

**Independent School District No. 318
Grand Rapids, Minnesota**

Communications Letter

June 30, 2023



Independent School District No. 318
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Report on Matters Identified as a Result of the Audit of the Basic Financial Statements

To the School Board and Management
Independent School District No. 318
Grand Rapids, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 318, Grand Rapids, Minnesota, as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic 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 over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the District's basic financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiencies identified are 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 2, 2023, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the School Board, management and others within the District, and state oversight agencies the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

BergankDV, Ltd.

St. Cloud, Minnesota
November 2, 2023

Independent School District No. 318 Significant Deficiencies

Lack of Segregation of Accounting Duties

The District had a lack of segregation of accounting duties in the cash disbursements, receipts, and payroll processes due to a limited number of office employees. The lack of adequate segregation of accounting duties could materially affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. Although this meets the definition of a "significant deficiency", it may not be practical to correct since the costs of obtaining desirable segregation of accounting duties may exceed benefits that could be derived.

The Business Manager has full access to the general ledger as well as reconciles state aids and property tax revenues.

Management is aware of this condition and will take 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.

We recommend management, along with the School Board, remain aware of this situation and continually monitor the accounting system including changes that occur.

Improper Bank Reconciliations

Since January 2023 and the District's conversion from the SMART to Skyward finance system, the bank reconciliations have not reconciled cash per the bank statement to the amounts of cash recorded in the general ledger. The variance amount has changed from month-to-month since the conversion.

District finance staff is aware of the issue and is working towards a solution.

We recommend management, along with the School Board, remain aware of this situation and continually work to properly reconcile cash balances.

Independent School District No. 318 Required Communication

We have audited the basic 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, 2023. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Basic Financial Statement Audit

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

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

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

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

**Independent School District No. 318
Required Communication**

Our Responsibility in Relation to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As communicated in our engagement letter, 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.

In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

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

Significant Risks Identified

We have identified the following significant risks of material misstatement:

- If duties cannot be appropriately segregated within the accounting department, there is a risk of misappropriation of assets through the payroll process.
- Improper revenue recognition specific to property taxes and state aids. Revenue recognition is considered a fraud risk on substantially all engagements as it is generally the largest line item impacting a district's operating results.
- Misappropriation of assets and management override of controls through the journal entry process. This is considered a risk in substantially all engagements.

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2023. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

**Independent School District No. 318
Required Communication**

Qualitative Aspects of the District's Significant Accounting Practices (Continued)

Significant Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on 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 basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements were:

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

Expense Allocation – Certain expenses are allocated to programs based on an estimate of the benefit to that particular program. Examples are salaries, benefits, and supplies.

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

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

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

Lease Liability and Right-to-Use Lease Assets – These balances are based on estimates and judgments determined by the District related to amortization, the discount rate, lease term, and lease payments.

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

Financial Statement Disclosures

Certain basic financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The basic financial statement disclosures are neutral, consistent, and clear.

Significant Difficulties Encountered during the Audit

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

Independent School District No. 318 Required Communication

Uncorrected and Corrected Misstatements

For the purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effects of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the basic financial statements taken as a whole and each applicable opinion unit.

Management has determined its effect is immaterial to the basic financial statements taken as a whole and each opinion unit.

- State Receivable/Revenue

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. 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 basic financial statements taken as a whole and each opinion unit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Representations Requested from Management

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

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

Independent School District No. 318
Required Communication

Other Information Included in Annual Reports

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 basic financial statements or to the basic financial statements themselves.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

**Independent School District No. 318
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

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
2014	\$ 5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%
2022	6,728	2.5%
2023	6,863	2.0%
2024	7,138	4.0%
2025	7,281	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.

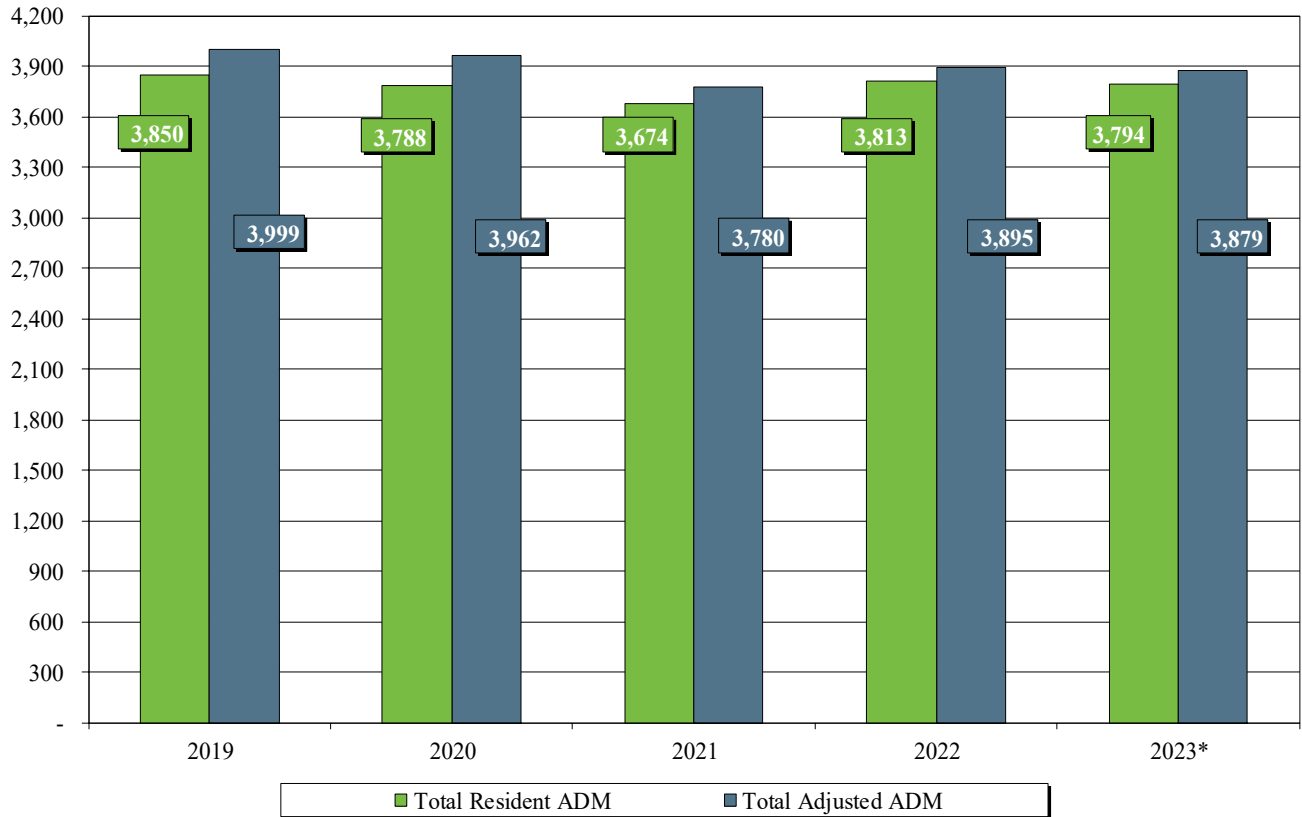
Independent School District No. 318 Financial Analysis

