Independent School District No. 720
Shakopee, MN

Communications Letter

June 30, 2016

bergan KDV
CPAS | ADVISORS

Independent School District No. 720
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bergankDV

Report on Matters Identified as a Result of the Audit of the Financial Statements

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To the School Board and Management
Independent School District No. 720
Shakopee, 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. 720, Shakopee, Minnesota, as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated November 21, 2016, on such statements.

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 21, 2016

Independent School District No. 720
Material Weakness

LACK OF SEGREGATION OF ACCOUNTING DUTIES

During the year ended June 30, 2016, the District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the School Board, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Director of Business Services has access to all areas of the accounting system.
- A single individual has the ability to receipt money, prepare the deposit, take the deposit to the bank, and record the receipt in the general ledger.
- The Accountant enters capital asset additions and disposals, monitors and reviews asset lives and depreciation in the system, and maintains the master asset listing.
- The Accounts Payable Clerk reviews invoices, enters invoices in the system, and prints checks.
- The Payroll Clerk has the ability to enter time for an employee, prepare the payroll checks, and print checks.
- There is no formal documentation of the review of monthly bank reconciliations.

The District has implemented periodic spot checks of accounts payable and payroll to review activity after checks have been run. This helps mitigate the risk associated with the lack of segregation of accounting duties, but it does not eliminate the risk.

Independent School District No. 720
Significant Deficiency

PREPARATION OF FINANCIAL STATEMENTS AND RELATED NOTE DISCLOSURES

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements. This circumstance is not unusual for a district of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected in a timely manner. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Independent School District No. 720
Required Communication

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

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

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

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

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

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

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

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

Independent School District No. 720
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, 2016. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

> Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.
>
> 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 deadlines, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.
>
> Net Other Post Employment Benefits (OPEB) Obligation – This balance is based on an actuarial study using the estimates of future obligations of the District for post employment benefits.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)

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

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

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

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified the following uncorrected misstatements of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- State aid revenue and receivables are overstated
- Contracts payable and related expenditures are understated
- OPEB liability and related expense is understated

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

DISAGREEMENTS WITH MANAGEMENT

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

MANAGEMENT REPRESENTATIONS

We requested certain representations from management which were provided to us in the management representation letter.

MANAGEMENT CONSULTATIONS WITH OTHER ACCOUNTANTS

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

OTHER AUDIT FINDINGS OR ISSUES

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

OTHER MATTERS

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

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

We were not engaged to report on the other information accompanying the financial statements, but are not RSI. Much information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Independent School District No. 720
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.

General Education Aid
Formula Allowance

Year	Amount	Percent Increase
2005	$ 4,601	0.0%
2006	4,782	4.0%
2007	4,974	4.0%
2008	5,074	2.0%
2009	5,124	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%

* Of the $529 increase over 2014, $105 is for inflation at 1.9%; the remaining $424 is a shifting (rather than an increase) of revenue to adjust for pupil weight changes, pension adjustment changes, and other restructuring.

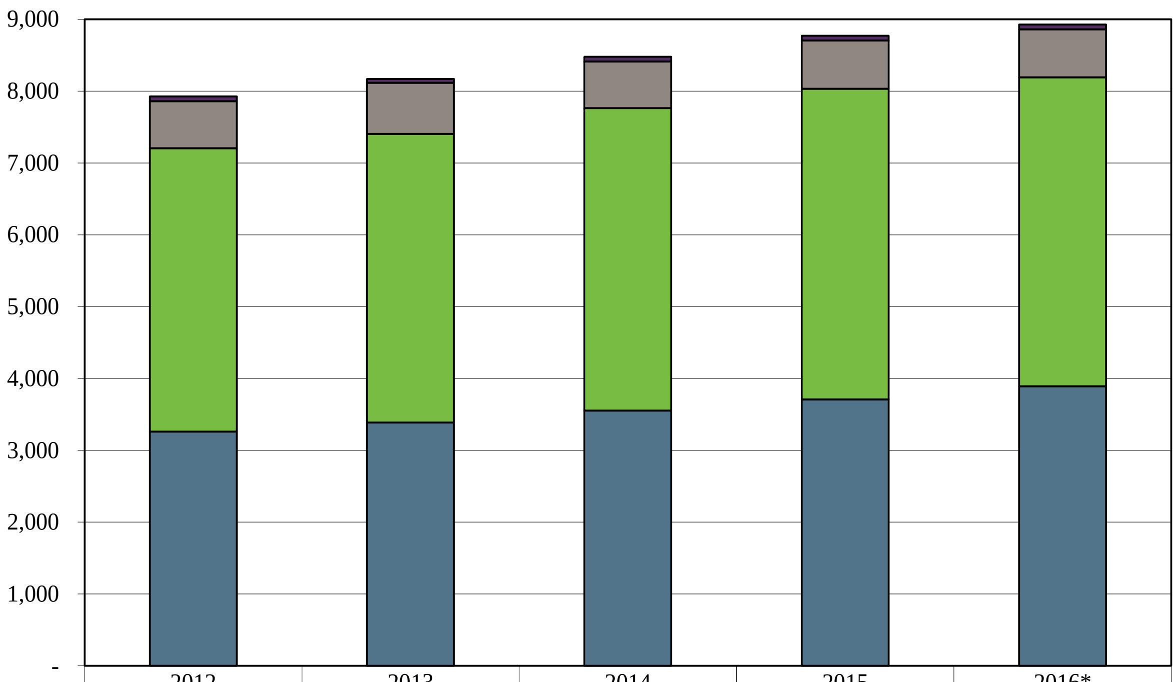
Independent School District No. 720
Financial Analysis

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

Approximately 85% of the District's General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District's population trends is critical to overall budgeting plans. The following summarizes resident ADM of the District for the past five years ended June 30.

Resident ADM	2012	2013	2014	2015	2016*
Early childhood	66.05	51.07	64.40	67.84	68.13
Kindergarten	654.21	711.59	648.97	670.67	665.87
Elementary	3,943.78	4,017.12	4,209.34	4,323.90	4,300.87
Secondary	3,261.23	3,387.98	3,554.19	3,707.99	3,892.02
Total resident ADM	**7,925.27**	**8,167.76**	**8,476.90**	**8,770.40**	**8,926.89**

Resident ADM



	2012	2013	2014	2015	2016*
Early childhood	66.05	51.07	64.40	67.84	68.13
Kindergarten	654.21	711.59	648.97	670.67	665.87
Elementary	3,943.78	4,017.12	4,209.34	4,323.90	4,300.87
Secondary	3,261.23	3,387.98	3,554.19	3,707.99	3,892.02

* Estimate as of October 24, 2016

Independent School District No. 720
Financial Analysis

RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The chart and graph on the previous page illustrate the steady increase in resident ADM experienced by the District over the past five years. Total resident ADM increased 12.6% since 2012, and 1.8% between 2015 and 2016.

To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting, based on the student's grade level. These weighting factors are presented in the table below.

Pupil Units Weighting						
	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
Fiscal years 2012-2014	1.250	1.000	0.612	1.115	1.060	1.300
Fiscal years 2015 - 2016	1.000	1.000	1.000	1.000	1.000	1.200

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.

