

**Independent School District No. 720  
Shakopee, MN**

**Communications Letter**

**June 30, 2017**



**Independent School District No. 720**  
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**Report on Matters Identified as a Result of  
the Audit of the Financial Statements**

To the School Board and Management  
Independent School District No. 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, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a 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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. The material weakness identified is stated within this letter.

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



The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated November 20, 2017, on such statements.

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

Minneapolis, Minnesota  
November 20, 2017

PRELIMINARY

**Independent School District No. 720**  
**Material Weakness**

**LACK OF SEGREGATION OF ACCOUNTING DUTIES**

During the year ended June 30, 2017, the District had a lack of segregation of accounting duties. 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.

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 Specialist 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.

During our test work, we also noted the internal control procedures related to P card transactions appeared to be structured adequately, however, the execution of the control procedures was not adequate in some instances. We noted instances where adequate supporting documentation was not provided prior to payment, yet payment was still approved. There were also instances where there was not enough documentation to determine whether a purchase was related to District operations or not. We recommend the District always ensure proper documentation is obtained prior to making payment, employees responsible for approval are empowered to question the expenditures, and there is enough information included in that documentation to be able to ensure the activity is related to District operations.

**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, 2017. Professional standards require that we provide you with the following information related to our audit.

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

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

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

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

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

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

**Independent School District No. 720  
Required Communication**

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

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.

**PLANNED SCOPE AND TIMING OF THE AUDIT**

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

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

**QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the notes to financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

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.

**Independent School District No. 720  
Required Communication**

**QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)**

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) Liability and Deferred Inflow of Resources Related to OPEB – This balance is based on an actuarial study using the estimates of future obligations of the District for post employment benefits.

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

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

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

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

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

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

**DISAGREEMENTS WITH MANAGEMENT**

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

**Independent School District No. 720  
Required Communication**

**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. Such 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.

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

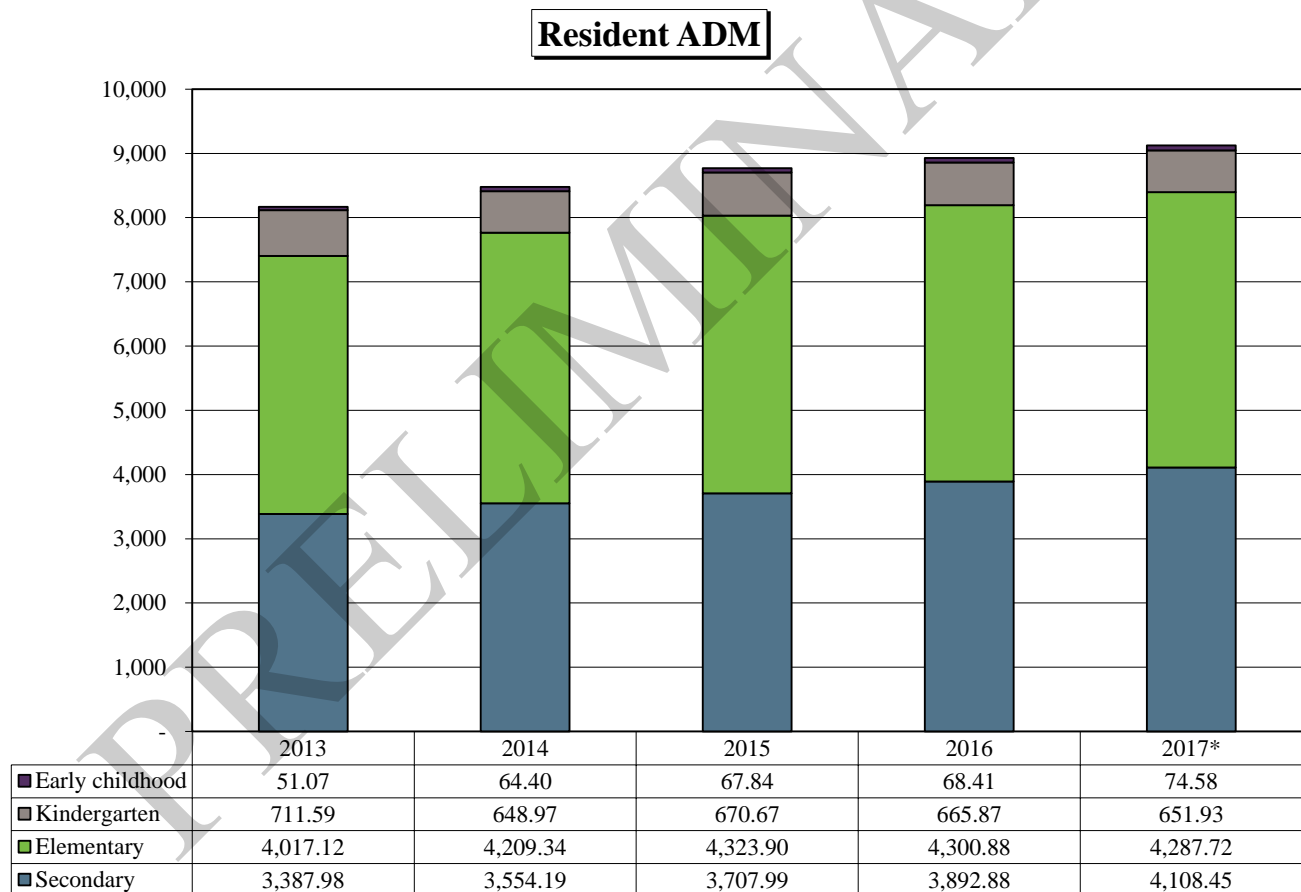
\* General Education Aid - Of the \$529 increase over 2014, \$105 is for inflation at 1.9%; the remaining \$424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

# **Independent School District No. 720** **Financial Analysis**

## **AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)**

Approximately 81% 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.

<b>Resident ADM</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>
Early childhood	51.07	64.40	67.84	68.41	74.58
Kindergarten	711.59	648.97	670.67	665.87	651.93
Elementary	4,017.12	4,209.34	4,323.90	4,300.88	4,287.72
Secondary	3,387.98	3,554.19	3,707.99	3,892.88	4,108.45
<b>Total Resident ADM</b>	<b>8,167.76</b>	<b>8,476.90</b>	<b>8,770.40</b>	<b>8,928.04</b>	<b>9,122.68</b>



\* Estimate as of October 23, 2017

**Independent School District No. 720**  
**Financial Analysis**

**RESIDENT AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)**

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 11.7% since 2013, and 2.2% between 2016 and 2017.

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 2013-2014	1.250	1.000	0.612	1.115	1.060	1.300
Fiscal years 2015-2017	1.000	1.000	1.000	1.000	1.000	1.200

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.

