



**Independent School District No. 877  
Buffalo-Hanover-Montrose, Minnesota**

**Communications Letter**

**June 30, 2024**

**Independent School District No. 877**  
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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. 877  
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2024, 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 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 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.

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 over financial reporting 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 5, 2024, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the School Board and management and others within the Entity, 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.

*Bergan KDV Ltd.*

St. Cloud, Minnesota  
November 5, 2024

**Independent School District No. 877  
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, 2024. Professional standards require that we advise you of the following matters related to our audit.

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

**Independent School District No. 877  
Required Communication**

**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.

**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:

- ◆ Improper Revenue Recognition of State Aids and Property Taxes - Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the government's operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.
- ◆ Management Override Through Journal Entries - Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- ◆ Misappropriation of Assets through Payroll - Due to employee turnover, there is a risk of unauthorized transactions being made through the payroll process.

**Independent School District No. 877  
Required Communication**

**Significant Risks Identified (Continued)**

- ◆ Misappropriation of Assets through Bank Wire Transfers - Due to the ability to transfer large amounts of funds, there is a risk of unauthorized transactions being conducted via bank wire transfers.
- ◆ State Aid Valuation - Revenue and receivable amounts related to General Education Aid and Special Education Aid are generally material to the financial statements and involve significant estimates.
- ◆ Capital Assets Valuation - Capital assets and related depreciation are material to the financial statements and involve significant estimates.
- ◆ Pension Valuation - Net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions are generally material to the financial statements and involve significant estimates.
- ◆ Other Post Employment Benefits (OPEB) Valuation - Net OPEB liability, deferred outflows of resources related to OPEB, and deferred inflows of resources related to OPEB are generally material to the financial statements and involve significant estimates.

**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 the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2024. 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.

*Significant Accounting Estimates and Related Disclosures*

Accounting estimates and related disclosures 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 relate to:

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

General Education and Special Education Aid - General Education Aid is an estimate until 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.

Net 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.

**Independent School District No. 877  
Required Communication**

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

*Significant Accounting Estimates and Related Disclosures (Continued)*

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

We evaluated the key factors and assumptions used to develop the accounting estimates 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.

**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 did not identify, and we did not notify them of any uncorrected basic financial statement misstatements.

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.

**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.



**Independent School District No. 877  
Required Communication**

**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.

**Other Information Included in Annual Reports**

Pursuant to professional standards, our responsibility as auditors for other information, whether financial or nonfinancial, included in the District's annual reports, does not extend beyond the information identified in the audit report, and we are not required to perform any procedures to corroborate such other information.

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.

We were not engaged to report on the other information accompanying the basic 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.

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. 877 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.

### 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
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 adjustment changes, and other restructuring.