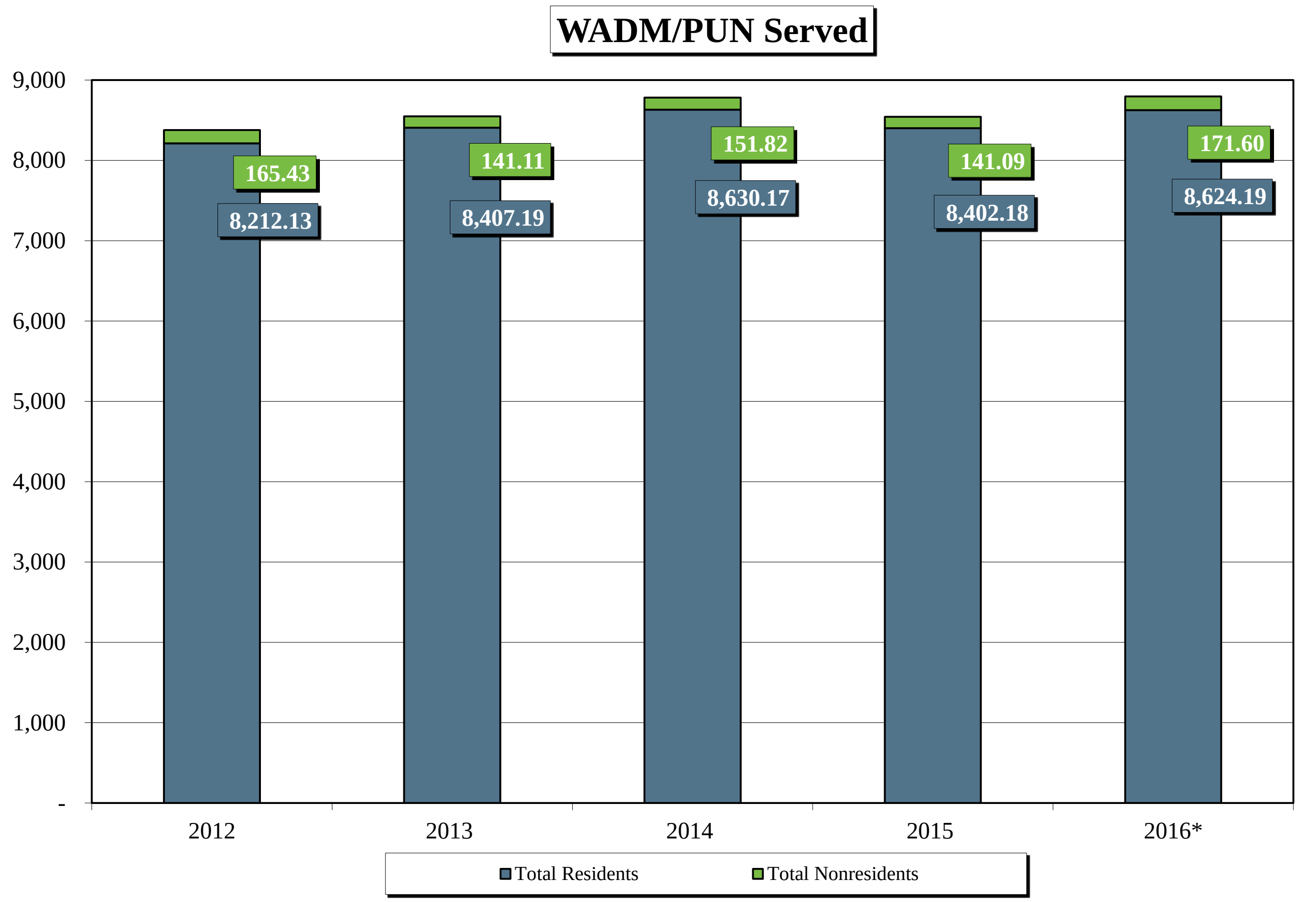
The weighted average daily membership (WADM) or pupil units (PUN) served table below and graph on the following page, converts the resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

WADM/PUN	2012	2013	2014	2015	2016*
Residents	9,028.13	9,289.94	9,689.65	9,511.53	9,705.30
Resident WADM/PUN loss	(816.00)	(882.75)	(1,059.48)	(1,109.35)	(1,081.11)
Nonresident WADM/PUN gain	165.43	141.11	151.82	141.09	171.60
Total WADM/PUN served	**8,377.56**	**8,548.30**	**8,781.99**	**8,543.27**	**8,795.79**

*Estimate as of October 24, 2016.

Independent School District No. 720
Financial Analysis

WEIGHTED AVERAGE DAILY MEMBERSHIP/PUPIL UNITS SERVED



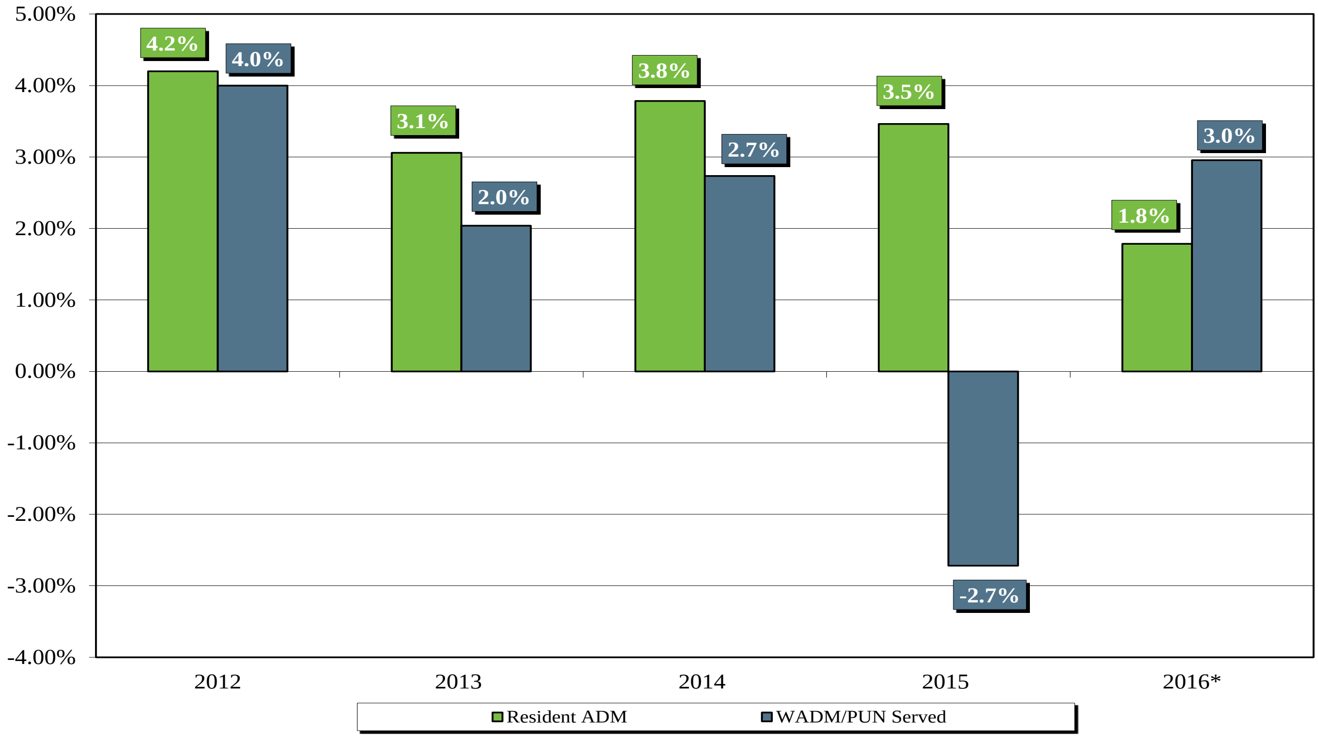
*   Estimate as of October 24, 2016

Comparing 2015 and 2016, total PUN increased 252.52, or 3.0%. Resident students increased 2.0% and the effects of open enrollment loss decreased 6.1%. Net losses in open enrollment totaled 909.51 in 2016, a decreased from 968.26 in 2015.