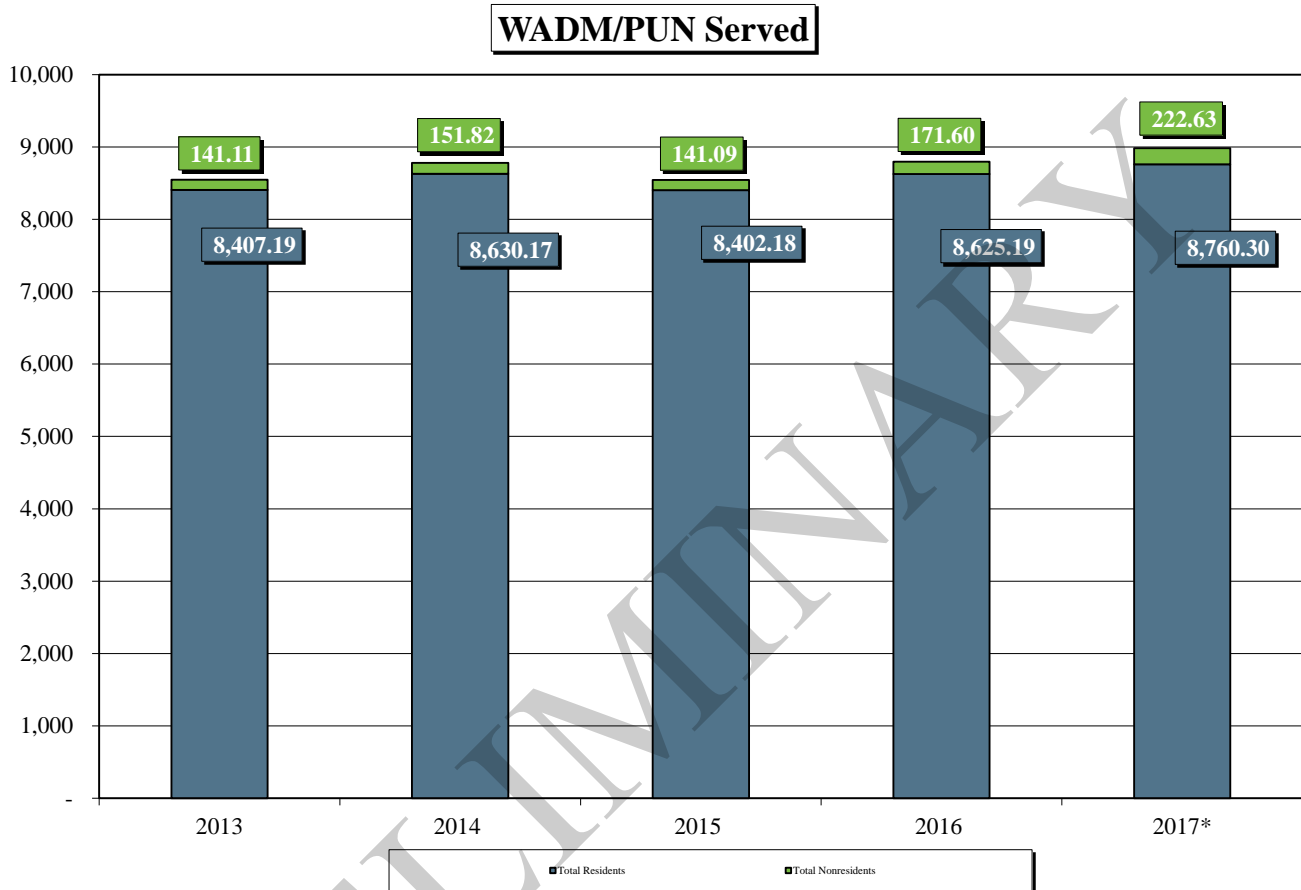
The weighted average daily membership (WADM) or pupil units (PUN) served table below and graph on the following page, converts the resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

WADM/PUN	2013	2014	2015	2016	2017*
Residents	9,289.94	9,689.65	9,511.53	9,706.63	9,944.37
Resident WADM/PUN loss	(882.75)	(1,059.48)	(1,109.35)	(1,081.44)	(1,184.07)
Nonresident WADM/PUN gain	141.11	151.82	141.09	171.60	222.63
<b>Total WADM/PUN Served</b>	<b>8,548.30</b>	<b>8,781.99</b>	<b>8,543.27</b>	<b>8,796.79</b>	<b>8,982.93</b>

\*Estimate as of October 23, 2017

**Independent School District No. 720  
Financial Analysis**

**WEIGHTED AVERAGE DAILY MEMBERSHIP/PUPIL UNITS SERVED**



\* Estimate as of October 23, 2017

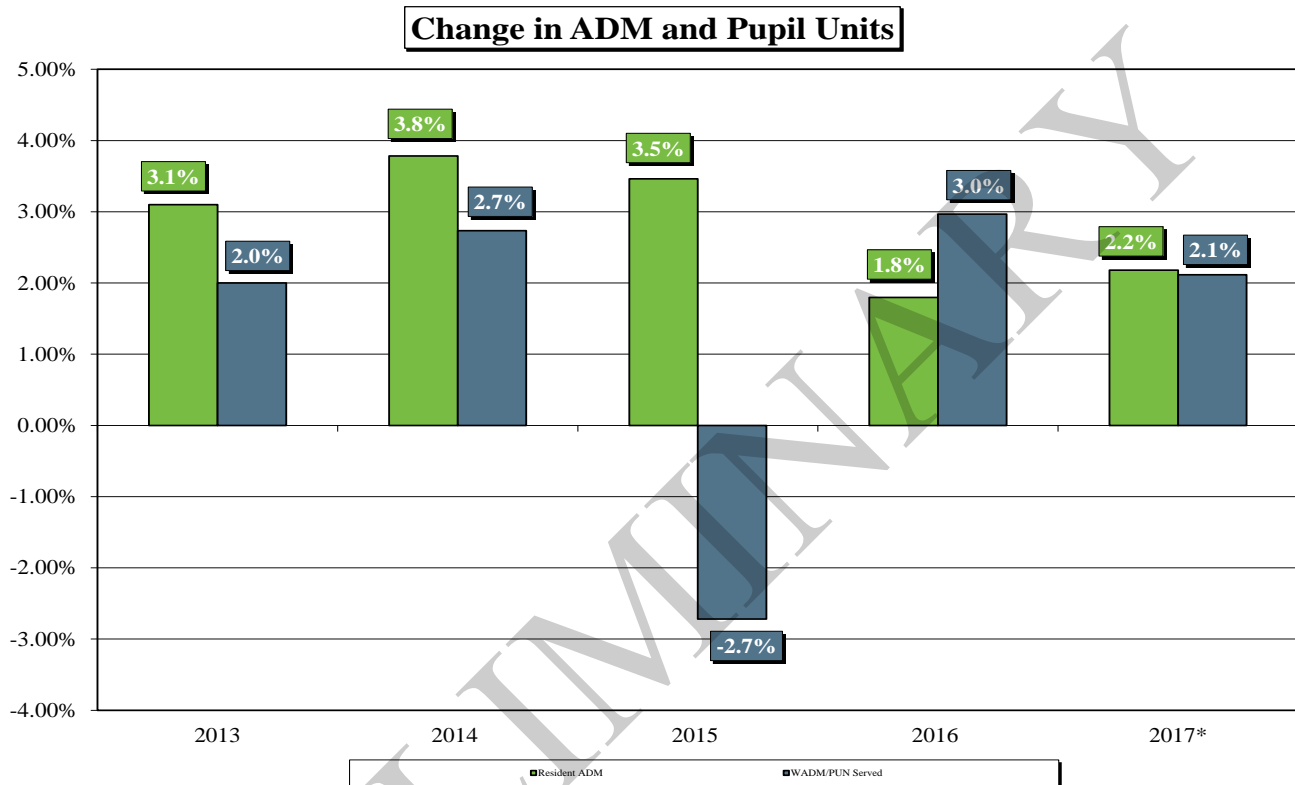
Comparing 2016 to 2017, total PUN increased 186.14, or 2.1%. Resident pupil units increased 2.5% and the effects of open enrollment loss increased 5.7%. Net losses in open enrollment totaled 961.44 in 2017, an increase from 909.84 in 2016.