Average Daily Membership and Pupil Units

The following summarizes resident ADM of the District over the past five years ended June 30:

ADM	2019	2020	2021	2022	2023*
Other	129	141	113	118	114
Kindergarten	234	229	220	229	213
Elementary	1,650	1,620	1,545	1,627	1,664
Secondary	1,837	1,798	1,796	1,837	1,803
Total Resident ADM	3,850	3,788	3,674	3,813	3,794
Total Adjusted ADM	3,999	3,962	3,780	3,895	3,879

Students (ADM)



*Estimate

As the charts above indicate, resident ADM decreased 19, or 0.5%, from 2022 to 2023, while total adjusted ADM decreased 16, or 0.4%. Total adjusted ADM is higher than resident ADM due to open enrollment gains.

Independent School District No. 318 Financial Analysis

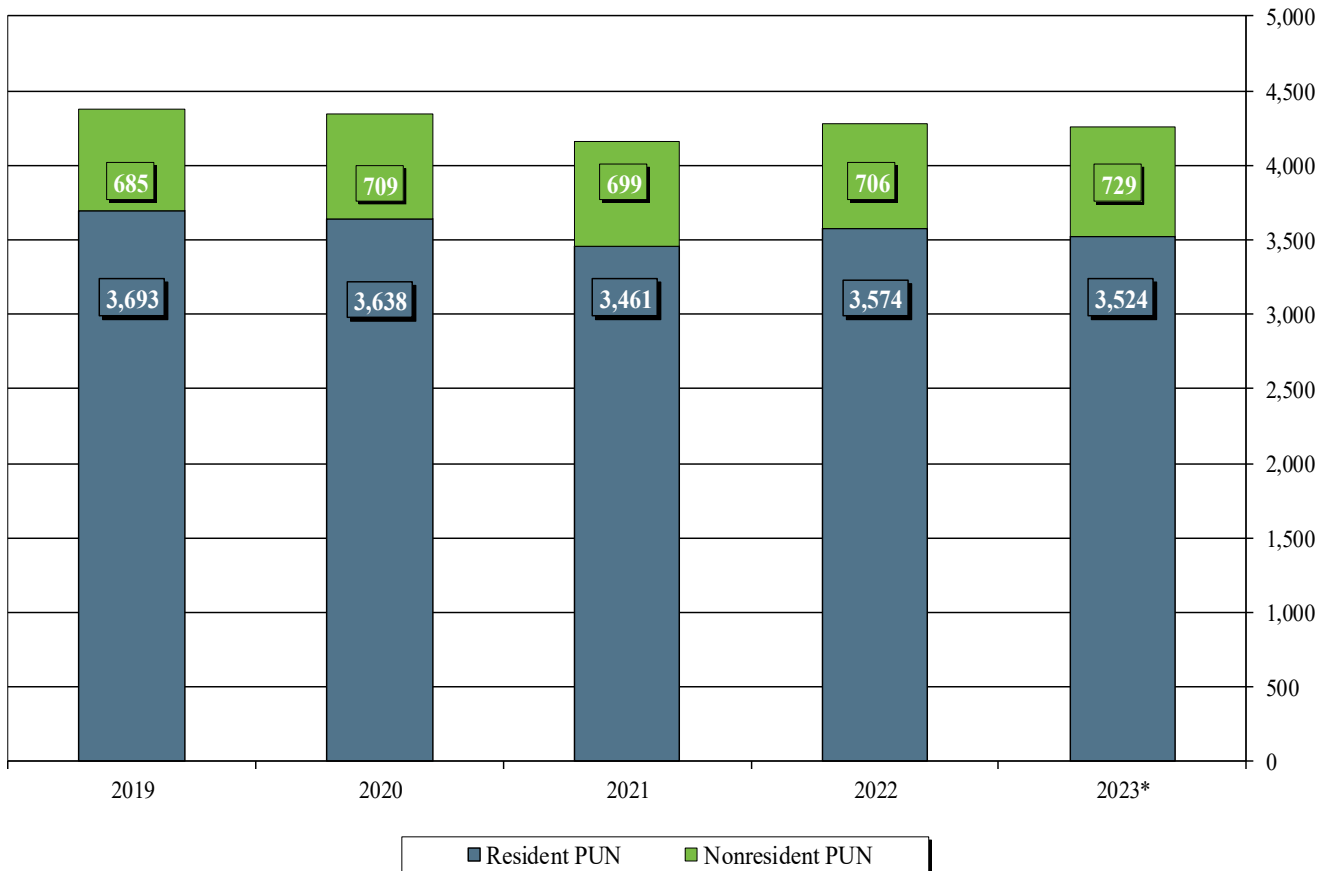
Average Daily Membership and Pupil Units (Continued)

Year 2019-2023	Pupil Units Weighting					
	Pre-Kindergarten	Handicapped Kindergarten	Half/Full Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
	1.000	1.000	1.000	1.000	1.000	1.200

The adjusted pupil units, table and graph below, 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. The District weighted pupil units decreased in 2023 by 27 units, or 0.6%. Since the majority of state aid is dependent on student counts, the change in students has a significant impact on the budget.