When considering the decrease in WADM/PUN between 2014 and 2015, it is important to note that the decrease was the result of a change in weighting factors that took effect for fiscal year 2015, as noted on the previous page. Despite an increase of 293.80 in resident ADM, WADM/PUN decreased 238.72 from 2014 to 2015. Part of the decrease was related to the increase in the net loss related to open enrollment, while the majority of the decrease was related to the new weighting factors. Had the weighting factors not changed, resident WADM/PUN would have shown an increase of 353.24 from 2014. In an effort to hold districts harmless with the implementation of the new weighting system, the per pupil revenue formula increased an additional $424 per pupil unit in 2015.

RESIDENT ADM AND WADM/PUN MEMBERSHIP SERVED

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



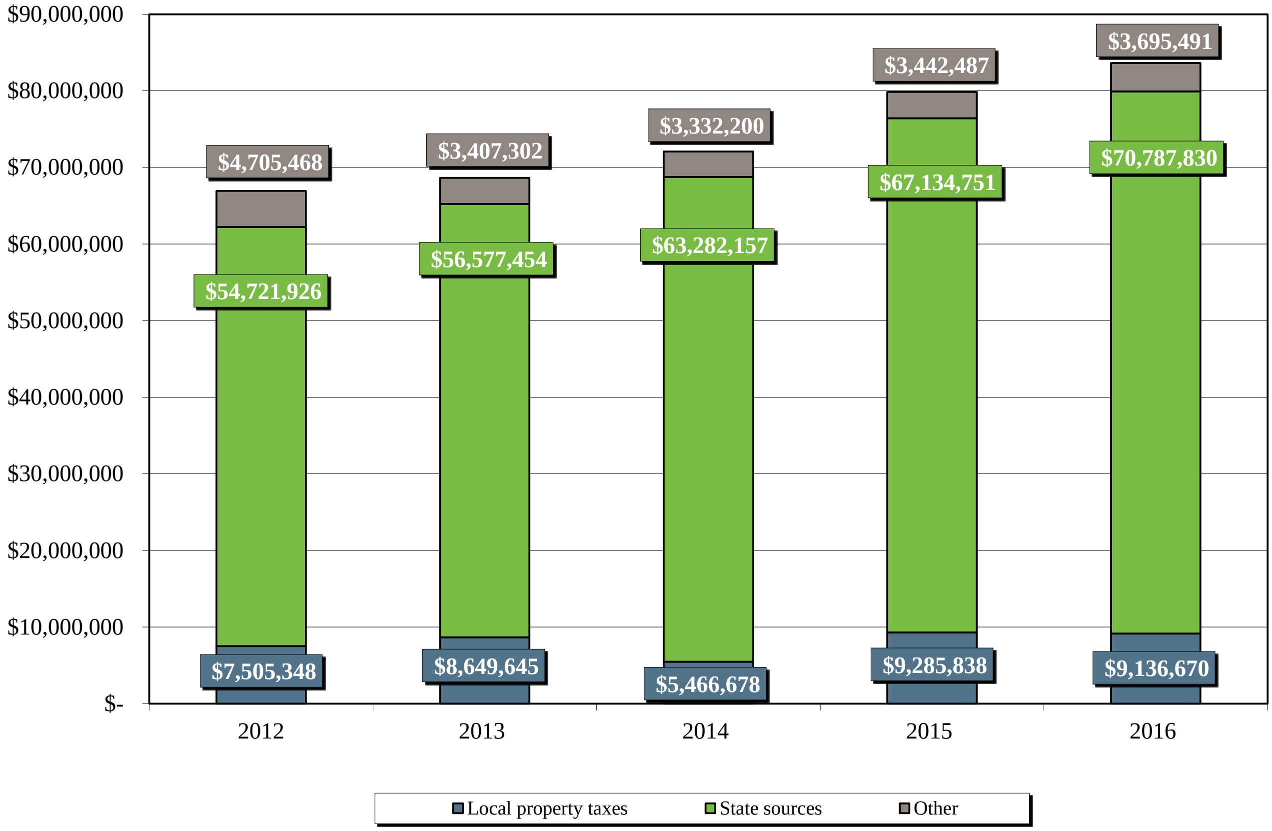
* Estimate as of October 24, 2016

GENERAL FUND SOURCES OF REVENUE

General Fund sources of revenue are summarized as follows for the last five years:

	2012	2013	2014	2015	2016
Local property taxes	$ 7,505,348	$ 8,649,645	$ 5,466,678	$ 9,285,838	$ 9,136,670
State sources	54,721,926	56,577,454	63,282,157	67,134,751	70,787,830
Other	4,705,468	3,407,302	3,332,200	3,442,487	3,695,491
Total	**$ 66,932,742**	**$ 68,634,401**	**$ 72,081,035**	**$ 79,863,076**	**$ 83,619,991**

State revenue sources represent 84.7% of the General Fund total revenue, with local taxpayers contributing 10.9% of the funding and federal and other sources making up the remaining 4.4%.



Overall, General Fund revenue increased 4.7%, or $3,756,915. Local property taxes decreased $149,168 or 1.6% in 2016 primarily due to a decrease in the General Fund's share of the levy as well as an increase in tax abatements in 2016. Revenue from state sources increased $3,653,079, or 5.4%, in 2016 due to an increase in the formula allowance of $117 per pupil unit, an increase in PUN of 252.52, and new achievement and integration aid revenue. In addition, the District recorded $1,033,075 in 2016 for in-kind contributions in the General Fund from the state of Minnesota related to the Teachers' Retirement Association (TRA) pension plan. These increases were offset by a decrease in special education aid of approximately $432,000 as a result of a new funding formula and an adjustment to the 2015 receivable amount. Other revenues, which include local, county and federal revenue, remained relatively consistent, increasing $253,004, or 7.3%.

Independent School District No. 720
Financial Analysis

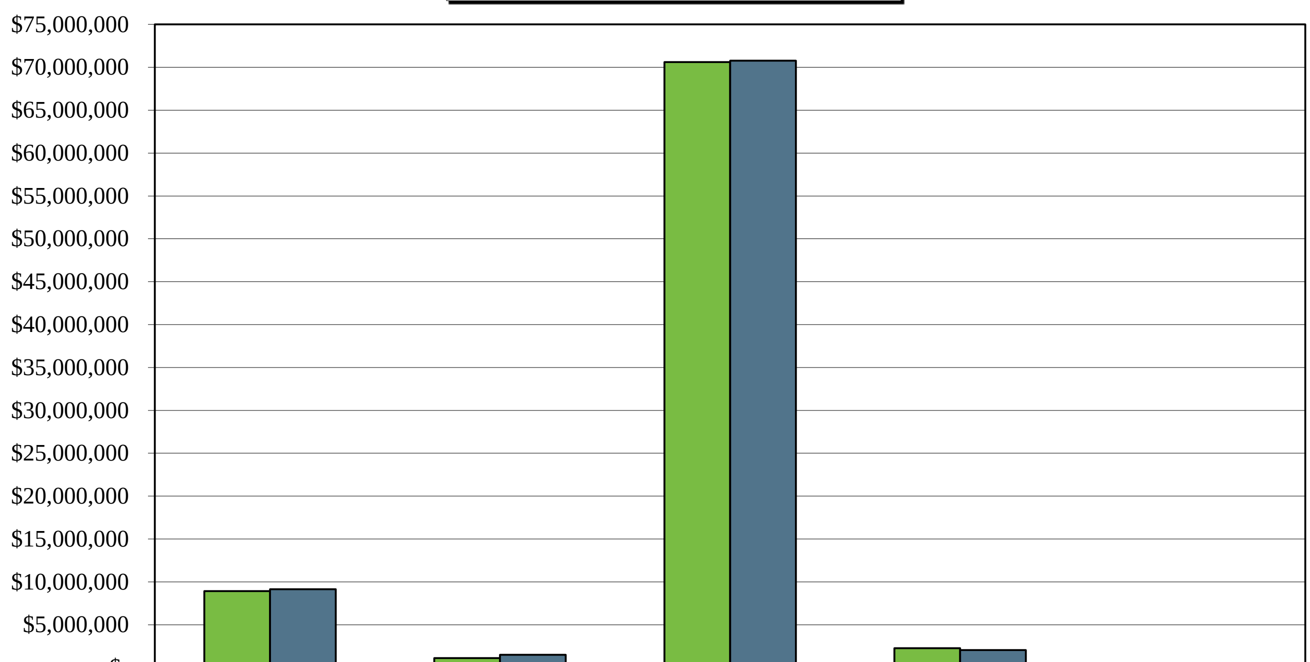
GENERAL FUND REVENUES BUDGET AND ACTUAL

The graph below outlines the District's final budget and actual results for General Fund revenues.