## Independent School District No. 877 Financial Analysis

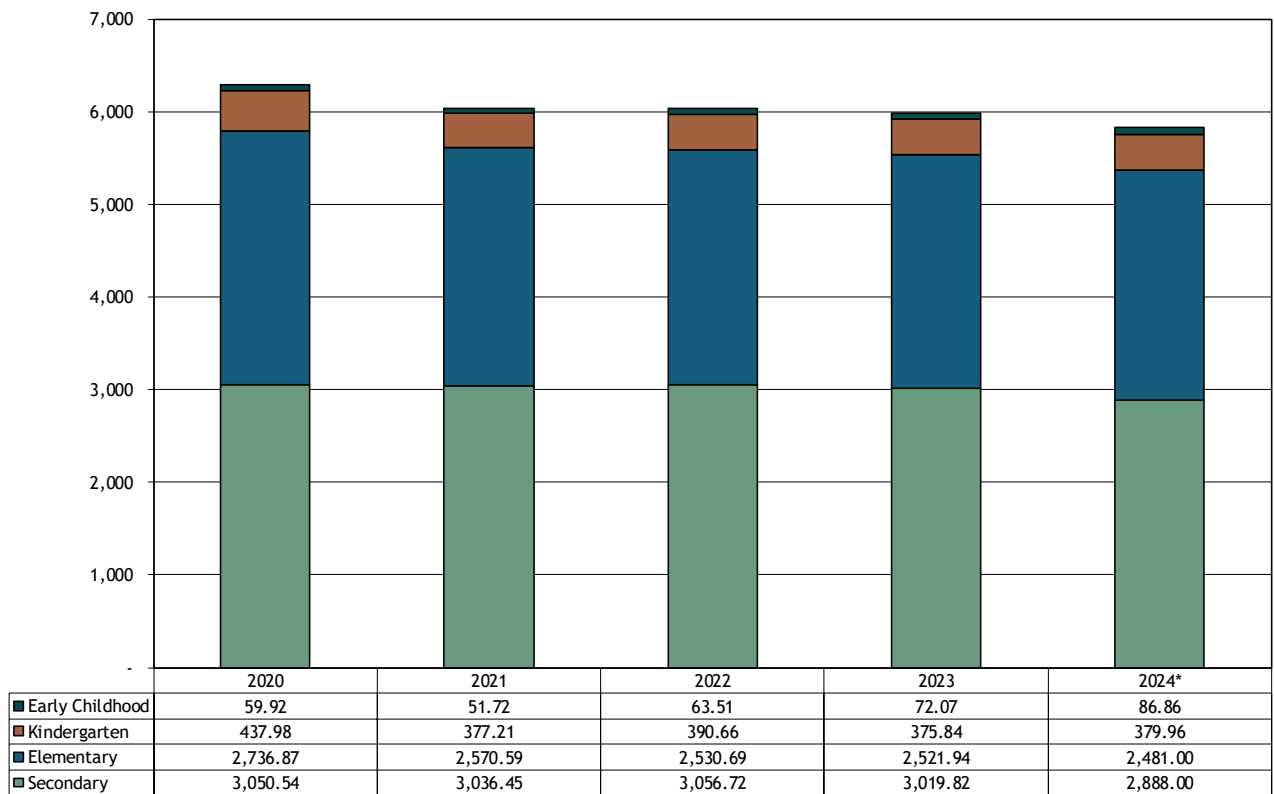
### Resident Average Daily Membership and Pupil Units

Approximately 74% 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 table and graph summarizes resident average daily membership (ADM) of the District for the past five years ended June 30:

ADM	2020	2021	2022	2023	2024*
Early Childhood	59.92	51.72	63.51	72.07	86.86
Kindergarten	437.98	377.21	390.66	375.84	379.96
Elementary	2,736.87	2,570.59	2,530.69	2,521.94	2,481.00
Secondary	3,050.54	3,036.45	3,056.72	3,019.82	2,888.00
<b>Total Resident ADM</b>	<b>6,285.31</b>	<b>6,035.97</b>	<b>6,041.58</b>	<b>5,989.67</b>	<b>5,835.82</b>

**Resident ADM**



\* Estimate as of October 14, 2024

# **Independent School District No. 877** **Financial Analysis**

## **Resident Average Daily Membership and Pupil Units (Continued)**

The chart and graph on the previous page illustrate the fluctuations in resident ADM experienced by the District over the past five years. Total resident ADM decreased 7.2% since 2020 and decreased 2.6% from 2023.

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				
	Early Childhood	Kindergarten	Elementary Grades 1-6	Secondary Grades 7-12
2020-2024	1.000	1.000	1.000	1.200

The pupil units weighting (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.

