).

Uniform General Education Levy Effective FY 2015 (Pay 2014 Levy)

The uniform general education levy was reinstated at $20 million (called "student achievement levy") and is spread on net tax capacity. The operating capital equalizing factor was increased to offset the uniform general education levy. There was no net change in state total levy; districts that are "off the formula" for operating capital levy will see a small levy increase while other districts will see a small levy decrease.

Operating Referendum Revenue Effective FY 2015 (Pay 2014 Levy)

The operating referendum revenue was converted from an amount per Resident Marginal Cost Pupil Unit to an amount per Adjusted Pupil Unit (APU). The separate alternative attendance adjustment was eliminated and rolled into an allowance per APU. The new rate per pupil unit will generate the same revenue for each district for FY 2015 as the sum of the old rate per pupil unit and the old alternative attendance adjustment.

The standard and grandfather referendum caps will be recalculated to reflect the pupil unit weighting changes and conversion to a rate per adjusted pupil unit. The new standard cap is $1,845 per new pupil unit for FY 2015, and is adjusted for inflation using the consumer price index in later years. For a district receiving location equity revenue, the grandfather cap is reduced by the location equity allowance.

School boards are allowed to convert up to $300 per APU from voter-approved to board-approved. Board action had to be taken before September 30 of prior year so that levy is included in proposed property taxes (no authority to increase levy without election after September 30). Districts with less than $300 per APU are permitted to authorize additional referendum revenue up to a total of $300 per APU. The equalization was increased with a new 3 tiered formula.

A district is prohibited from conducting a referendum election to increase its referendum allowance for FY 2015. Exceptions include:

- A district may renew an expiring referendum at the same allowance as the expiring referendum;
- A district is exempt from the freeze if it adopted a board resolution prior to June 30 to conduct a referendum in 2013.
- A district is exempt if it did not authorize an operating referendum in fiscal year 2014.
- A district is exempt if it is in statutory operating debt as of June 30, 2013.

Location Equity Revenue Effective FY 2015

School districts with any land area in 7 county metro area qualify for $424 per APU location equity levy, equalized at $510,000. School districts not eligible as metro districts and with > 2,000 adjusted ADM in the 3rd prior fiscal year qualify for $212 location equity levy, equalized at $510,000. Location equity revenue is board approved; it is deducted from operating referendum revenue. A district may opt out of location equity revenue by a board vote taken by September 1 of the fiscal year before the fiscal year when the revenue takes effect (Sept 2013 for FY 2015 revenue).

MDE will implement the calculation of Operating Referendum and Location Equity revenue in the following order: 1) For districts that do not opt out of location equity revenue, MDE will first calculate a district's net voter approved referendum allowance by subtracting the location equity allowance from the initial voter approved referendum allowance, 2) Eligibility for a board-approved referendum increase (up to
$300 per APU) is determined after the referendum allowance is reduced for location equity revenue, 3) Under this calculation order, the increases in board-approved revenue from the two provisions are additive (stackable), with the maximum board approved allowances being $724 for metro districts and $512 for non-metro districts with ADM that is more than 2,000.

Other General Education Changes

Q Comp was rolled out of the general education revenue program to a new categorical beginning FY 2015 with no change in the program or funding formula.

Early Graduation Scholarships and Military Service Awards was repealed beginning FY 2014.

Learning and Development Revenue Set-aside was modified such that the current class size reduction set aside will be converted from an amount based on pupil unit weights to an equivalent amount per student in ADM -- $299 per kindergarten student plus $459 per student in grades 1-6, beginning FY 2015.

Career Technical Education (CTE) Revenue

The career and technical education (CTE) levy was converted to an equalized aid and levy, with an equalizing factor of $7,612, beginning in FY2014. The statewide revenue limit for career and technical revenue for fiscal year 2014 was increased from $15,393,000 to $20,657,000. The revenue for FY 2014 continues to be based on the old CTE formula, with the proration factor adjusted to hit the statewide revenue target. Beginning in FY 2015, the statewide revenue limit expires, and revenue is computed using the new formula enacted in 2012 that bases funding on 35 percent of approved program expenditures. The expenditure calculations for career and technical programs offered jointly by school districts was also clarified–the costs for reimbursing another district for CTE instructional salaries is included in the revenue calculations for the districts paying the reimbursement and deducted from the revenue calculation for the district receiving the reimbursement.