In June 2015, the District approved a General Fund revenue budget of $83,720,000. There was an amendment made to the budget in March 2016 which decreased the General Fund revenue to $83,015,000. With actual revenues coming in at $83,619,991, the final budget produced a variance of $604,991 or 0.7%.

State sources of revenue were $167,187 over budget as a result of a combination of the TRA in-kind contribution discussed on the previous page not being part of the budget, offset by general education aid and special education aid coming in approximately $364,000 and $601,000, respectively, under budget. Other local and county revenues were $383,557 over budget due to E-Rate credit revenue from new TDS Telecom Service Corporation grant money and a new insurance charge in 2016 for iPads or MacBooks that were not budgeted for, as well as several other sources coming in over budget as a result of conservative budgeting. Revenue from federal sources was $233,855 under budget as a result of Title I and federal special education expenditures being less than anticipated.

2016 General Fund Revenues Budget and Actual



	Local Property Taxes	Other Local and County Revenues	Revenue from State Sources	Revenue from Federal Sources	Sales and Other Conversion of Assets
Budget	$8,921,206	$1,114,750	$70,620,643	$2,267,401	$91,000
Actual	9,136,670	1,498,307	70,787,830	2,033,546	163,638

Independent School District No. 720
Financial Analysis

REVENUES PER STUDENT (ADM) SERVED

General Fund revenues per student (ADM) served is summarized in the following table. In addition, tables for the seven county metro area (Anoka, Hennepin, Carver, Dakota, Scott, Ramsey, and Washington Counties), excluding charter schools, and state-wide averages are presented for comparative purposes:

Shakopee					
General Fund	**2012***	**2013***	**2014***	**2015***	**2016****
Property taxes	$ 961	$ 1,121	$ 690	$ 1,158	$ 1,133
Other local sources	179	184	193	220	230
State aid	7,197	7,477	8,209	8,496	8,780
Federal aid	466	288	258	233	228
Total general fund revenue	**$ 8,803**	**$ 9,070**	**$ 9,350**	**$ 10,107**	**$ 10,371**

Seven-County Metro Area					
General Fund	**2012***	**2013***	**2014***	**2015***	**2016****
Property taxes	$ 2,654	$ 1,676	$ 1,014	$ 1,728	N/A
Other local sources	698	427	465	466	N/A
State aid	7,949	8,124	9,081	8,974	N/A
Federal aid	621	507	474	454	N/A
Total general fund revenue	**$ 11,922**	**$ 10,734**	**$ 11,034**	**$ 11,622**	**N/A**

State-Wide					
General Fund	**2012***	**2013***	**2014***	**2015***	**2016****
Property taxes	$ 1,550	$ 1,608	$ 923	$ 1,564	N/A
Other local sources	444	442	477	485	N/A
State aid	8,033	8,234	9,137	9,115	N/A
Federal aid	590	494	463	450	N/A
Total general fund revenue	**$ 10,617**	**$ 10,778**	**$ 11,000**	**$ 11,614**	**N/A**

***** Source: *School District Profiles*
****** Estimate as of October 24, 2016; seven county metro and state-wide averages are not available.

The District has seen an increase in revenues per student (ADM) served from 2012 to 2016. Property tax revenues per student decreased 2.2%, or $25, per ADM served from 2015 to 2016 due to a decrease in the General Fund's share of the levy and a large tax abatement in 2016. State aid revenues per student increased 3.3%, or $284 per ADM served as a result of an increase in resident students, an increase of $117 per pupil in general education funding, an increase in the TRA in-kind contribution, offset by a decrease in special education funding. Federal revenues per student decreased 2.1%, or $5 per ADM served as a result of decreases in Title I and federal special education aid.

The mix of local and state revenues vary from year-to-year primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered, and countless other criteria.

Independent School District No. 720
Financial Analysis

EXPENDITURES PER STUDENT (ADM) SERVED

General Fund expenditures by program per student (ADM) served is summarized in the following table. In addition, tables for the seven county metro area (Anoka, Hennepin, Carver, Dakota, Scott, Ramsey, and Washington Counties), excluding charter schools, and state-wide averages are presented for comparative purposes:

Shakopee					
General Fund	**2012***	**2013***	**2014***	**2015***	**2016****
Administration and district support services	$ 571	$ 704	$ 788	$ 954	$ 971
Elementary and secondary regular instruction	4,197	4,384	4,590	4,877	5,053
Vocational education instruction	64	60	93	87	93
Special education instruction	1,686	1,887	1,924	1,941	2,128
Instructional support services	417	574	542	686	801
Pupil support services	719	738	784	851	900
Sites and buildings	564	596	622	625	706
Capital expenditures	215	242	274	424	525
Total general fund expenditures	**$ 8,433**	**$ 9,185**	**$ 9,617**	**$ 10,445**	**$ 11,177**

Seven-County Metro Area					
General Fund	**2012***	**2013***	**2014***	**2015***	**2016****
Administration and district support services	$ 804	$ 844	$ 879	$ 929	N/A
Elementary and secondary regular instruction	5,103	5,034	5,145	5,289	N/A
Vocational education instruction	136	132	134	139	N/A
Special education instruction	2,004	1,952	2,034	2,076	N/A
Instructional support services	537	493	558	600	N/A
Pupil support services	957	923	953	984	N/A
Sites and buildings	755	841	869	858	N/A
Capital expenditures	410	497	493	549	N/A
Total general fund expenditures	**$ 10,706**	**$ 10,716**	**$ 11,065**	**$ 11,424**	**N/A**

State-Wide					
General Fund	**2012***	**2013***	**2014***	**2015***	**2016****
Administration and district support services	$ 864	$ 892	$ 926	$ 991	N/A
Elementary and secondary regular instruction	4,847	4,955	5,060	5,266	N/A
Vocational education instruction	133	132	133	140	N/A
Special education instruction	1,853	1,896	1,976	2,050	N/A
Instructional support services	449	466	524	572	N/A
Pupil support services	893	916	946	989	N/A
Sites and buildings	793	838	868	868	N/A
Capital expenditures	520	570	578	649	N/A
Total general fund expenditures	**$ 10,352**	**$ 10,665**	**$ 11,011**	**$ 11,525**	**N/A**

* Source: *School District Profiles*
** Estimate as of October 24, 2016; seven county metro and state-wide averages are not available.

EXPENDITURES PER STUDENT (ADM) SERVED (CONTINUED)

ADM served represents residents served in the District, residents attending elsewhere on tuition and nonresidents served in the District both through open enrollment and tuition programs.

Expenditures per ADM served in the General Fund have increased 32.5% from 2012. Total General Fund expenditures over that same time have increased 40.5% while ADM served have increased 7.5%.