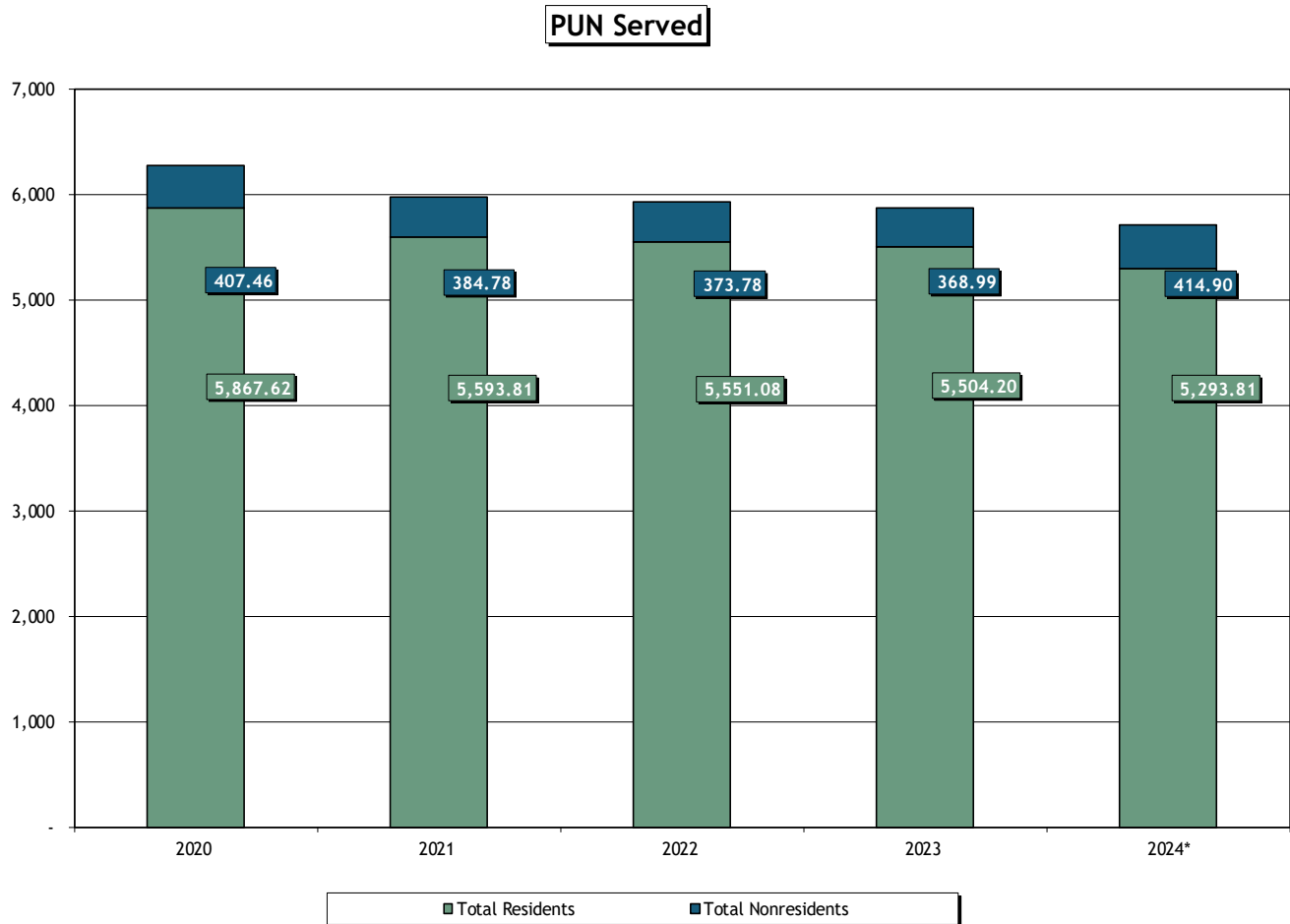
PUN	2020	2021	2022	2023	2024*
Residents	6,895.31	6,643.07	6,652.95	6,593.62	6,413.41
Resident PUN loss	(1,027.69)	(1,049.26)	(1,101.87)	(1,089.42)	(1,119.60)
Nonresident PUN gain	407.46	384.78	373.78	368.99	414.90
<b>Total PUN Served</b>	<b>6,275.08</b>	<b>5,978.59</b>	<b>5,924.86</b>	<b>5,873.19</b>	<b>5,708.71</b>

\* Estimate as of October 14, 2024

Resident PUN decreased from 2023 by 180.21 units. PUN served has varied from year-to-year based on open enrollment. From 2023 to 2024, total PUN served decreased 164.48 units as a result of the decrease in resident PUN.