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.

**Independent School District No. 720  
Financial Analysis**

**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 23, 2017

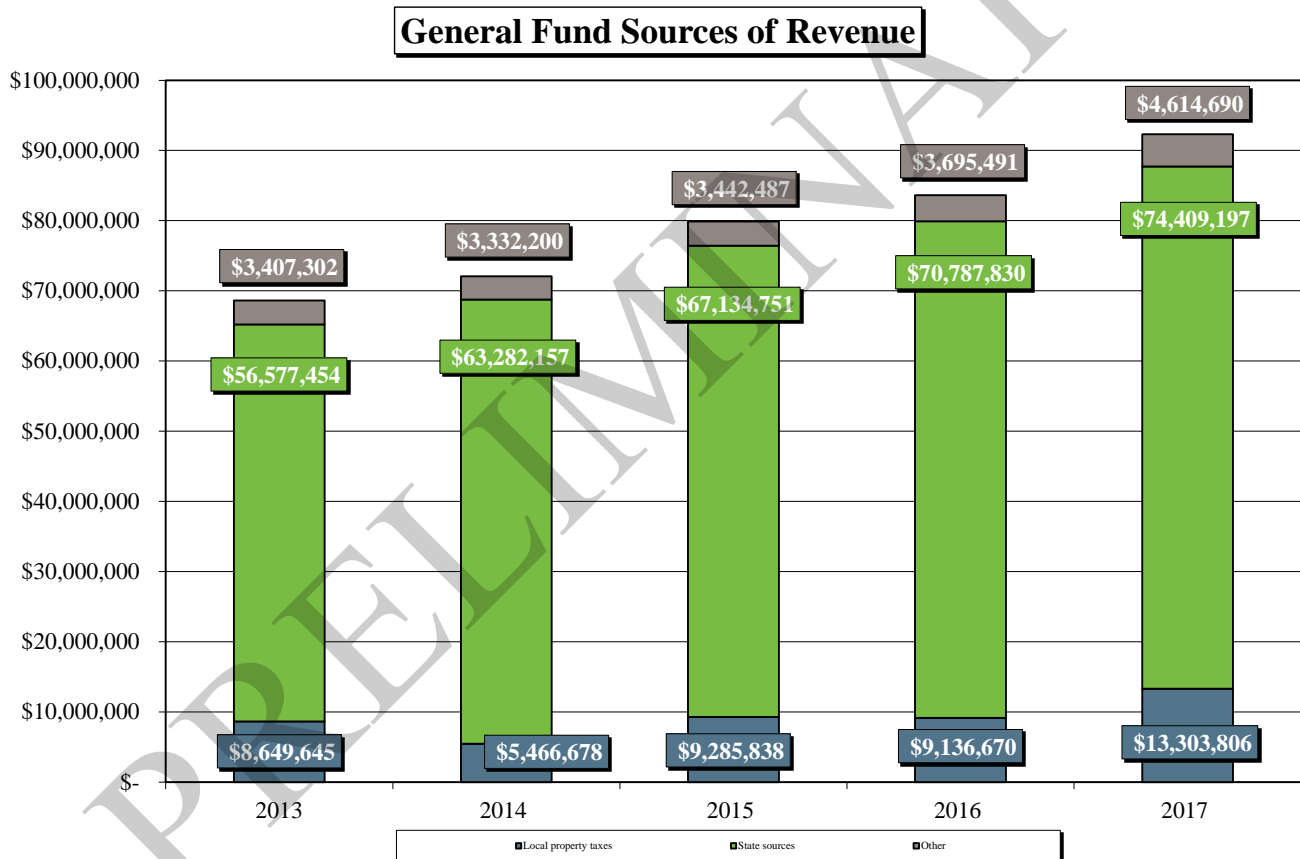
# **Independent School District No. 720** **Financial Analysis**

## **GENERAL FUND SOURCES OF REVENUE**

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

	2013	2014	2015	2016	2017
Local property taxes	\$ 8,649,645	\$ 5,466,678	\$ 9,285,838	\$ 9,136,670	\$ 13,303,806
State sources	56,577,454	63,282,157	67,134,751	70,787,830	74,409,197
Other	3,407,302	3,332,200	3,442,487	3,695,491	4,614,690
<b>Total</b>	<b>\$ 68,634,401</b>	<b>\$ 72,081,035</b>	<b>\$ 79,863,076</b>	<b>\$ 83,619,991</b>	<b>\$ 92,327,693</b>

State revenue sources represent 80.6% of the General Fund total revenue, with local taxpayers contributing 14.4% of the funding and federal and other sources making up the remaining 5.0%.



Overall, General Fund revenue increased 10.4%, or \$8,707,702. Local property taxes increased \$4,167,136 or 45.6% in 2017 primarily due to a \$4.2 million increase in the General Fund's share of the levy, which was mostly a result of a new \$2.5 million capital projects levy and a new long-term facilities maintenance (LTFM) levy. Revenue from state sources increased \$3,621,367, or 5.1% in 2017 due to an increase in the formula allowance of \$119 per pupil unit, an increase in PUN of 186.14, new LTFM funding, and an increase in special education aid. Other revenues, which include local, county, and federal revenue increased \$919,199, or 24.9%. The majority of this increase was due to an increase across all federal awards including an increase of approximately \$175,000 in federal tuition billing and an increase of approximately \$270,000 in Title I to use previous years' unspent allocations.