Adjusted WADM/PUN	2019	2020	2021	2022	2023*
Resident PUN	4,217	4,148	4,034	4,180	4,155
Nonresident PUN	685	709	699	706	729
Resident loss	(524)	(510)	(574)	(606)	(631)
Total Adjusted WADM/PUN	4,378	4,347	4,160	4,280	4,253

Students (WADM/PUN)



*Estimate

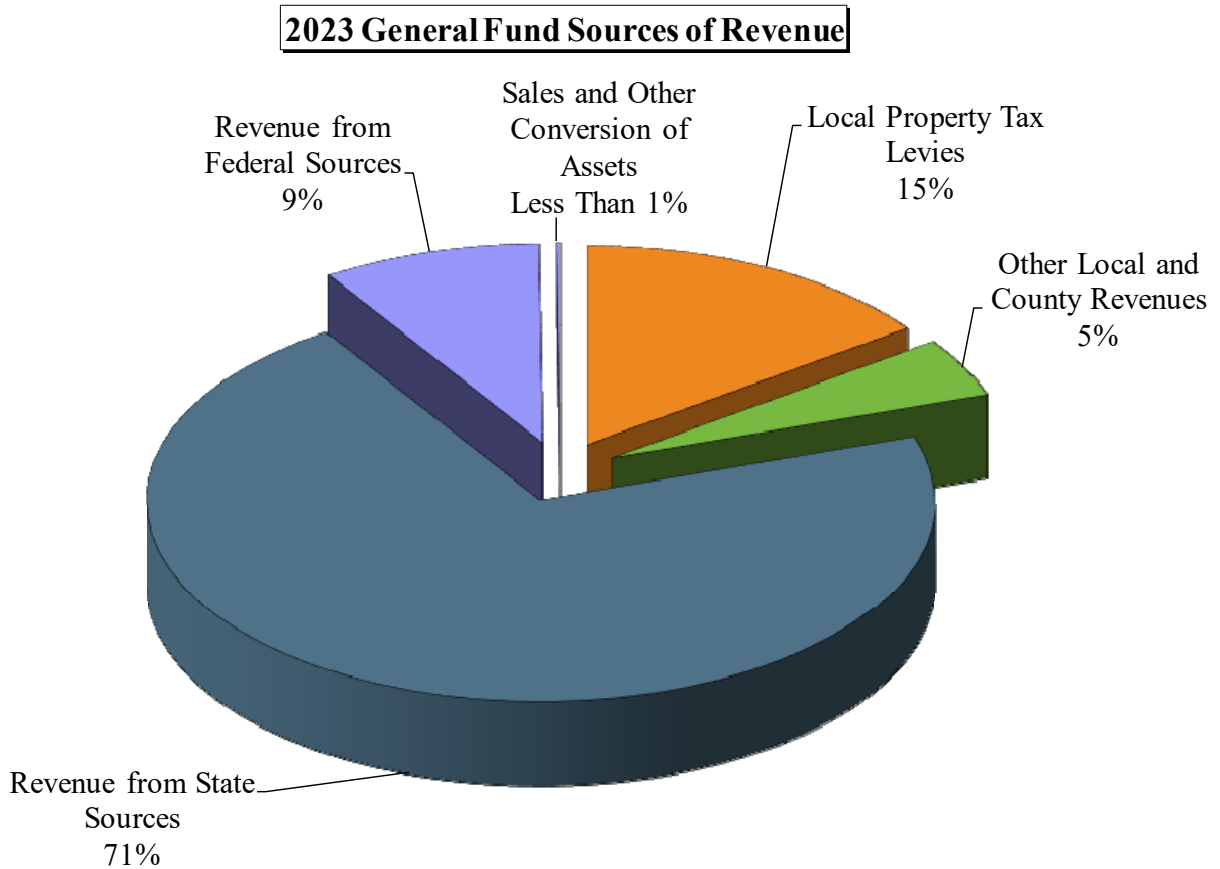
Independent School District No. 318 Financial Analysis

General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

For the Year Ended June 30,	2019	2020	2021	2022	2023
Local property tax levies	\$ 8,778,060	\$ 8,927,302	\$ 8,579,205	\$ 8,748,195	\$ 9,196,424
Other local and county revenues	2,027,262	2,705,548	2,680,113	2,777,624	2,798,614
Revenue from state sources	39,763,725	40,622,556	40,133,044	41,159,823	42,435,446
Revenue from federal sources	2,135,685	2,085,748	4,577,683	5,215,313	5,165,069
Sales and other conversion of assets	84,331	49,721	41,397	86,374	41,130
Total	\$ 52,789,063	\$ 54,390,875	\$ 56,011,442	\$ 57,987,329	\$ 59,636,683

Overall, the District's General Fund revenues increased \$1,649,354, or 2.8%, from 2022 to 2023. Revenue from state sources increased \$1,275,623 due to an increase in general education aid due to the increase in formula allowance, an increase in literacy incentive aid, and an increase in special education aid as the alternative delivery of specialized instructional services (ADSIS) program started in 2022, so 2023 was the first year to receive related aid. Local property tax revenue increased \$448,229 primarily due to a levy adjustment for long-term facilities maintenance.



Independent School District No. 318 Financial Analysis

Revenues Per Student

The table below shows a comparison of total revenue per ADM received by your District, districts with 3,000-5,000 ADM and all Minnesota school districts.

Grand Rapids Public School District	2019*	2020*	2021*	2022*	2023**
Property taxes	\$ 1,511	\$ 1,596	\$ 1,468	\$ 1,467	\$ 1,688
Other local sources	1,120	1,247	1,474	1,421	1,307
State aid	9,587	9,885	10,385	10,179	10,559
Federal aid	515	508	1,185	1,296	1,285
Total	\$ 12,733	\$ 13,236	\$ 14,512	\$ 14,363	\$ 14,839

District's with 3000-5000 ADM Served	2019*	2020*	2021*	2022*	2023**
Property taxes	\$ 1,700	\$ 1,705	\$ 1,976	\$ 1,941	N/A
Other local sources	567	766	495	792	N/A
State aid	9,838	10,659	10,464	10,745	N/A
Federal aid	383	545	897	1,375	N/A
Total	\$ 12,488	\$ 13,675	\$ 13,832	\$ 14,853	N/A

State-Wide	2019*	2020*	2021*	2022*	2023**
Property taxes	\$ 1,996	\$ 2,180	\$ 2,381	\$ 2,443	N/A
Other local sources	547	528	432	558	N/A
State aid	10,118	10,393	10,758	10,782	N/A
Federal aid	486	527	1,041	1,383	N/A
Total	\$ 13,147	\$ 13,628	\$ 14,612	\$ 15,166	N/A