Independent School District No. 877  
Financial Analysis

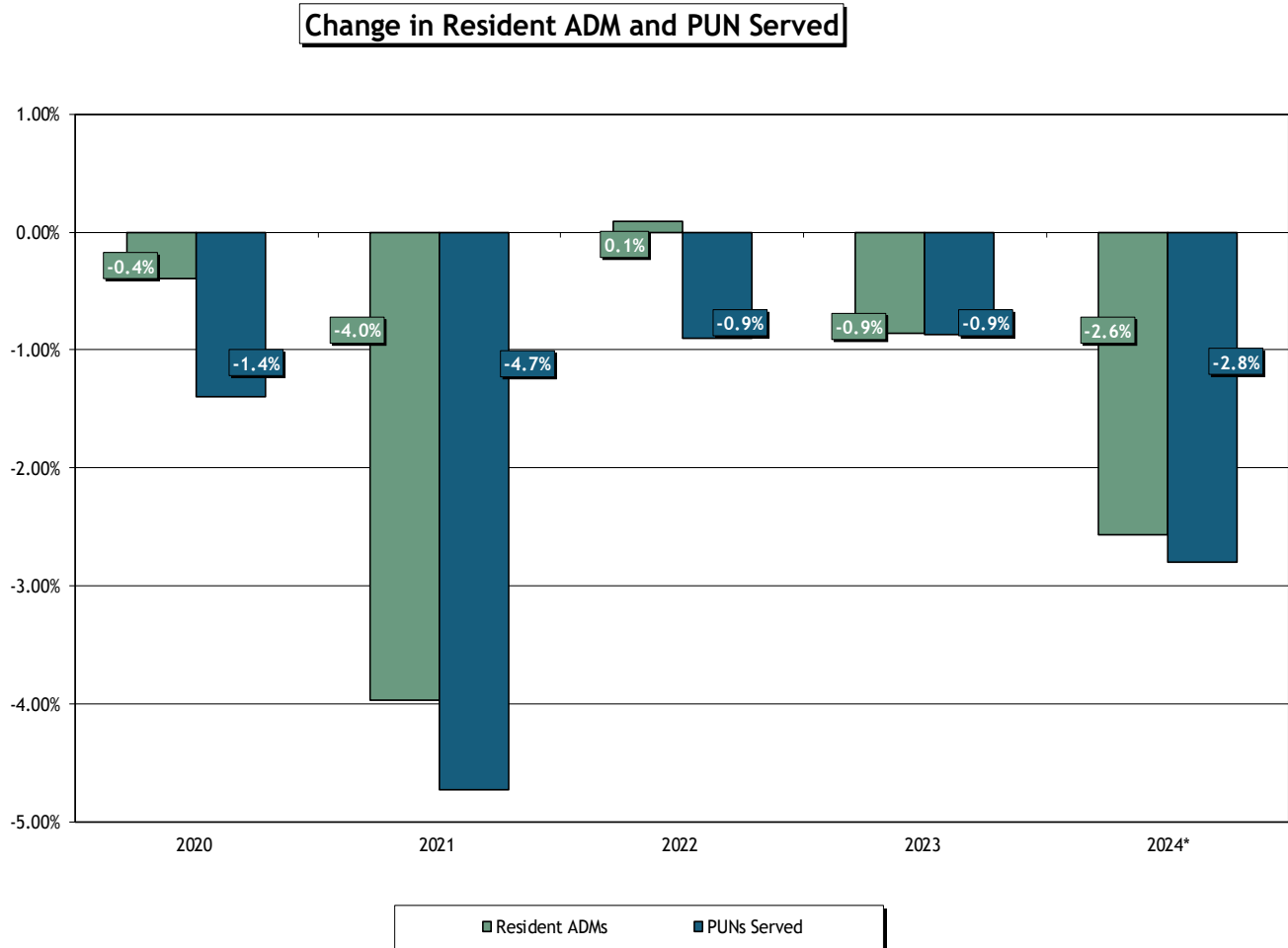
Pupil Units Weighting Served



\* Estimate as of October 14, 2024

Independent School District No. 877  
Financial Analysis

Pupil Units Weighting Served (Continued)