GENERAL FUND EXPENDITURES BY PROGRAM

General Fund expenditures by program are summarized in the following table:

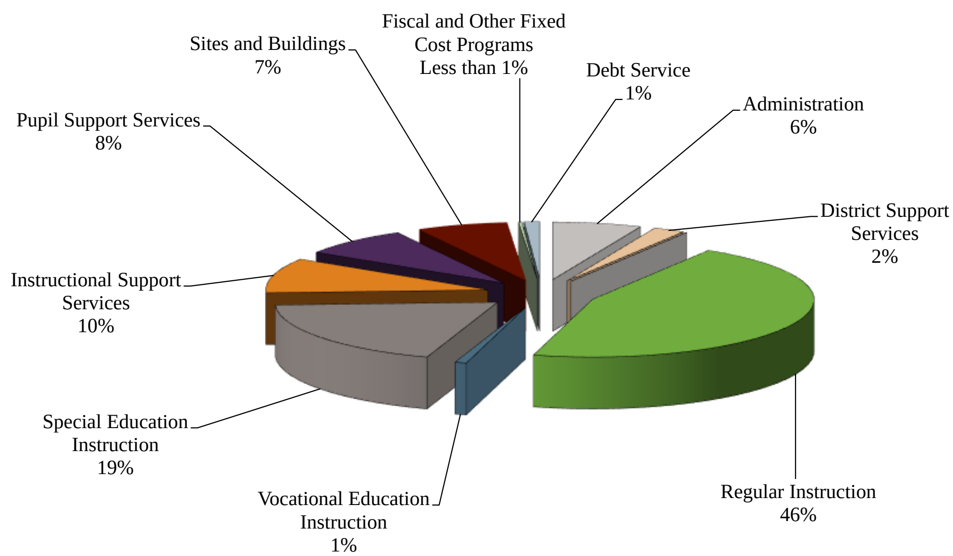
	2012	2013	2014	2015	2016
Administration	$ 3,292,774	$ 4,105,872	$ 4,596,262	$ 5,537,421	$ 5,827,880
District support services	1,045,663	1,184,754	1,364,310	1,792,791	2,079,390
Elementary and secondary regular instruction	32,043,615	33,383,745	35,545,143	38,675,988	41,008,818
Vocational education instruction	491,687	458,572	725,118	695,927	749,015
Special education instruction	12,911,688	14,308,351	14,879,511	15,373,634	17,206,868
Instructional support services	3,951,408	5,062,602	5,152,834	6,443,763	8,824,679
Pupil support services	5,464,294	5,583,252	6,045,990	6,770,050	7,260,151
Sites and buildings	4,789,565	5,288,317	5,637,614	5,847,498	5,937,614
Fiscal and other fixed cost programs	125,742	130,635	181,473	215,914	211,184
Debt service	-	-	-	1,186,067	1,007,414
Total	**$ 64,116,436**	**$ 69,506,100**	**$ 74,128,255**	**$ 82,539,053**	**$ 90,113,013**

The District saw a $7,573,960 increase in General Fund expenditures from 2015 to 2016. Administration increased $290,459, or 5.2% as a result of 2016 being the first full year of having a principal at Central Family Center as well as salary and benefit increases from the prior year. In addition, the District recorded an in-kind contribution to state aid revenue, as discussed earlier, as well as offsetting expenditures. This resulted in an additional $71,022 in TRA expenditures in the administration program in 2016. Elementary and secondary regular instruction increased $2,332,830, or 6.0%, as a result of personnel and employee wage and benefit increases, additional staff related to an increase in students, an increase in contracted services as a result of a significant credit in fiscal year 2015 related to the dissolution of the Minnesota River Valley Special Education Cooperative (MRVSEC), the District paying vocational tuition for approximately 20 additional students in fiscal year 2016 compared to fiscal year 2015, and an increase in the amount of in-kind contribution in this program of $532,327. Special education instruction increased $1,833,234, or 11.9%, as a result of adding additional special education teachers and an increase in TRA expenditures as a result of a $219,029 in-kind contribution being allocated to this program. Instructional support services increased $2,380,916, or 36.9%, due to new achievement and integration funding in 2016, an increase in Infinite Campus charges, TRA in-kind contribution expenditure of $59,832, and significant new Apple leases, which resulted in the recognition of $1,239,504 in expenditures in 2016. Pupil support services increased $490,101, or 8.1%, as a result of adding three new counseling positions, an increase in salaries and wages with a new contract, an increase in transportation costs related to an increase in students, and an increase in therapist billing to outside organizations.

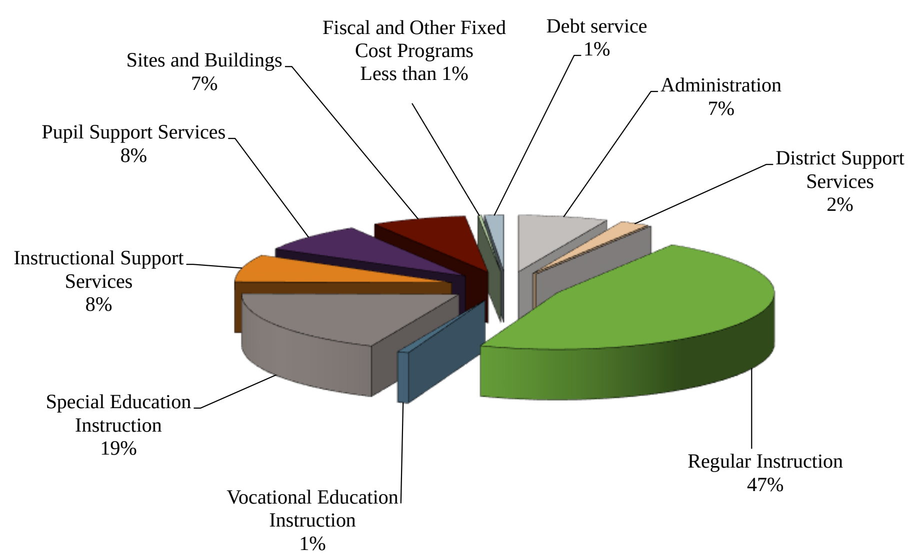
GENERAL FUND EXPENDITURES

The graphs below depict the percentage of expenditures by function in the General Fund for 2015 and 2016. Expenditures increased $7,573,960, or 9.2%, from 2015 to 2016 and the allocation of expenditures remained fairly consistent.