* Amounts per State of Minnesota *School District Profiles*

** Estimate. 2023 amounts other than District amounts are not yet available.

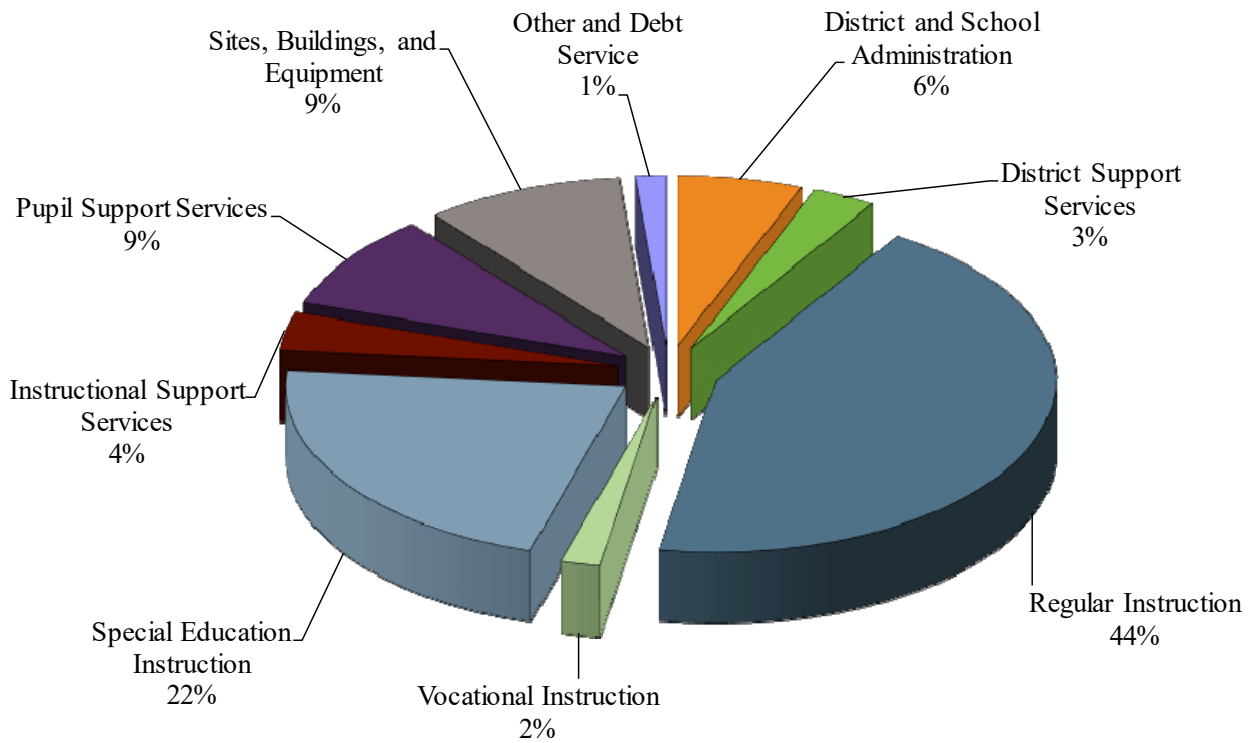
Independent School District No. 318 Financial Analysis

General Fund Expenditures

Overall, the District's General Fund expenditures decreased \$775,174, or 1.3%. The decrease was due to the elimination of several positions, postponing annual technology purchases due to budget cuts, and the purchase of just one bus in 2023 compared to four buses in 2022.

The percentage of each expenditure classification is highlighted in the chart below.

2023 General Fund Expenditures



**Independent School District No. 318
Financial Analysis**

General Fund Budget to Actual

The chart below presents the final budget and actual results for General Fund.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 8,025,035	\$ 8,384,000	\$ 9,196,424	\$ 812,424
Other local and county revenues	2,471,246	2,946,800	2,798,614	(148,186)
Revenue from state sources	42,873,449	41,974,145	42,435,446	461,301
Revenue from federal sources	6,471,870	6,853,465	5,165,069	(1,688,396)
Sales and other conversion of assets	63,000	102,500	41,130	(61,370)
Total revenues	59,904,600	60,260,910	59,636,683	(624,227)
Expenditures				
Administration	3,291,400	3,291,400	3,457,434	166,034
District support services	1,846,600	1,866,600	1,742,853	(123,747)
Elementary and secondary regular instruction	25,784,960	26,438,270	25,389,401	(1,048,869)
Vocational education instruction	1,053,700	1,053,700	1,068,347	14,647
Special education instruction	13,940,610	13,530,610	12,747,300	(783,310)
Instructional support services	1,906,450	1,964,450	2,125,011	160,561
Pupil support services	5,327,480	5,427,480	5,216,424	(211,056)
Sites and buildings	5,900,821	5,833,821	5,491,495	(342,326)
Food service	-	-	938	938
Fiscal and other fixed cost programs	316,900	316,900	273,704	(43,196)
Debt service	545,679	545,679	545,316	(363)
Total expenditures	59,914,600	60,268,910	58,058,223	(2,210,687)
Excess of revenues over (under) budget	(10,000)	(8,000)	1,578,460	1,586,460
Other Financing Sources	10,000	8,000	172,581	164,581
Net change in fund balances	\$ -	\$ -	\$ 1,751,041	\$ 1,751,041

Overall, there was a 1% variance between actual revenues of \$59,636,683 and the final amended budget of \$60,260,910. The largest budget variance occurred in revenue from federal sources, which was under budget by \$1,688,396 primarily due to spending less of the ESSER pandemic funding than anticipated. Partially offsetting this variance, local property taxes were over budget due to a large levy adjustment for long term facilities maintenance and a conservative budget.

Actual expenditures were under budget in the General Fund by \$2,210,687, or 3.7%. The largest variance was in regular instruction, which was \$1,048,869 under budget largely due to conservative budgeting for salary and benefit expenditures. Special education instruction expenditures were \$783,310 under budget also due to conservative budgeting for salary and benefit expenditures and anticipating that more educational support professionals would enroll in family health insurance.