\* Estimate as of October 14, 2024

**Independent School District No. 877**  
**Financial Analysis**

**General Fund Revenues Budget and Actual**

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 13,318,373	\$ 13,634,498	\$ 13,673,769	\$ 39,271
Other local revenues	2,884,564	3,373,395	3,906,823	533,428
Revenue from state sources	59,481,830	59,862,463	60,077,881	215,418
Revenue from federal sources	2,464,307	3,400,429	3,280,688	(119,741)
Sales and other conversion of assets	22,000	22,000	28,673	6,673
Total revenues	<u>78,171,074</u>	<u>80,292,785</u>	<u>80,967,834</u>	<u>675,049</u>
<b>Expenditures</b>				
Administration	2,421,539	2,409,553	2,442,897	33,344
District support services	1,772,915	1,921,976	1,830,579	(91,397)
Regular instruction	33,994,386	35,797,860	35,337,846	(460,014)
Vocational instruction	1,923,816	2,027,365	1,977,946	(49,419)
Special education instruction	15,899,590	16,132,171	16,315,831	183,660
Instructional support services	4,727,088	5,211,452	5,651,205	439,753
Pupil support services	7,097,260	7,050,120	7,079,494	29,374
Sites and buildings	9,050,944	8,630,290	7,776,414	(853,876)
Fiscal and other fixed cost programs	356,863	346,161	319,147	(27,014)
Debt service	260,838	258,038	258,036	(2)
Total expenditures	<u>77,505,239</u>	<u>79,784,986</u>	<u>78,989,395</u>	<u>(795,591)</u>
Excess of revenues over expenditures	665,835	507,799	1,978,439	1,470,640
<b>Net Other Financing Sources</b>	<u>1,500</u>	<u>1,500</u>	<u>12,211</u>	<u>10,711</u>
<b>Net Change in Fund Balance</b>	<u>\$ 667,335</u>	<u>\$ 509,299</u>	<u>\$ 1,990,650</u>	<u>\$ 1,481,351</u>

The Board approved a final General Fund revenue budget of \$80,292,785. With actual revenues coming in at \$80,967,834, the final budget produced a variance of 0.8%, or \$675,049. The largest variance was in other local revenues, which were over budget due to the increase in investment income not being budgeted for and student activities continuing to grow more than anticipated.

In total, General Fund expenditures were under budget 1.0%, or \$795,591. Sites and buildings expenditures were under budget due to the unpredictability of project timelines and plan changes. Regular instruction expenditures were under budget while instructional support services expenditures were over budget due to budgeting for curriculum under regular instruction while the purchase was coded to instructional support services.