# Independent School District No. 720

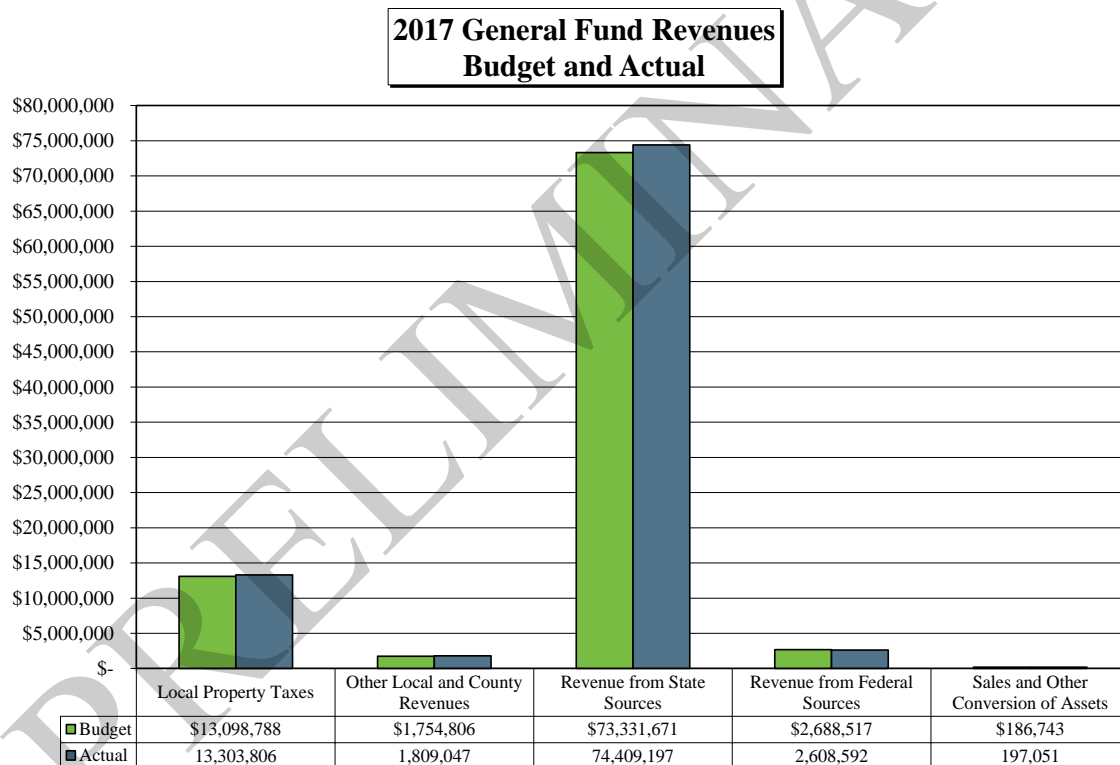
## Financial Analysis

### GENERAL FUND REVENUES BUDGET AND ACTUAL

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

In June 2016, the District approved a General Fund revenue budget of \$90,340,000. There was an amendment made to the budget in May 2017, which increased the General Fund revenue to \$91,060,525. With actual revenues coming in at \$92,327,693, the final budget produced a variance of \$1,267,168 or 1.4%.

State sources of revenue came in \$1,077,526 over budget as a result of actual ADMs coming in at more than what the District had projected, as well as an increase in the special education entitlement that was not fully budgeted. All other sources of revenue were relatively consistent with budgeted amounts.



**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:

<b>Shakopee</b>					
<b>General Fund</b>	<b>2013*</b>	<b>2014*</b>	<b>2015*</b>	<b>2016*</b>	<b>2017**</b>
Property taxes	\$ 1,121	\$ 690	\$ 1,158	\$ 1,108	\$ 1,615
Other local sources	184	193	220	220	243
State aid	7,477	8,209	8,496	8,702	9,031
Federal aid	288	258	233	250	317
<b>Total General Fund Revenue</b>	<b>\$ 9,070</b>	<b>\$ 9,350</b>	<b>\$ 10,107</b>	<b>\$ 10,280</b>	<b>\$ 11,206</b>

<b>Seven-County Metro Area</b>					
<b>General Fund</b>	<b>2013*</b>	<b>2014*</b>	<b>2015*</b>	<b>2016*</b>	<b>2017**</b>
Property taxes	\$ 1,676	\$ 1,014	\$ 1,728	\$ 1,853	N/A
Other local sources	427	465	466	469	N/A
State aid	8,124	9,081	8,974	9,299	N/A
Federal aid	507	474	454	447	N/A
<b>Total General Fund Revenue</b>	<b>\$ 10,734</b>	<b>\$ 11,034</b>	<b>\$ 11,622</b>	<b>\$ 12,068</b>	<b>N/A</b>

<b>State-Wide</b>					
<b>General Fund</b>	<b>2013*</b>	<b>2014*</b>	<b>2015*</b>	<b>2016*</b>	<b>2017**</b>
Property taxes	\$ 1,608	\$ 923	\$ 1,564	\$ 1,673	N/A
Other local sources	442	477	485	498	N/A
State aid	8,234	9,137	9,115	9,435	N/A
Federal aid	494	463	450	442	N/A
<b>Total General Fund Revenue</b>	<b>\$ 10,778</b>	<b>\$ 11,000</b>	<b>\$ 11,614</b>	<b>\$ 12,048</b>	<b>N/A</b>

\* Source: *School District Profiles*

\*\* Estimate as of October 23, 2017; seven county metro and state-wide averages are not available.

The District has seen an increase in revenues per student (ADM) served from 2013 to 2017. Property tax revenues per student increased 45.8%, or \$507, per ADM served from 2016 to 2017 due to an increase in the General Fund's share of the levy. State aid revenues per student increased 3.8%, or \$329 per ADM served as a result of an increase of \$119 per pupil in general education funding and new LTFM funding. Federal revenues per student increased 26.8%, or \$67 per ADM served as a result of increases in all federal awards.

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:

<b>Shakopee</b>					
<b>General Fund</b>	<b>2013*</b>	<b>2014*</b>	<b>2015*</b>	<b>2016*</b>	<b>2017**</b>
Administration and district support services	\$ 704	\$ 788	\$ 954	\$ 1,007	\$ 950
Elementary and secondary regular instruction	4,384	4,590	4,877	5,008	5,037
Vocational education instruction	60	93	87	92	105
Special education instruction	1,887	1,924	1,941	2,109	2,226
Instructional support services	574	542	686	742	993
Pupil support services	738	784	851	893	924
Sites and buildings	596	622	625	620	680
Capital expenditures	242	274	424	454	886
<b>Total General Fund Expenditures</b>	<b>\$ 9,185</b>	<b>\$ 9,617</b>	<b>\$ 10,445</b>	<b>\$ 10,925</b>	<b>\$ 11,801</b>