**Independent School District No. 318
Financial Analysis**

Expenditures Per Student

The table below shows a comparison of expenditures per ADM by fund for your District, districts with 4000 plus ADM and all Minnesota school districts.

Grand Rapids Public School District	2019*	2020*	2021*	2022*	2023**
General Fund	\$ 13,013	\$ 13,363	\$ 15,077	\$ 14,570	\$ 14,446
Food Service	442	420	419	532	586
Community Service	323	318	281	309	303
Building Construction	2,599	14,710	3,495	819	1,810
Debt Service	393	747	810	778	868
Post Employment Debt Service	1,125	1,135	1,208	1,162	1,168
Total	\$ 17,895	\$ 30,693	\$ 21,290	\$ 18,170	\$ 19,182

Districts of 4000+ ADM Served	2019*	2020*	2021*	2022*	2023**
General Fund	\$ 13,278	\$ 13,586	\$ 14,552	\$ 15,351	N/A
Food Service	553	543	513	650	N/A
Community Service	747	733	658	738	N/A
Building Construction	1,903	2,442	2,078	1,803	N/A
Debt Service	1,302	1,340	1,583	1,542	N/A
Post Employment Debt Service Fund	131	100	72	68	N/A
Total	\$ 17,914	\$ 18,744	\$ 19,456	\$ 20,152	N/A

State-Wide Average	2019*	2020*	2021*	2022*	2023**
General Fund	\$ 13,025	\$ 13,313	\$ 14,167	\$ 15,010	N/A
Food Service	559	554	529	666	N/A
Community Service	638	622	571	646	N/A
Building Construction	1,642	2,085	2,008	1,773	N/A
Debt Service	1,225	1,265	1,457	1,477	N/A
Post-Employment Debt Service	129	80	65	54	N/A
Total	\$ 17,218	\$ 17,919	\$ 18,797	\$ 19,626	N/A

* Amounts per State of Minnesota *School District Profiles*

** Estimate. 2023 amounts other than District amounts are not yet available.

Independent School District No. 318
Financial Analysis

General Fund Operations

The following table presents five years of comparative operating results for the District's General Fund. For 2023, General Fund revenues increased 2.8% and expenditures decreased 1.4%. The General Fund experienced an overall increase in fund balance of \$1,804,751.

	2019	2020	2021	2022	2023
Revenues	\$ 52,810,270	\$ 54,390,875	\$ 56,081,369	\$ 57,987,329	\$ 59,636,683
Expenditures	(53,970,413)	(54,915,730)	(58,267,150)	(58,833,397)	(58,058,223)
Excess of revenues under expenditures	(1,160,143)	(524,855)	(2,185,781)	(846,068)	1,578,460
Add other financing sources (uses)	9,930	412,682	11,993	12,006	172,581
Prior period adjustment	-	199,081	-	-	-
Fund balance, July 1	8,935,138	7,784,925	7,871,833	5,698,045	4,863,983
Fund Balance, June 30	\$ 7,784,925	\$ 7,871,833	\$ 5,698,045	\$ 4,863,983	\$ 6,615,024

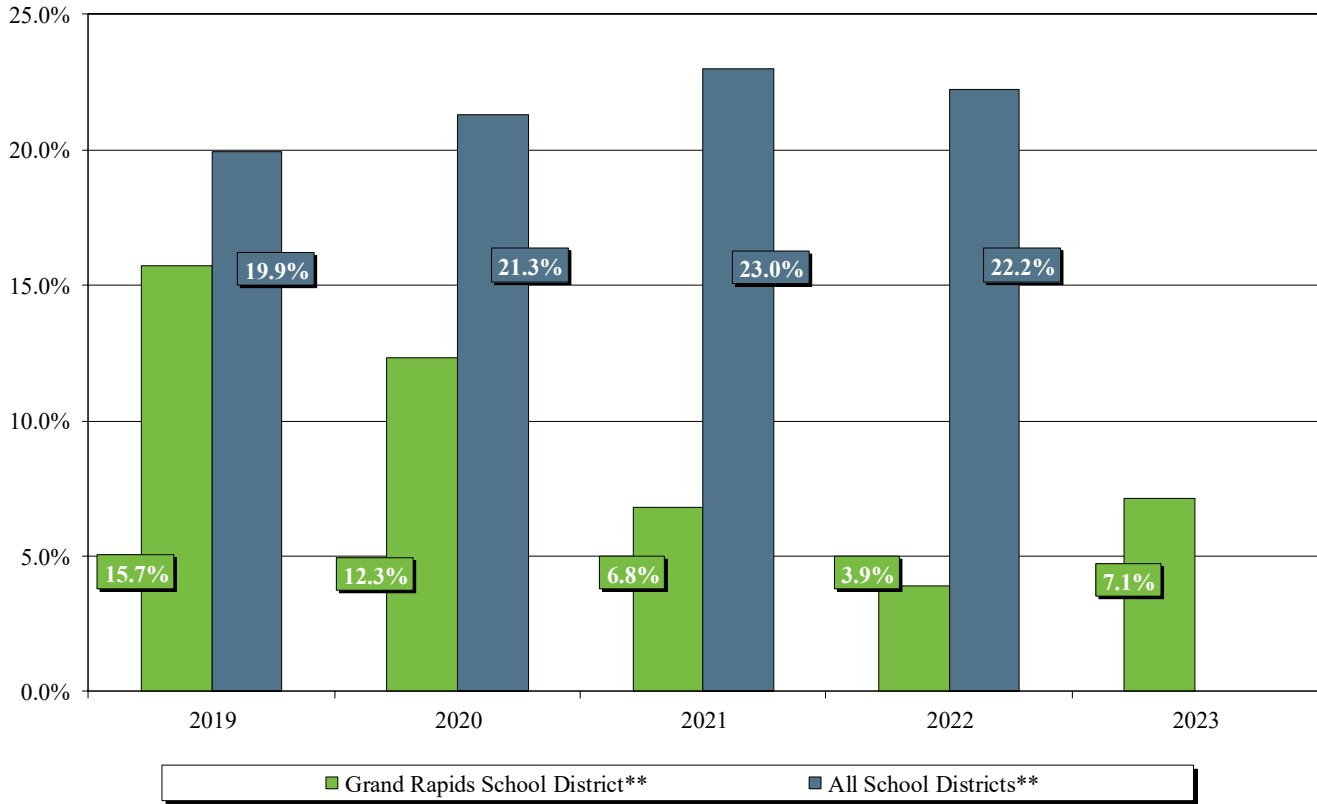
Components of Fund Balance					
Nonspendable	\$ 223,465	\$ 205,507	\$ 265,976	\$ 74,906	\$ 23,797
Restricted/reserved for					
Student Activities	-	168,924	142,902	151,887	179,279
Staff Development	2,505	-	-	-	-
Operating Capital	129,851	343,829	-	372,436	391,393
Area Learning Center	44,083	27,745	54,627	105,371	427,720
Gifted and Talented	24,518	16,548	19,261	10,903	13,361
Teacher Development	56,530	-	-	-	-
Basic Skills	70,621	11,698	-	-	51,124
Achievement and Integration	-	-	124,283	127,028	83,350
Safe School Levy	5,141	15,146	-	(28,913)	-
LTFM	(392,311)	482,836	825,547	1,066,084	1,260,106
Medical Assistance	760,665	1,215,690	1,199,669	1,081,193	667,788
Payments in lieu of taxes	-	-	-	5,760	14,452
Assigned fund balance	2,527,673	1,786,725	1,531,560	1,059,823	905,889
Unassigned fund balance	4,332,184	3,597,185	1,534,220	837,505	2,596,765
Total Fund Balance, June 30	\$ 7,784,925	\$ 7,871,833	\$ 5,698,045	\$ 4,863,983	\$ 6,615,024