## Independent School District No. 877 Financial Analysis

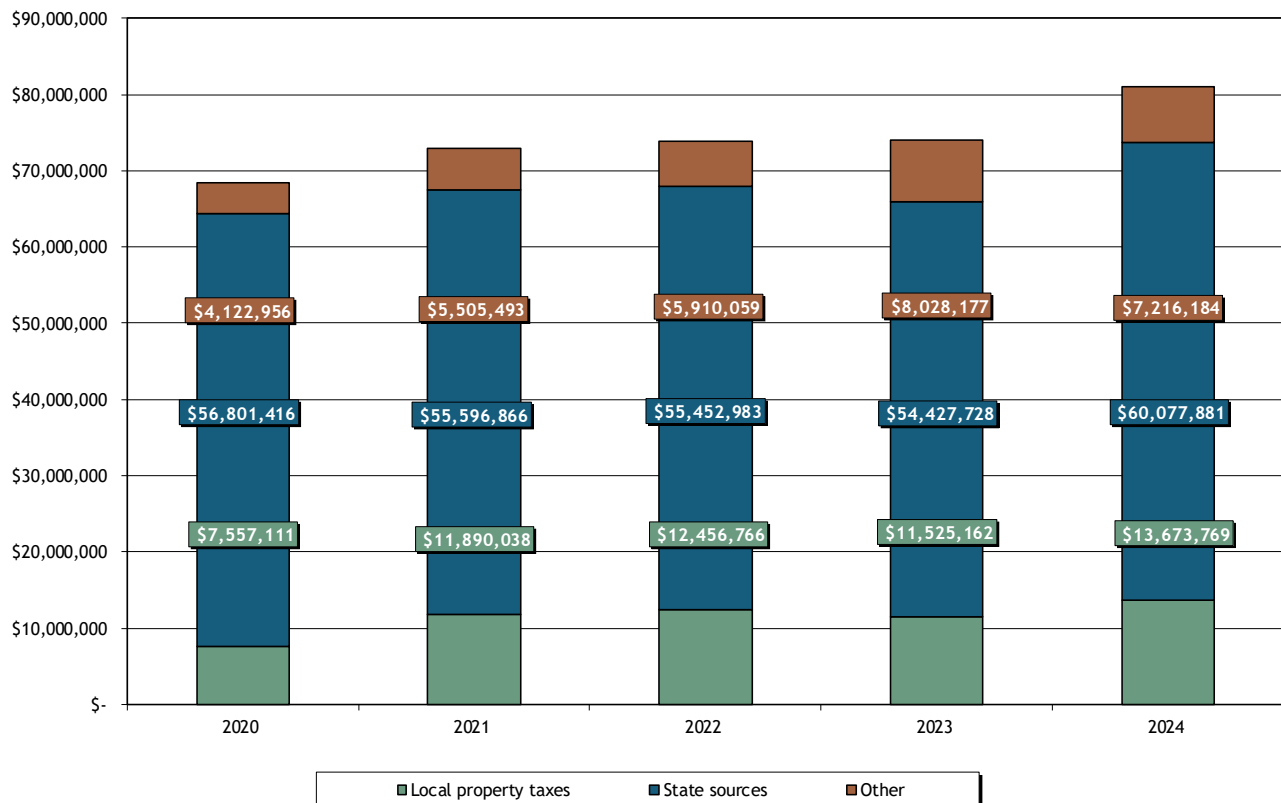
### General Fund Sources of Revenue

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

	2020	2021	2022	2023	2024
Local property taxes	\$ 7,557,111	\$ 11,890,038	\$ 12,456,766	\$ 11,525,162	\$ 13,673,769
State sources	56,801,416	55,596,866	55,452,983	54,427,728	60,077,881
Other	4,122,956	5,505,493	5,910,059	8,028,177	7,216,184
<b>Total</b>	<b>\$ 68,481,483</b>	<b>\$ 72,992,397</b>	<b>\$ 73,819,808</b>	<b>\$ 73,981,067</b>	<b>\$ 80,967,834</b>

Total General Fund revenue increased \$6,986,767, or 9.4%, from 2023 to 2024. Local property taxes increased by \$2,148,607 with an increase in the General Fund levy amount. Other sources decreased \$811,993 due to decreased spending of federal pandemic relief funding as grants expired. State revenue sources increased by \$5,650,153 due to an increase in the general education formula, an increase in compensatory revenue, and an increase in the special education entitlement because of districts receiving 44% of the cross subsidy reimbursed in 2024 compared to 6.43% in previous years as well as higher overall special education costs.