<b>Seven-County Metro Area</b>					
<b>General Fund</b>	<b>2013*</b>	<b>2014*</b>	<b>2015*</b>	<b>2016*</b>	<b>2017**</b>
Administration and district support services	\$ 844	\$ 879	\$ 929	\$ 954	N/A
Elementary and secondary regular instruction	5,034	5,145	5,289	5,518	N/A
Vocational education instruction	132	134	139	151	N/A
Special education instruction	1,952	2,034	2,076	2,226	N/A
Instructional support services	493	558	600	642	N/A
Pupil support services	923	953	984	1,023	N/A
Sites and buildings	841	869	858	876	N/A
Capital expenditures	497	493	549	594	N/A
<b>Total General Fund Expenditures</b>	<b>\$ 10,716</b>	<b>\$ 11,065</b>	<b>\$ 11,424</b>	<b>\$ 11,984</b>	<b>N/A</b>

<b>State-Wide</b>					
<b>General Fund</b>	<b>2013*</b>	<b>2014*</b>	<b>2015*</b>	<b>2016*</b>	<b>2017**</b>
Administration and district support services	\$ 892	\$ 926	\$ 991	\$ 1,016	N/A
Elementary and secondary regular instruction	4,955	5,060	5,266	5,428	N/A
Vocational education instruction	132	133	140	149	N/A
Special education instruction	1,896	1,976	2,050	2,179	N/A
Instructional support services	466	524	572	606	N/A
Pupil support services	916	946	989	1,021	N/A
Sites and buildings	838	868	868	879	N/A
Capital expenditures	570	578	649	677	N/A
<b>Total General Fund Expenditures</b>	<b>\$ 10,665</b>	<b>\$ 11,011</b>	<b>\$ 11,525</b>	<b>\$ 11,955</b>	<b>N/A</b>

\* Source: *School District Profiles*

\*\* Estimate as of October 23, 2017; seven county metro and state-wide averages are not available.

**Independent School District No. 720**  
**Financial Analysis**

**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 28.5% from 2013. Total General Fund expenditures over that same time have increased 39.9% while ADM served have increased 10.1%.

**GENERAL FUND EXPENDITURES BY PROGRAM**

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

	2013	2014	2015	2016	2017
Administration	\$ 4,105,872	\$ 4,596,262	\$ 5,537,421	\$ 5,827,880	\$ 5,730,782
District support services	1,184,754	1,364,310	1,792,791	2,079,390	2,178,543
Elementary and secondary regular instruction	33,383,745	35,545,143	38,675,988	41,008,818	41,747,541
Vocational education instruction	458,572	725,118	695,927	749,015	870,273
Special education instruction	14,308,351	14,879,511	15,373,634	17,206,868	18,441,870
Instructional support services	5,062,602	5,152,834	6,443,763	8,824,679	12,323,870
Pupil support services	5,583,252	6,045,990	6,770,050	7,260,151	7,614,151
Sites and buildings	5,288,317	5,637,614	5,847,498	5,937,614	6,252,053
Fiscal and other fixed cost programs	130,635	181,473	215,914	211,184	191,091
Debt service	-	-	1,186,067	1,007,414	1,882,902
<b>Total</b>	<b>\$ 69,506,100</b>	<b>\$ 74,128,255</b>	<b>\$ 82,539,053</b>	<b>\$ 90,113,013</b>	<b>\$ 97,233,076</b>

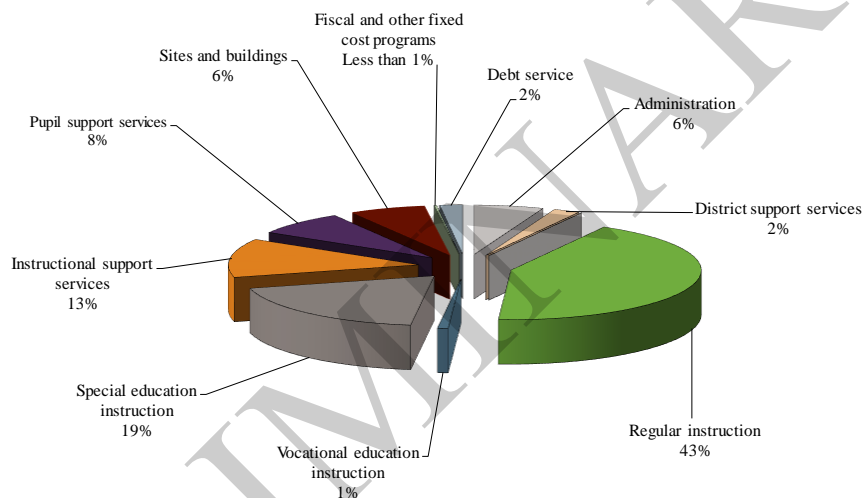
The District saw a \$7,120,063 increase in General Fund expenditures from 2016 and 2017. Expenditures across all categories except for administration and fiscal and other fixed cost programs increased in 2017. Elementary and secondary regular instruction increased \$738,723 or 1.8% and special education instruction increased \$1,235,002 or 7.2% primarily as a result of personnel and employee wage and benefit increases. Instructional support services increased \$3,499,191 or 39.7% over the prior year primarily as a result of new Apple leases, which resulted in the recognition of \$3,447,610 in expenditures in 2017. The District also had a new capital projects levy in 2017, which resulted in significant purchases of software and technology devices, as well as the hiring of additional technology staff and achievement and integration staff. Debt service expenditures increased \$875,488, which was a result of having payments due on four capital leases in 2017 compared to two in 2016. All other expenditure categories were relatively consistent with the prior year.

## Independent School District No. 720 Financial Analysis

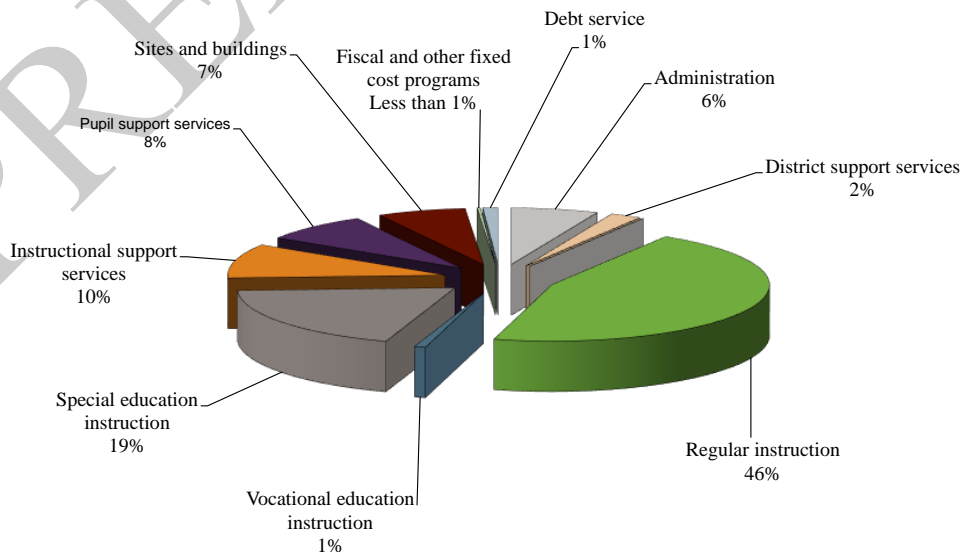
### GENERAL FUND EXPENDITURES

The graphs below depict the percentage of expenditures by program in the General Fund for 2016 and 2017. Expenditures increased \$7,120,063, or 7.9%, from 2016 to 2017 and the allocation of expenditures remained fairly consistent.