General Fund Expenditures 2016



General Fund Expenditures 2015

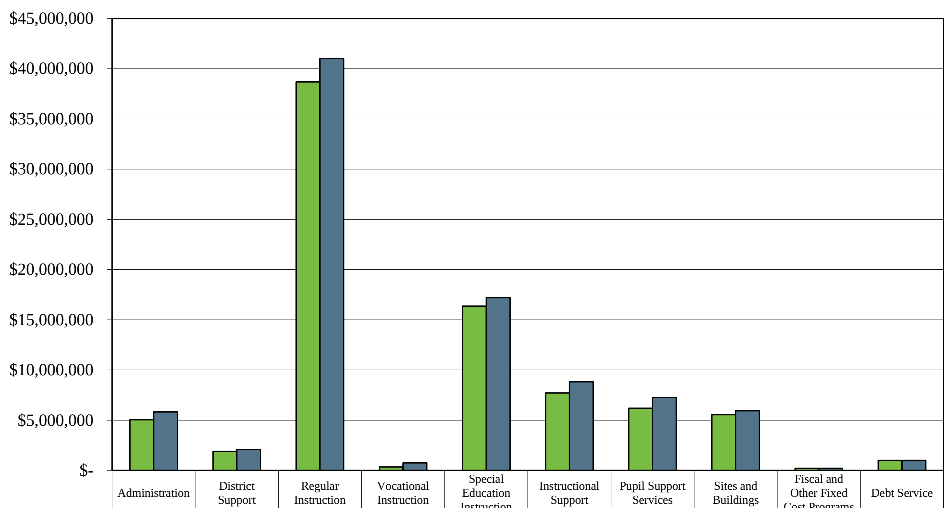


Independent School District No. 720
Financial Analysis

GENERAL FUND EXPENDITURES BUDGET AND ACTUAL

The graph below outlines the budgeted and actual expenditures for the General Fund. Overall, actual expenditures were $7,120,303 over budget. Administration was $775,432 over budget due to salaries, cash in lieu of benefits, vacation and sick payouts, and health savings account contributions for principals and assistant principals all being higher than budgeted amounts, and $71,022 of the TRA in-kind contribution was allocated to administration, which was not part of the budget. Elementary and secondary regular instruction expenditures were $2,327,868 or 6.0% over budget primarily due to salary increases from a new contract that were established after the budget was adopted, new positions being added after the budget was adopted, salaries for some positions not being in the budget, textbooks were budgeted in the instructional support services program while actual expenditures were recorded in the applicable program code, and $646,408 of the TRA in-kind contribution was allocated to the elementary and secondary regular instruction program but was not part of the budget. Vocational education instruction was $407,241 over budget as a result of licensed teachers' salaries and benefits being budgeted in the elementary and secondary regular instruction program, but coded to the vocational education instruction program once they know which classes those teachers actually taught. Special education instruction was $851,135 over budget mostly as a result of adding more special education employees than were anticipated in the budget as well as $219,029 of the TRA in-kind contribution being allocated to this program. Instructional support services were $1,113,776 over budget as a result of salaries for achievement and integration and AVID being higher than anticipated, $59,832 of the TRA in-kind contribution being allocated to this program, and new Apple leases that resulted in recognizing $1,239,504 in expenditures as well as another financing source for the same amount. These budget overages were partially offset as a result of a budget of approximately $761,000 for textbooks with the actual expenditures being coded to the applicable program. Pupil support services were $1,068,890 over budget as a result of salaries being higher than anticipated, tuition payments to other schools and fees for outreach services coming in significantly over budget, transportation costs being more than anticipated, and costs for AP exams and standardized tests not being budgeted.

2016 General Fund Expenditures Budget and Actual



	Administration	District Support	Regular Instruction	Vocational Instruction	Special Education Instruction	Instructional Support	Pupil Support Services	Sites and Buildings	Fiscal and Other Fixed Cost Programs	Debt Service
Budget	$5,052,448	$1,895,034	$38,680,950	$341,774	$16,355,733	$7,710,903	$6,191,261	$5,547,187	$210,000	$1,007,420
Actual	5,827,880	2,079,390	41,008,818	749,015	17,206,868	8,824,679	7,260,151	5,937,614	211,184	1,007,414

Independent School District No. 720
Financial Analysis

GENERAL FUND OPERATIONS

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

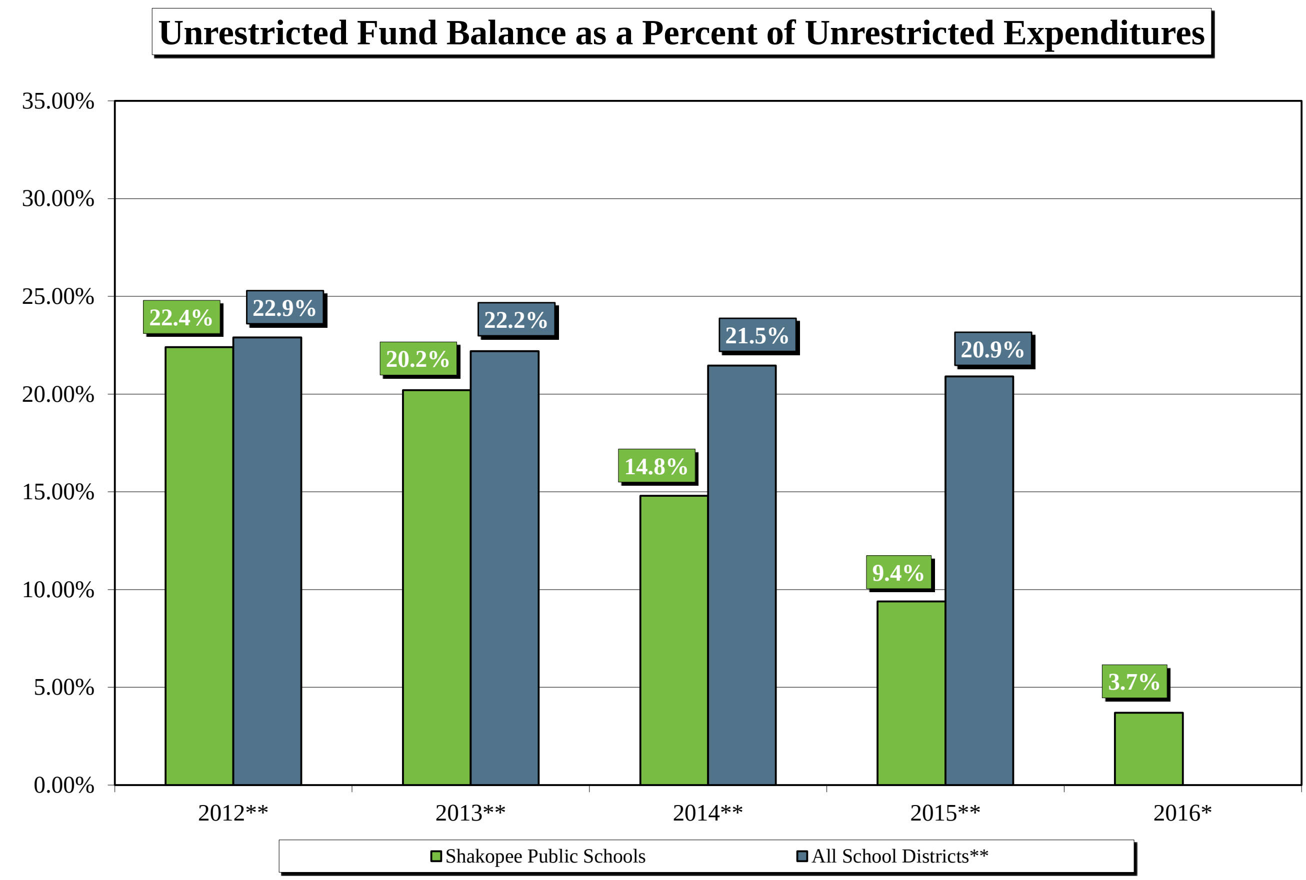
	2012	2013	2014	2015	2016*
Revenues	$ 66,932,742	$ 68,634,401	$ 72,081,035	$ 79,863,076	$ 83,619,991
Expenditures	64,116,436	69,506,100	74,128,255	82,539,053	90,113,013
Excess of revenues over (under) expenditures	2,816,306	(871,699)	(2,047,220)	(2,675,977)	(6,493,022)
Transfers/other financing sources	4,000	200	-	13,580	1,239,504
Fund balance, July 1	10,535,333	13,355,639	12,484,140	10,436,920	7,774,523
Fund balance, June 30	**$ 13,355,639**	**$ 12,484,140**	**$ 10,436,920**	**$ 7,774,523**	**$ 2,521,005**

Components of Fund Balance					
Nonspendable	$ 24,214	$ 350,000	$ 96	$ 68,261	$ 115,556
Restricted for					
Capital projects levy*	-	-	-	-	(479,477)
Health and safety*	(804,664)	(1,101,939)	(701,302)	(770,198)	(894,373)
Operating capital	1,884,217	1,680,862	1,905,984	2,158,125	1,241,034
Unassigned fund balance	12,251,872	11,555,217	9,232,142	6,318,335	2,538,265
Total	**$ 13,355,639**	**$ 12,484,140**	**$ 10,436,920**	**$ 7,774,523**	**$ 2,521,005**

* The negative UFARS restriction is reclassified to unassigned fund balance on the face of the financial statements to be in accordance with accounting principles generally accepted in the United States of America.