As of June 30, 2023, the General Fund had a fund balance of \$6,615,024. Of this amount, \$23,797 represents nonspendable balances, \$3,088,573 represents restricted balances, and \$905,889 represents assigned balances, leaving an unassigned fund balance of \$2,596,765. Unassigned fund balance increased by \$1,759,260 during 2023 and the ending balance represents 4.5% of total expenditures based on 2023 spending levels.

Independent School District No. 318 Financial Analysis

General Fund Financial Health

Unrestricted Fund Balance as a Percent of Unrestricted Expenditures



* Figures for 2023 are not available for comparable districts or state-wide averages.

** Source: *Minnesota School District Financial Trends Report* for 2019-2022. The District's 2023 values were obtained from the 2023 Compliance Report.

The graph above details the unrestricted fund balance as a percentage of unrestricted expenditures. The District's fund balance as a percentage of expenditures has historically been lower than the average of all Minnesota school districts. Unrestricted fund balance as a percent of unrestricted expenditures increased in 2023 for the first time in the last five years.

Independent School District No. 318
Financial Analysis

Food Service Fund

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

For the Year Ended June 30,	2019	2020	2021	2022	2023
Revenues	\$ 1,829,760	\$ 1,648,118	\$ 1,493,896	\$ 2,563,847	\$ 2,364,242
Expenditures	(1,831,430)	(1,724,292)	(1,617,815)	(2,140,229)	(2,354,258)
Excess of revenues over (under) expenditures	(1,670)	(76,174)	(123,919)	423,618	9,984
Add other financing sources	-	72,984	1,404	-	-
Fund balance, July 1	539,795	538,125	534,935	412,420	836,038
Fund Balance, June 30	\$ 538,125	\$ 534,935	\$ 412,420	\$ 836,038	\$ 846,022

Components of Fund Balance					
Nonspendable	\$ 79,977	\$ 107,563	\$ 98,291	\$ 61,060	\$ 85,582
Restricted for					
Food Service	458,148	427,372	314,129	774,978	760,440
Fund Balance, June 30	\$ 538,125	\$ 534,935	\$ 412,420	\$ 836,038	\$ 846,022

For 2023, food service revenues decreased \$199,605, or 7.8%, due to the end of federal funding and higher reimbursement rates for all meals served. Expenditures increased \$214,029, or 10.0%, due to inflation causing higher food and delivery costs. Revenues exceeded expenditures by \$9,984 for 2023.

Community Service Fund

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

For the Year Ended June 30,	2019	2020	2021	2022	2023
Revenues	\$ 1,292,415	\$ 1,336,184	\$ 1,189,451	\$ 1,292,289	\$ 1,374,906
Expenditures	(1,340,058)	(1,307,122)	(1,087,651)	(1,244,611)	(1,218,152)
Excess of revenues over (under) expenditures	(47,643)	29,062	101,800	47,678	156,754
Add other financing sources	-	-	1,336	-	-
Fund balance, July 1	423,990	376,347	405,409	508,545	556,223
Fund Balance, June 30	\$ 376,347	\$ 405,409	\$ 508,545	\$ 556,223	\$ 712,977