**General Fund Expenditures 2017**



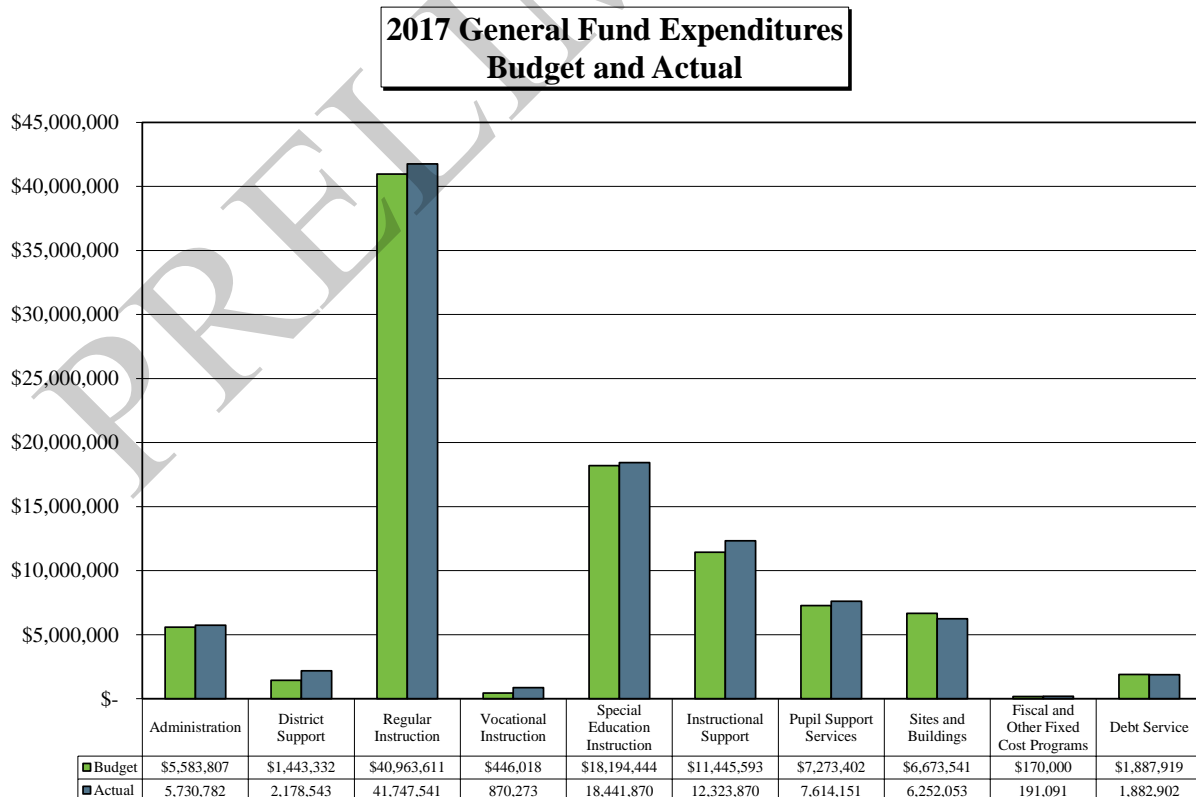
**General Fund Expenditures 2016**



## 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 \$3,151,409 over budget. District support services came in \$735,211 over budget due to a negative contingency budget of \$590,000 budget for transfers/chargebacks that occurred in other programs. The District budgets this contingency in salaries in this program, however, the chargebacks often happen out of other programs. Elementary and secondary regular instruction expenditures were \$783,930 or 1.9% over budget. This was a result of a \$173,000 reduction in health insurance expenditures due to an OPEB Trust Fund draw while the District was anticipating a \$315,000 reduction. In addition, health insurance costs overall were higher than anticipated. Vocational instruction expenditures were \$424,255 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 instruction program once the District knows which classes those teachers actually taught. Instructional support services came in \$878,277 over budget as a result of four new Apple leases, which resulted in recognizing \$3,447,610 in expenditures as well as an other financing source for the same amount. There were only two of the leases included in the budget because the other two leases began earlier than anticipated, resulting in a budget variance of \$1,436,110. This variance was partially offset by salaries, supplies and materials, and other capital outlay expenditures related to the capital projects levy coming in under budget. Sites and buildings came in \$421,488 under budget primarily as a result of LTFM projects being budgeted with actual costs going to the Capital Projects Fund. All other expenditure categories were relatively consistent with the budget.



**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:

	2013	2014	2015	2016*	2017*
Revenues	\$ 68,634,401	\$ 72,081,035	\$ 79,863,076	\$ 83,619,991	\$ 92,327,693
Expenditures	69,506,100	74,128,255	82,539,053	90,113,013	97,233,076
Excess of revenues under expenditures	(871,699)	(2,047,220)	(2,675,977)	(6,493,022)	(4,905,383)
Transfers/other financing sources	200	-	13,580	1,239,504	3,451,632
Fund balance, July 1	13,355,639	12,484,140	10,436,920	7,774,523	2,521,005
<b>Fund Balance, June 30</b>	<b>\$ 12,484,140</b>	<b>\$ 10,436,920</b>	<b>\$ 7,774,523</b>	<b>\$ 2,521,005</b>	<b>\$ 1,067,254</b>