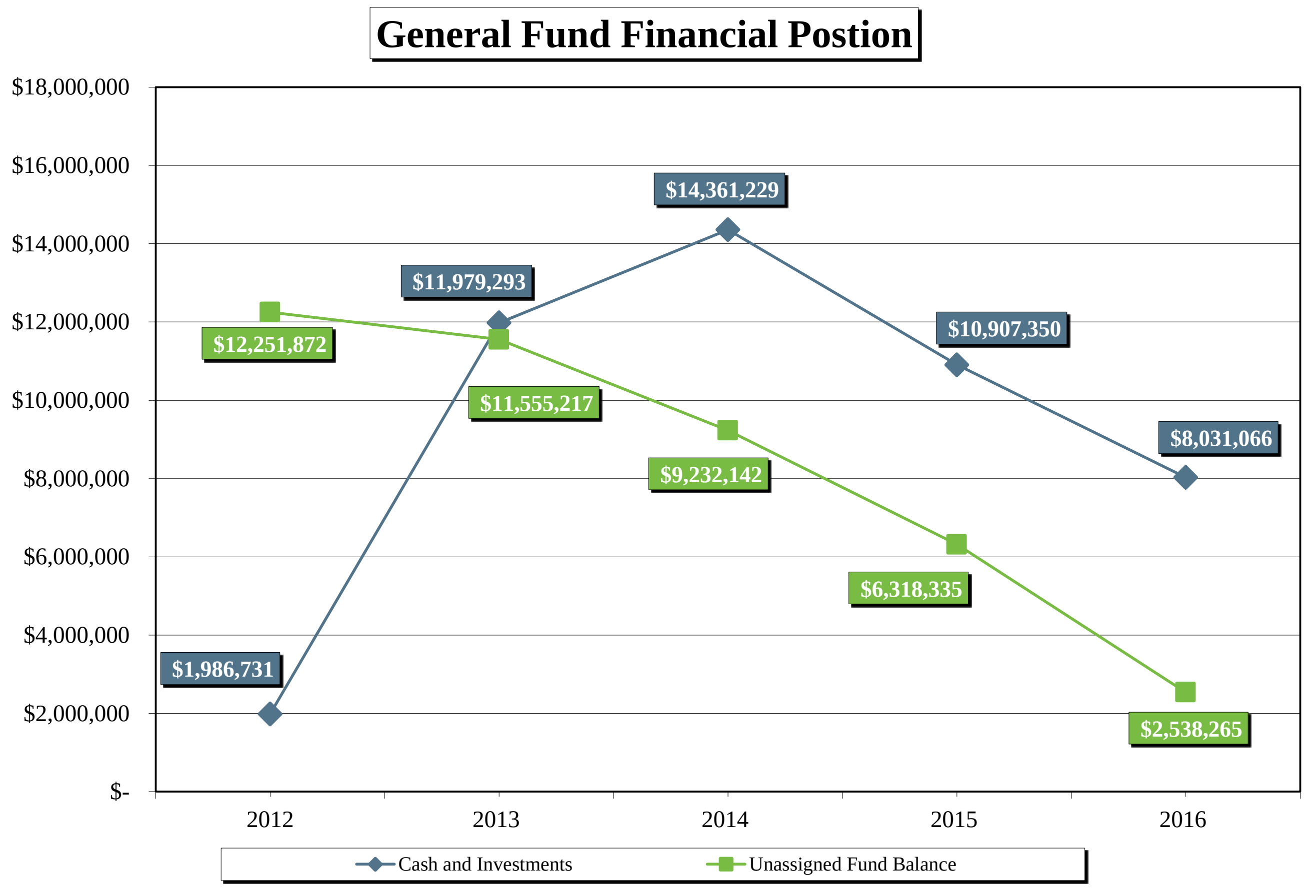
GENERAL FUND FINANCIAL HEALTH

The state uses a fund balance calculation based on unrestricted activity to compare school district fund balances to one another.



* 2016 *Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Report*
** Source: Minnesota Department of Education (MDE) *General Fund Unreserved Balance Report, Fiscal Years 2012-2015*

GENERAL FUND FINANCIAL POSITION



Over the course of the five year-ends presented, the General Fund cash and investment balance increased $6,044,335, while total unassigned fund balance decreased $9,713,607. The most significant change was the cash and investments increase from 2012 to 2013. This increase was due to the state decreasing its holdback of state aid payments to school districts. At June 30, 2012, the state held back approximately 37% of 2012 state aid from school districts. At June 30, 2013, the state held back approximately 14% of state aids from school districts. As a result, the District's amount due from the state in the General Fund decreased from $18.7 million at June 30, 2012 to $7.5 million at June 30, 2013. Cash and unassigned fund balance decreased $2,876,284 and $3,780,070, respectively, in 2016 due to expenditures exceeding revenues.

Independent School District No. 720
Financial Analysis

FOOD SERVICE FUND

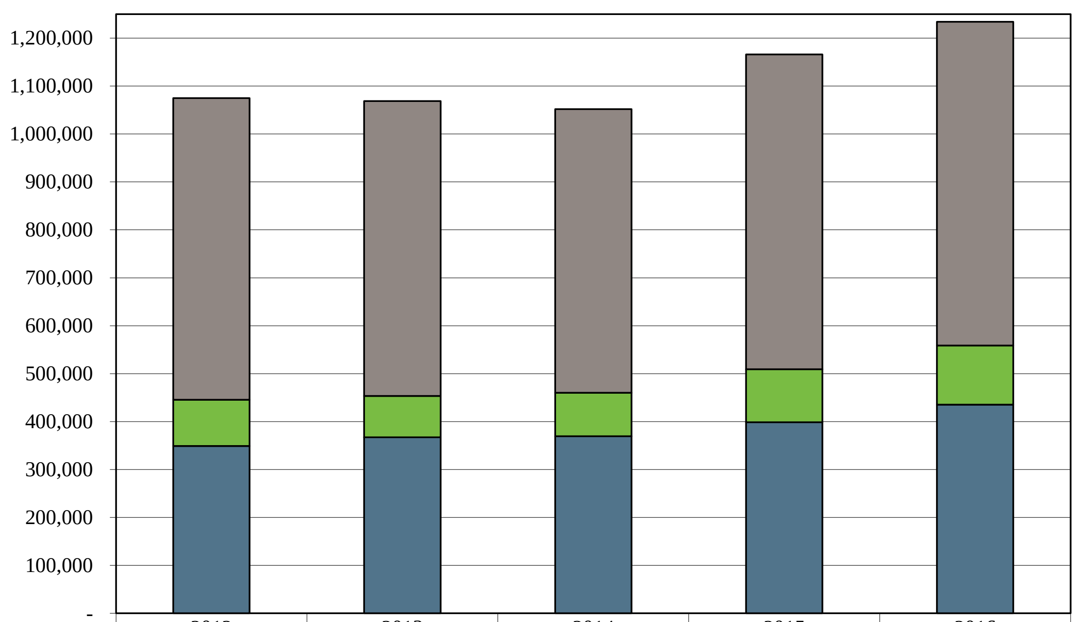
The following table presents five years of comparative operating results for the District's Food Service Fund:

Year Ended June 30,	2012	2013	2014	2015	2016
Revenues	$ 3,240,574	$ 3,389,008	$ 3,556,025	$ 3,927,153	$ 4,409,632
Expenditures	3,220,817	3,441,186	3,460,011	3,899,796	4,186,026
Excess of revenues over (under) expenditures	19,757	(52,178)	96,014	27,357	223,606
Fund balance, July 1	359,486	379,243	327,065	423,079	450,436
Fund balance, June 30	**$ 379,243**	**$ 327,065**	**$ 423,079**	**$ 450,436**	**$ 674,042**

Food service revenues increased 12.3% due to an increase in the federal reimbursement amount, an increase in the number of free and reduced meals served and an increase in breakfast meals served. Expenditures increased 7.3%. The 2016 activity in the Food Service Fund resulted in a fund balance increase to $674,042, which is 16.1% of expenditures or just over one month of expenditures based on a nine month operating year.