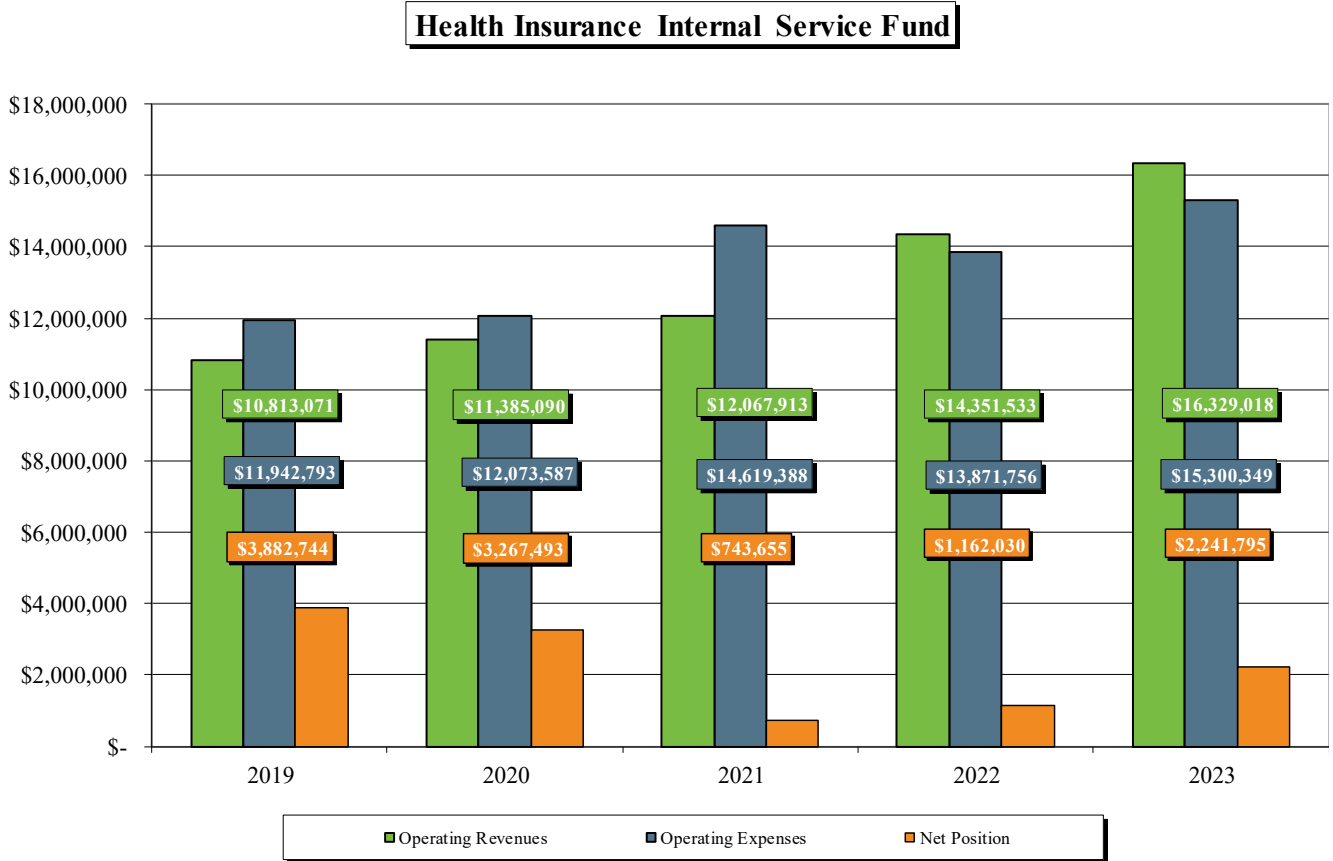
Components of Fund Balance					
Restricted fund balance	\$ 94,156	\$ 111,439	\$ 104,621	\$ 92,855	\$ 101,822
Restricted/reserved for					
Community Education	282,191	326,873	402,674	462,118	585,131
School Readiness	-	(32,903)	1,250	1,250	18,109
ECFE	-	-	-	-	7,915
Total Fund Balance, June 30	\$ 376,347	\$ 405,409	\$ 508,545	\$ 556,223	\$ 712,977

For 2023, community service revenues increased \$82,617, or 6.4%, due to increased participation. Expenditures decreased \$26,459, or 2.1%, due to a decrease in salaries and benefits expenditures. Revenues exceeded expenditures by \$156,754 for 2023.

Independent School District No. 318 Financial Analysis

Health Insurance Internal Service Fund

The following graph presents five years of comparative operating results for the District's Health Insurance Internal Service Fund.



Operating expenses exceeded operating revenues from 2019 to 2021. In 2022 and 2023, operating revenues exceeded operating expenses.

Independent School District No. 318 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).

American Indian Education Aid

Beginning in 2024, a school district or charter school enrolling at least 20 American Indian students will receive the greater of the sum of \$40,000 plus \$500 per American Indian student over the 20-count threshold or the amount of American Indian Education aid received in 2015.

American Rescue Plan (ARP) Act

The ARP Act was signed into law on March 11, 2021, and focuses on returning to, and maintaining, safe in-person learning for all students.

The ARP includes \$1.3 billion for E-12 education in ESSER funds for Minnesota to help schools returning to, and maintaining, safe in-person learning for all students. Per the federal law, 90% of these funds have been allocated to eligible districts and charter schools. 9.5% of these funds are for flexible use by each state education agency to create a plan to meet the needs of students. Funds are eligible for spending through September 30, 2024.

Area Learning Center (ALC) Transportation Aid

ALC transportation aid reimburses school districts for costs associated with transportation of students to and from an ALC program. Total statewide revenue is capped at \$1,000,000 annually. School districts can apply for this new funding stream for 2024 and beyond.

Basic Alternative Teacher Compensation Aid (Q-Comp)

The total cap for basic alternative teacher compensation aid increased from \$88,118,000 to \$88,461,000 for 2024 and 2025 and \$89,486,000 for 2026 and beyond.

Basic General Education Aid

The formula allowance for 2023 is set at \$6,863 and for 2024, the formula allowance is set at \$7,138, which is a 4% increase over 2023. The formula allowance for 2025 is \$7,281, or a 2% increase from 2024.

Basic Skills Revenue

The allowable uses for basic skills funding for 2024 and beyond have changed. Guidance on specific changes is included in the 2024 UFARS Manual.

Building and Cybersecurity

Local education agencies may apply for grants to improve security and cybersecurity. The grants may be used for security-related facility improvements and cybersecurity insurance premiums. State-wide funding of \$24,332,000 has been appropriated for these grants.

Safe school revenue has also been expanded to include cyber security measures.

Independent School District No. 318 Legislative Summary

Compensatory Education Revenue

The compensatory allowance for 2024 was updated and corresponds to increases in the basic formula allowance. A hold-harmless provision has been added for 2025 so that compensatory revenue for each site is the greater of its calculated revenue for 2025 or the 2024 actual revenue.

Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act

The CRRSA Act was signed into law on December 27, 2020, and provided an additional \$2.75 billion for the Emergency Assistance for Nonpublic School Fund (EANS Fund) of which \$41,697,717 was awarded to Minnesota. Funds are eligible for spending through September 30, 2023.

Gender-Neutral Single-User Restroom Grants

Local education agencies may apply for grants to remodel, construct, or repurpose space for gender-neutral single-user restrooms. Grants to school districts are capped at \$75,000 per site. State-wide funding of \$1,000,000 has been appropriated for these grants.

Lease Levy Authority

Minnesota Statutes 2023 § 126C.40, subdivision 1 grants authority to intermediate, cooperative units, and joint powers districts to levy for the costs of leasing administrative and classroom space. Levy authority is capped at \$65 per adjusted pupil unit of the member district(s). The proportionate share of deferred maintenance expenditures of district-owned buildings or sites leased to an intermediate, cooperative unit, or joint powers district may also be levied.