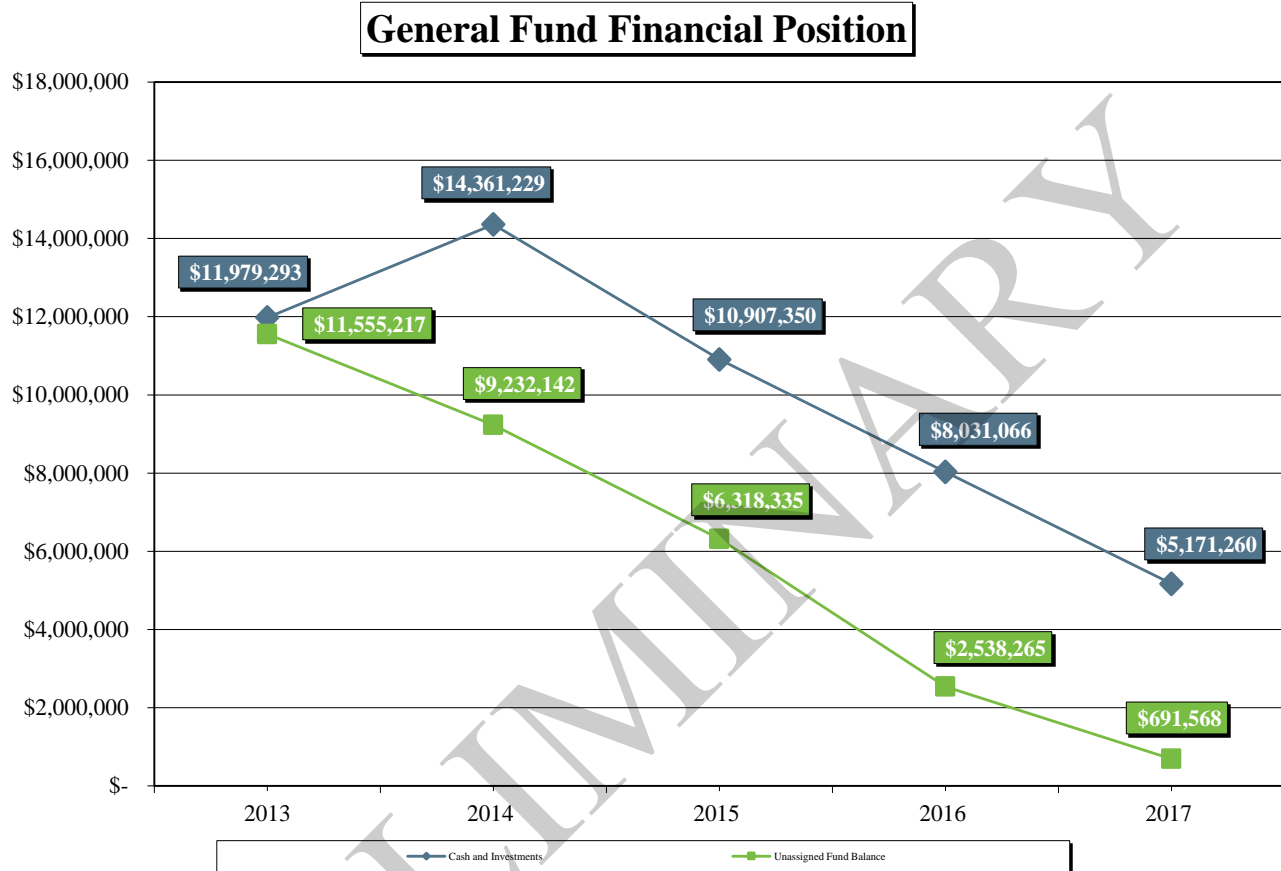
<b>Components of Fund Balance</b>					
Nonspendable	\$ 350,000	\$ 96	\$ 68,261	\$ 115,556	\$ 657,884
Restricted for					
Capital projects levy*	-	-	-	(479,477)	(303,080)
Health and safety*	(1,101,939)	(701,302)	(770,198)	(894,373)	-
Operating capital	1,680,862	1,905,984	2,158,125	1,241,034	-
Assigned	-	-	-	-	20,882
Unassigned	11,555,217	9,232,142	6,318,335	2,538,265	691,568
<b>Total</b>	<b>\$ 12,484,140</b>	<b>\$ 10,436,920</b>	<b>\$ 7,774,523</b>	<b>\$ 2,521,005</b>	<b>\$ 1,067,254</b>

Unassigned Fund Balance as a Percentage of Expenditures	16.6%	12.5%	7.7%	2.8%	0.7%
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- \* 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.

**Independent School District No. 720  
Financial Analysis**

**GENERAL FUND FINANCIAL POSITION**



Over the course of the five year-ends presented, the General Fund cash and investment balance decreased \$6,808,033, while total unassigned fund balance decreased \$10,863,649. Cash and unassigned fund balance decreased \$2,859,806 and \$1,846,697, respectively, in 2017 due to expenditures exceeding revenues.