Safe Schools Levy

The safe schools levy for taxes payable in 2014 and later was increased from $30 to $36 per pupil unit - $4 of the increase is new revenue and the other $2 is to adjust for pupil unit weighting changes. The safe schools levy for intermediate district members remains at $10 per PU. Statute was clarified that uses of the safe school levy includes facility security enhancements, efforts to improve the school climate, and costs associated with mental health services.

Lease Purchase Levy; Integration Programs

Minneapolis, St. Paul, Duluth, and Rochester are authorized to continue to use the lease purchase levy under MS 126C.40, subdivision 6, if the acquisition of property is determined by the commissioner to contribute to the implementation of their approved desegregation plan. Other districts eligible for achievement and integration revenue are allowed to use the lease purchase levy for projects that are primarily used for interdistrict desegregation efforts.

Pupil Transportation (FY 2014)

- PSEO: Allows school districts to transport PSEO pupils to and from the postsecondary institution if the pupil is participating in an articulated program.
- Homeless: Allows a district to include the cost of transporting a child who does not have a school of origin to the same school attended by that child's sibling if the siblings are homeless in finance 728 (eligible for special education aid)
- Cost Allocation: Allows a school district that contracts for transportation services to allocate certain transportation expenses based on contract rates if the rates are reasonably consistent on a cost per mile, cost per hour, cost per student or cost per route basis. Districts must maintain records to document rate consistency to auditors.

Compulsory Attendance Age Increase

The age of compulsory attendance was increased to age 17. A student 16 years or older is allowed to be assigned to an area learning center.

Achievement and Integration Revenue

The old Integration Revenue was replaced beginning in FY 2014. The initial revenue equals $350 x APU x prior year minority concentration percent + 66% of difference between FY 2013 integration revenue and amount computed using the rate for FY 2014. There is also an incentive revenue which equals $10 x APU, therefore, total revenue equals initial revenue + incentive revenue. Revenue cannot exceed expenditures under an approved budget.

At least 80% of a district's revenue is required to be used for innovative and integrated learning environments. Up to 20% of revenue is allowed to be used for professional and staff development. Administration expenditures are limited to no more than 10% of revenue.

The Commissioner is directed to determine after three years if a district has met its goals. Districts that have met their goals are allowed to submit another three year plan. For districts not meeting goals, districts must work in consultation with the Commissioner to develop a new plan and strategies and the Commissioner may direct the use of up to 20% of a district's revenue to implement the new plan.

New Special Education Funding Formula Effective FY 2016

For FY 2016 and later, defines special education initial aid as the least of:

(1) 62 percent of the district's old formula special education expenditures for the prior fiscal year;
(2) 50 percent of the district's non-federal special education expenditures for the prior year; or
(3) 56 percent of the amount calculated using a new pupil-driven formula based on prior year data.

New Special Education Funding Formula Effective FY 2016 (Continued)

Plus:

(ii) \$10,400 times the district's number of students who are autistic, developmentally delayed, or severely multiply impaired;
(iii) \$18,000 times the district's number of students who are deaf, hard of hearing, or have emotional or behavioral disorders; and
(iv) \$27,000 times the number of students in the disability area of developmentally cognitive mild-moderate, developmentally cognitive severe-profound, physically impaired, visually impaired, or deafblind.

Excess cost aid is the greater of:

(1) 56 percent of the difference between the district's unreimbursed nonfederal special education cost and 7 percent of the district's general education revenue, or
(2) 62 percent of the difference between the district's unreimbursed old formula special education cost and 2.5 percent of the district's general education revenue.

Calculated using prior year data.