Local Optional Revenue

The second-tier equalization threshold for 2024 remains at \$510,000 before increasing to \$587,244 for 2025, \$642,038 for 2026, and \$671,345 for 2027 and later.

Long-term Facilities Maintenance (LTFM) Revenue

Joint powers districts may be included in the LTFM program along with intermediate and secondary cooperative districts.

Additionally, LTFM plans must include provisions for gender-neutral bathrooms, which has been added to the allowable list of LTFM expenses. No new LTFM funding is available for these expenses.

Online Learning Students

The Online Instruction Act repeals and replaces the Online Learning Act. Local education agencies can provide online instruction to enrolled students with a limit of 40 students per course. Entities must apply to MDE to provide online instruction to non-enrolled students.

Operating Referendum

Minnesota Statutes 2023 § 126C.17, subdivision 9 has been added, which allows School Boards to renew an existing operating referendum authority one-time through board resolution using the same per-pupil amounts and length of time. Board approval must happen by June 15 in the fiscal year prior to the last fiscal year generating revenue.

Independent School District No. 318 Legislative Summary

Pension Bill and Pension Adjustment Revenue

TRA required contributions have increased to 7.75% for employees effective for fiscal year 2024. Required employer contributions increase 0.2% in fiscal year 2024 until a required contribution rate of 8.75% is reached.

The pension adjustment rate for districts (besides ISD No. 625, St. Paul) is 1.25% for fiscal years 2024 and 2025 and 2.0% for fiscal year 2026 and 2027. For fiscal year 2028 and later, pension adjustment revenue must not exceed the fiscal year 2027 amount, and the revenue will be prorated, as necessary.

School Breakfast Program

Early childhood special education students are now eligible to participate in the School Breakfast program.

School Library Aid

New program revenue has been added to be used for school district libraries including media specialist salary and benefits, equipment, furniture, supplies, IT infrastructure, and electric and material resources.

For school districts, 2024 aid amounts to \$16.11 multiplied by the adjusted pupil units or \$40,000, whichever is greater.

For charter schools, 2024 aid amounts to \$16.11 multiplied by the adjusted pupil units or \$20,000, whichever is greater.

Special Education Aids

The Special Education Cross Subsidy Reduction Aid paid to districts increases from 6.43% to 44% beginning in 2024. A further increase to 50% begins in 2027.

An additional \$1,689 per ADM will be provided beginning in 2024 based on students served at special education sites where the federal instruction setting is greater than 3 for special education cooperatives, education districts, and intermediates.

Student Support Personnel Revenue

A new aid has been added to be used to hire new positions for student support services or to increase the full time equivalent of a current position, to maintain a position that would otherwise be eliminated, or to make a temporary position permanent.

"Student Support Services Personnel" means an individual licensed to serve as a school counselor, school psychologist, school social worker, school nurse, or chemical dependency counselor in Minnesota.

Student support services personnel aid is calculated based on the fiscal year per pupil allocation multiplied by the district's total adjusted pupil units, or \$40,000, whichever is greater. The aid cannot exceed expenditures.

Independent School District No. 318 Legislative Summary

Transportation Sparsity Revenue

Under *Minnesota Statutes* § 126C.10, subdivision 18a, qualifying districts with eligible expenses greater than revenue will receive an increase in additional revenue from 18.2% to 35% of calculated unfunded pupil transportation expenses beginning in 2024.

Unemployment Insurance Aid

Effective May 28, 2023, certain non-certified hourly school workers may qualify for "between term" summer unemployment benefits. A new aid has been created to reimburse districts for between term unemployment insurance costs, which are not eligible for levy reimbursement. The total aid available is \$135 million in fiscal year 2024 and is available until fiscal year 2027 or depletion.

Voluntary Prekindergarten (VPK)/School Readiness Plus

VPK seats are included in the calculation of general education revenue. Seats are funded at 0.6 ADM. The number of seats funded are set at 7,160 for 2024, 10,160 for 2025 with a state-wide cap of \$50 million, and 12,360 for 2026 and later.

Independent School District No. 318 Emerging Issues

Executive Summary

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

- **Implementation Guide No. 2021-1 – Amending Capitalization Requirements**
GASB has issued Implementation Guide No. 2021-1, amending previously issued guidance regarding capitalization requirements for capital assets that are significant in the aggregate but below the government's capitalization threshold individually.
- **Accounting Standard Update – GASB Statement No. 100 – Accounting Changes and Error Corrections**
GASB has issued GASB Statement No. 100 relating to accounting and financial reporting for accounting changes and error corrections. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability.
- **Accounting Standard Update – GASB Statement No. 101 – Compensated Absences**
GASB has issued GASB Statement No. 101 relating to accounting and financial reporting for compensated absences. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

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

Implementation Guide No. 2021-1 – Amending Capitalization Requirements

Implementation Guide No. 2021-1, amended previously issued guidance contained in Implementation Guide No. 2015-1 regarding capitalization requirements for capital assets that are significant in the aggregate.

Original guidance stated that it *may be* appropriate for a government to establish a capitalization policy that would require capitalization for certain types of assets with individual acquisition costs that are less than the threshold for an individual asset.

Amended guidance states that a government *should* capitalize assets whose individual acquisition costs are less than the threshold for an individual asset if those assets in the aggregate are significant. Computers and classroom furniture are common examples of asset types that could be significant collectively. The amended guidance clarifies that if 100 computers costing \$1,500 each totaling a \$150,000 aggregate amount is significant, the government *should* capitalize the computers. Information provided above was obtained from www.gasb.org.

Independent School District No. 318
Emerging Issues

Accounting Standard Update – GASB Statement No. 100 – *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*

The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes. As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting – understandability, reliability, relevance, timeliness, consistency, and comparability. This Statement also addresses corrections of errors in previously issued financial statements.

This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating prior periods, (b) changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.

This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.

Furthermore, this Statement addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 100 is effective for reporting periods beginning after June 15, 2023. Earlier application is encouraged.

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

Independent School District No. 318 Emerging Issues

Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences*

The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. However, leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.

This Statement requires that a liability for certain types of compensated absences – including parental leave, military leave, and jury duty leave – not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

GASB Statement No. 101 is effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged.

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