## Independent School District No. 720 Financial Analysis

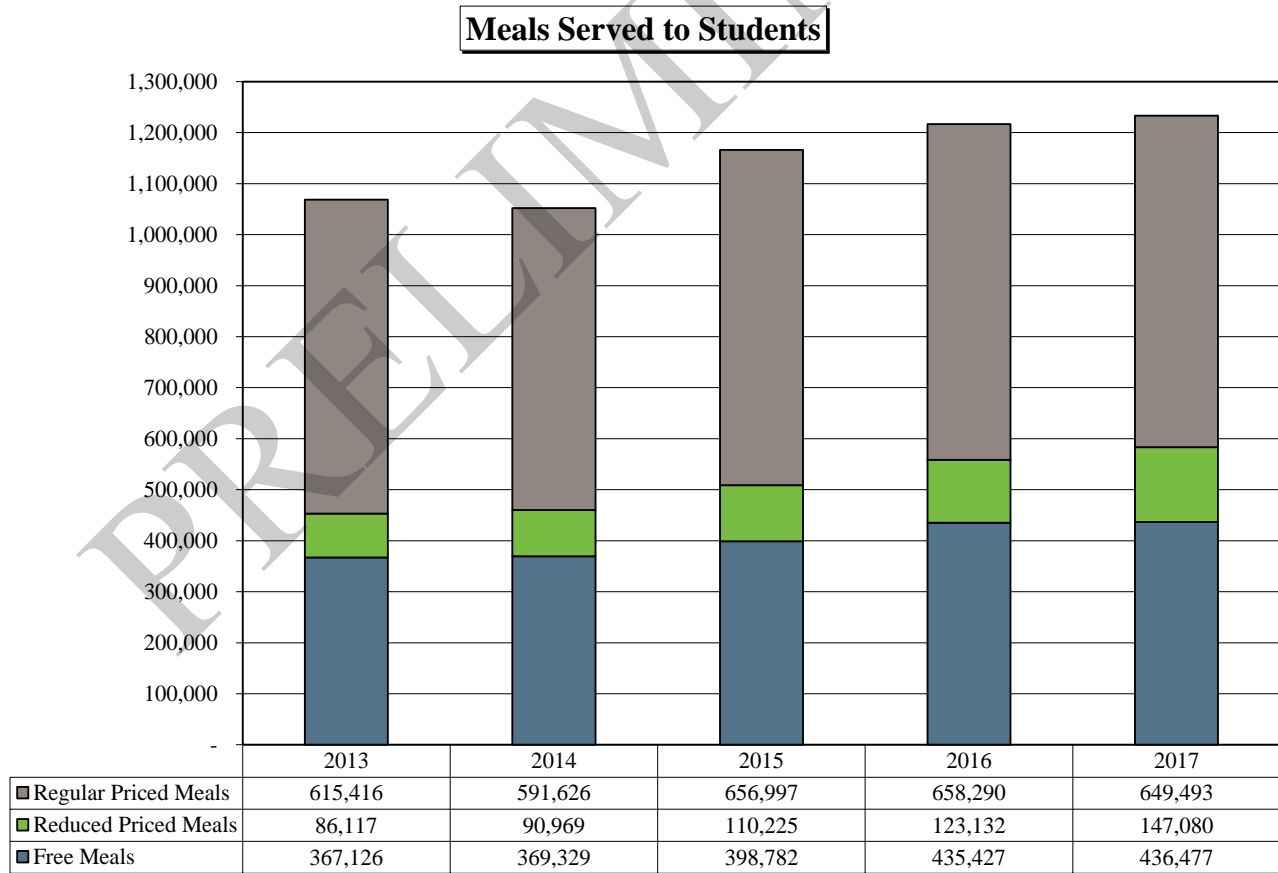
### FOOD SERVICE FUND

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

Year Ended June 30,	2013	2014	2015	2016	2017
Revenues	\$ 3,389,008	\$ 3,556,025	\$ 3,927,153	\$ 4,409,632	\$ 4,544,864
Expenditures	3,441,186	3,460,011	3,899,796	4,186,026	4,566,784
Excess of revenues over (under) expenditures	(52,178)	96,014	27,357	223,606	(21,920)
Fund balance, July 1	379,243	327,065	423,079	450,436	674,042
<b>Fund Balance, June 30</b>	<b>\$ 327,065</b>	<b>\$ 423,079</b>	<b>\$ 450,436</b>	<b>\$ 674,042</b>	<b>\$ 652,122</b>

Food service revenues remained relatively consistent with the prior year with an increase of 3.1%. Expenditures increased 9.1% due to charging custodial salaries for cleaning kitchens to the Food Service Fund rather than the General Fund in 2017. The 2017 activity in the Food Service Fund resulted in a fund balance decrease to \$652,122, which is 14.3% 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.



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

The total number of meals served decreased slightly from 2016 to 2017.

**Independent School District No. 720**  
**Financial Analysis**

**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:

<b>Revenues</b>					
	<b>2013*</b>	<b>2014*</b>	<b>2015*</b>	<b>2016*</b>	<b>2017**</b>
Shakopee	\$ 448	\$ 461	\$ 497	\$ 542	\$ 552
State-wide	493	499	517	543	N/A
Seven county metro area	492	501	518	545	N/A

<b>Expenditures</b>					
	<b>2013*</b>	<b>2014*</b>	<b>2015*</b>	<b>2016*</b>	<b>2017**</b>
Shakopee	\$ 455	\$ 449	\$ 494	\$ 515	\$ 554
State-wide	497	510	525	539	N/A
Seven county metro area	497	510	519	539	N/A

\* Source: *School District Profiles*

\*\* Estimate as of October 23, 2017; 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:

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Revenues	\$ 1,723,134	\$ 1,767,270	\$ 1,915,937	\$ 2,338,577	\$ 2,760,027
Expenditures	1,809,055	1,761,264	1,976,362	2,250,884	2,670,134
Excess of revenues over (under) expenditures	(85,921)	6,006	(60,425)	87,693	89,893
Fund balance, July 1	153,021	67,100	73,106	12,681	100,374
<b>Fund Balance, June 30</b>	<b>\$ 67,100</b>	<b>\$ 73,106</b>	<b>\$ 12,681</b>	<b>\$ 100,374</b>	<b>\$ 190,267</b>

<b>Components of Fund Balance</b>					
Restricted for					
Community Education	\$ 56,828	\$ 6,546	\$ (75,851)	\$ (17,867)	\$ (153,567)
ECFE	-	5,162	15,277	55,576	120,562
School Readiness	10,272	61,398	73,255	62,665	223,272
<b>Total</b>	<b>\$ 67,100</b>	<b>\$ 73,106</b>	<b>\$ 12,681</b>	<b>\$ 100,374</b>	<b>\$ 190,267</b>

Revenues exceeded expenditures for the third time in the five years presented. During 2017, revenues increased 18.0% due to increased enrollment in programs, an increase in the entitlement amounts for ECFE and school readiness state aid, and a new YMCA preschool program in 2017. Expenditures increased 18.6% due to an increase in salaries and a reallocation of salaries that had previously been funded by the General Fund and expenditures related to the new YMCA preschool program.

**Independent School District No. 720**  
**Financial Analysis**

**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:

<b>Revenues</b>					
	<b>2013*</b>	<b>2014*</b>	<b>2015*</b>	<b>2016*</b>	<b>2017**</b>
Shakopee	\$ 228	\$ 229	\$ 242	\$ 287	\$ 335
State-wide	530	531	525	562	N/A
Seven county metro area	549	567	564	602	N/A

<b>Expenditures</b>					
	<b>2013*</b>	<b>2014*</b>	<b>2015*</b>	<b>2016*</b>	<b>2017**</b>
Shakopee	\$ 239	\$ 228	\$ 250	\$ 277	\$ 324
State-wide	515	534	521	550	N/A
Seven county metro area	548	570	550	588	N/A

\* Source: *School District Profiles*

\*\* Estimate as of October 23, 2017; seven county metro area and state-wide averages are not available.

**Independent School District No. 720**  
**Financial Analysis**

**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					
	2013*	2014*	2015*	2016*	2017**
Shakopee	\$ 1,927	\$ 1,767	\$ 1,677	\$ 1,601	\$ 2,473
State-wide	1,099	1,037	1,002	991	N/A
Seven county metro area	1,081	1,084	1,049	1,040	N/A

Expenditures					
	2013*	2014*	2015*	2016*	2017**
Shakopee	\$ 2,043	\$ 7,511	\$ 8,748	\$ 1,916	\$ 2,401
State-wide	1,173	1,394	1,406	1,433	N/A
Seven county metro area	1,255	1,476	1,470	1,403	N/A

\* Source: *School District Profiles*

\*\* Estimate as of October 23, 2017; 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**

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

### **COMPENSATORY REVENUE**

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

### **STUDENT ACHIEVEMENT LEVY**

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

### **LEAD IN SCHOOL DRINKING WATER**

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

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

### **PAYMENTS TO NONOPERATING FUNDS**

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

### **SCHOOL BUILDING BOND AGRICULTURAL CREDIT**

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

## **Independent School District No. 720 Legislative Summary**

### **LONG-TERM FACILITIES MAINTENANCE REVENUE**

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

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

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

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

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

### **EQUITY REVENUE**

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

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

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

### **SPECIAL EDUCATION**

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

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

### **NONPUBLIC PUPIL AID**

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

**Independent School District No. 720**  
**Legislative Summary**

**VOLUNTARY PREKINDERGARTEN/SCHOOL READINESS PLUS**

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

**HOME VISITING REVENUE**

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

**PUPIL TRANSPORTATION FUNDING**

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

**REVIEW AND COMMENT**

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

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

**NEW FINANCE CODES**

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

**SPECIAL ELECTIONS**

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