State total special education aid is increased by \$39 million for FY 2016 and by \$41 million for FY 2017. Beginning in FY 2016, special education aid will be paid directly to cooperatives and intermediate districts, rather than having those aids flow through the resident district. Tuition bills will be reduced to offset the aid paid to the cooperatives and intermediates.

Special Education Funding Transition to New Formula: FY 2014 – FY 2015

Current special education – regular formula remains in place for FY 2014 and FY 2015 – no change from current law (4.6% growth continues).

New cross subsidy reduction aid is added for FY 2014 and FY 2015 only:

- Aid for FY 2014 equals the lesser of \$20 per ADM served or 1% of the amount generated for the district under the new pupil-based formula component.
- Aid for FY 2015 equals the lesser of \$48 per ADM served or 2.27% of the amount generated for the district under the new pupil-based formula component.
- State total aid entitlement is \$13 million for FY 2014 and \$30 million for FY 2015.
- Cross subsidy reduction aid applies only to school districts; charter schools and cooperatives are not eligible.

Excess cost aid changes for FY 2014 and FY 2015:

- Aid will be calculated using prior year data.
- Special education tuition receipts and expenditures will not be taken into account in excess cost aid calculations, to expedite the excess cost aid calculations and eliminate circularity between tuition billing and excess cost aid.
- Special education cross subsidy aid and the general education aid attributable students served outside the regular classroom more than 60% of the time are taken into account in excess cost aid calculations.

Special Education Tuition Billing Effective FY 2015

Beginning in FY 2015, requires the serving district or charter school to cover 10 percent of unfunded special education costs, reducing the amount borne by the resident district from 100 percent to 90 percent. Intermediate districts, cooperatives and charter schools where at least 70 percent of students are eligible for special education are exempt from this provision and continue to be able to recover 100% of unfunded special education costs from the resident district.

Facilities - Overview

The fixed, standing appropriation for debt service equalization aid was converted to an open and standing appropriation. The rates for debt service equalization and deferred maintenance revenue were adjusted to conform to pupil unit weight changes. The authority for the Minneapolis and St Paul school districts to annually issue and sell $15 million in facility bonds without voter approval was made permanent.

School Lunch Aid

The rate for each school lunch served was increased from 12 to 12.5 cents, effective July 1, 2013.

Fund Transfers - FY 2014 and FY 2015 Only

The authorization provided in 2012 legislation was modified for a school district, upon approval of the commissioner, to transfer money in FY 2014 and FY 2015 from any fund or account to any other fund or account unless that transfer would have an impact on state aids or local levies. Transfers from the Community Service Fund, Food Service Fund, or the reserved account for staff development revenue are prohibited.

Other Accounting Issues

Integration Revenue - continues to forward shift the integration levy for Minneapolis, St Paul and Duluth.

Eliminates the forward-shifting of the integration aid program.

Special Education Aid - combines the regular, cross subsidy and excess cost aids into one appropriation and uses 97.4% of entitlement in computing current payments.

Accelerated Repayment of Education Aids - created a mechanism for one-time repayment of education shifts based on September 30, 2013 Minnesota Management and Budget estimate of any positive unrestricted budgetary state general fund balance as of June 30, 2013. The repayment of the aid shift, if any, would occur in October 2013; repayment of tax shift, if any, would occur in June 2014.

Early Childhood and Lifelong Learning

Adult Basic Education (ABE) - increased the growth factor from 1.02 to 1.025 for FY15 and later

Early Learning Scholarships

- For a family to receive a scholarship it must have a child age 3 or 4 on September 1st of the current year and has income equal to or less than 185% of federal poverty level
- Allows for a parent under the age of 21 who is pursuing a high school degree to be eligible for a scholarship for a child age zero to 5
- Any sibling between zero and 5 has access to a scholarship to attend same program
- Scholarships may be awarded up to $5,000 per child per year

Nonpublic Pupil Aids

Clarifies that all-day kindergarten pupils are counted as 1.0 pupil for purposes of nonpublic pupil aid.