The chart below reflects the number and type of meals served to students over the past five years.

Meals Served to Students



	2012	2013	2014	2015	2016
Regular Priced Meals	629,560	615,416	591,626	656,997	675,250
Reduced Priced Meals	96,162	86,117	90,969	110,225	123,132
Free Meals	349,246	367,126	369,329	398,782	435,427

* Source: *Food and Nutrition Services: District Financial Report* by the MDE

The total number of meals served increased from 2015 to 2016 as a result of an increase in students.

FOOD SERVICE FUND REVENUES AND EXPENDITURES PER ADM SERVED

Food Service Fund expenditures and revenues per student (ADM) served are summarized in the following table. In addition, statistical data for the seven county metro area (Anoka, Hennepin, Carver, Dakota, Scott, Ramsey, and Washington Counties), excluding charter schools, and state-wide averages are presented for comparative purposes:

Revenues	2012*	2013*	2014*	2015*	2016**
Shakopee	$ 426	$ 448	$ 461	$ 497	$ 547
State-wide	486	493	499	517	N/A
Seven county metro area	484	492	501	518	N/A

Expenditures	2012*	2013*	2014*	2015*	2016**
Shakopee	$ 424	$ 455	$ 449	$ 494	$ 519
State-wide	483	497	510	525	N/A
Seven county metro area	480	497	510	519	N/A

* Source: *School District Profiles*

** Estimate as of October 24, 2016; seven county metro area and state-wide averages are not available.

COMMUNITY SERVICE FUND

The following table presents five years of comparative operating results for the District's Community Service Fund:

	2012	2013	2014	2015	2016
Revenues	$ 1,659,176	$ 1,723,134	$ 1,767,270	$ 1,915,937	$ 2,338,577
Expenditures	1,747,648	1,809,055	1,761,264	1,976,362	2,250,884
Excess of revenues over (under) expenditures	(88,472)	(85,921)	6,006	(60,425)	87,693
Fund balance, July 1	241,493	153,021	67,100	73,106	12,681
Fund balance, June 30	**$ 153,021**	**$ 67,100**	**$ 73,106**	**$ 12,681**	**$ 100,374**
Components of Fund Balance					
Restricted for					
Community education	$ 141,972	$ 56,828	$ 6,546	$ (75,851)	$ (17,867)
ECFE	-	-	5,162	15,277	55,576
School readiness	11,049	10,272	61,398	73,255	62,665
Total	**$ 153,021**	**$ 67,100**	**$ 73,106**	**$ 12,681**	**$ 100,374**

Revenues exceeded expenditures for the second time since 2012. During the year ended June 30, 2016, revenues increased 22.1% while expenditures increased 13.9%.

COMMUNITY SERVICE FUND REVENUES AND EXPENDITURES PER ADM SERVED

Community Service Fund expenditures and revenues per student (ADM) served are summarized in the following table. In addition, statistical data for the seven-county metro area (Anoka, Hennepin, Carver, Dakota, Scott, Ramsey, and Washington Counties), excluding charter schools, and state-wide averages are presented for comparative purposes:

Revenues	2012*	2013*	2014*	2015*	2016**
Shakopee	$ 218	$ 228	$ 229	$ 242	$ 290
State-wide	521	530	531	525	N/A
Seven county metro area	633	549	567	564	N/A

Expenditures	2012*	2013*	2014*	2015*	2016**
Shakopee	$ 230	$ 239	$ 228	$ 250	$ 279
State-wide	507	515	534	521	N/A
Seven county metro area	630	548	570	550	N/A

* Source: *School District Profiles*
****** Estimate as of October 24, 2016; seven county metro area and state-wide averages are not available.

DEBT SERVICE FUND REVENUES AND EXPENDITURES PER ADM SERVED

Debt Service Fund expenditures and revenues per student (ADM) served are summarized in the following table. In addition, statistical data for the seven county metro area (Anoka, Hennepin, Carver, Dakota, Scott, Ramsey, and Washington Counties), excluding charter schools, and state-wide averages are presented for comparative purposes:

Revenues	2012*	2013*	2014*	2015*	2016**
Shakopee	$ 1,719	$ 1,927	$ 1,767	$ 1,677	$ 1,615
State-wide	1,107	1,099	1,037	1,002	N/A
Seven county metro area	1,180	1,081	1,084	1,049	N/A

Expenditures	2012*	2013*	2014*	2015*	2016**
Shakopee	$ 1,735	$ 2,043	$ 7,511	$ 8,748	$ 1,933
State-wide	1,275	1,173	1,394	1,406	N/A
Seven county metro area	1,312	1,255	1,476	1,470	N/A

* Source: *School District Profiles*
****** Estimate as of October 24, 2016; seven county metro area and state-wide averages are not available.

Expenditures for fiscal year 2014 were significantly inflated due to the inclusion of over $41 million of 2004 building bonds paid off by the 2013 crossover refunding bonds on February 1, 2014. Expenditures for 2015 were also inflated due to the inclusion of over $54 million of 2005A, 2006A, and 2006B bonds paid off by the 2013 crossover refunding bonds and the 2014A refunding bond during 2015.

Independent School District No. 720
Legislative Summary

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

STATE AID APPROPRIATIONS

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

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

ENGLISH LEARNER REVENUE

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

COMPENSATORY REVENUE

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

STUDENT ACHIEVEMENT LEVY

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

OPERATING CAPITAL LEVY

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

LEARNING AND DEVELOPMENT

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

Q COMP

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

ALTERNATIVE TEACHER PAY

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

STAFF DEVELOPMENT

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

AMERICAN INDIAN EDUCATION AID

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

LONG-TERM FACILITIES MAINTENANCE REVENUE

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

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

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

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

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

Independent School District No. 720
Legislative Summary

MISCELLANEOUS LEVIES

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

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

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

LOCAL OPTIONAL REVENUE

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

ACCOUNTING

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

FINANCIAL REPORTING DATES

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

SPECIAL EDUCATION

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

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

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

SPECIAL EDUCATION (CONTINUED)

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

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

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

FOUR DAY WEEKS

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

VOLUNTARY PREKINDERGARTEN

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

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

HOME VISITING REVENUE

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

SCHOOL BOARD ELECTIONS

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

Independent School District No. 720
Emerging Issues

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

- **Accounting Standard Update – GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans** – GASB has issued GASB statement 74 relating to postemployment benefit plans other than pension plans administered through trusts that meet certain criteria and includes requirements for OPEB plans not administered through trusts. The new statement improves financial reporting primarily through enhanced note disclosures and schedules of required supplementary information.
- **Accounting Standard Update – GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities.

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

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 74 – *FINANCIAL REPORTING FOR POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS*

The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 74 – *FINANCIAL REPORTING FOR POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS (CONTINUED)*

- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

Alternative measurement method

This Statement includes an option for the use of 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).

Effective Date and Transition
This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

How the Changes in this Statement will Improve Financial Reporting
The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The new information will enhance the decision-usefulness of the financial reports of those OPEB plans, their value for assessing accountability, and their transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan. The comparability of the reported information for similar types of OPEB plans will be improved by the changes related to the attribution method used to determine the total OPEB liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison with actuarially determined rates, if such rates are determined. In addition, new information about rates of return on OPEB plan investments will inform financial report users about the effects of market conditions on the OPEB plan's assets over time and provide information for users to assess the relative success of the OPEB plan's investment strategy and the relative contribution that investment earnings provide to the OPEB plan's ability to pay benefits to plan members when they come due.

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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.

- 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.

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

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.