**General Fund Sources of Revenue**





# Independent School District No. 877 Financial Analysis

## Revenues and Expenditures Per ADM Served

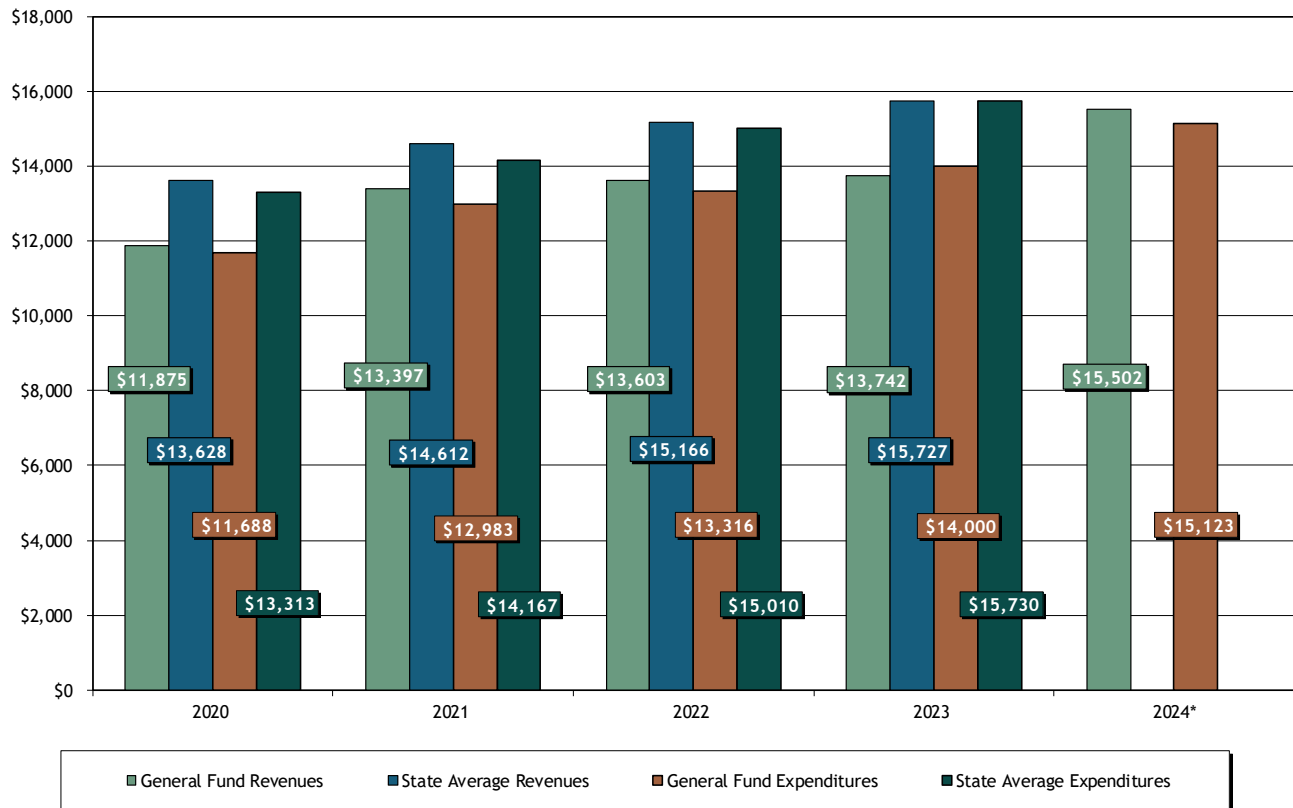
General Fund revenues per students (ADM) served are summarized in the following table and graph:

	2020	2021	2022	2023	2024*
General Fund	\$ 11,875	\$ 13,397	\$ 13,603	\$ 13,742	\$ 15,502
General Fund state average	13,628	14,612	15,166	15,727	N/A

General Fund expenditures per students (ADM) served are summarized in the following table and graph.

	2020	2021	2022	2023	2024*
General Fund	\$ 11,688	\$ 12,983	\$ 13,316	\$ 14,000	\$ 15,123
General Fund state average	13,313	14,167	15,010	15,730	N/A

## Revenues and Expenditures Per ADM Served



2020 through 2023 amounts obtained from the Minnesota Department of Education Financial Profile Reports.

\* 2024 averages not yet available.

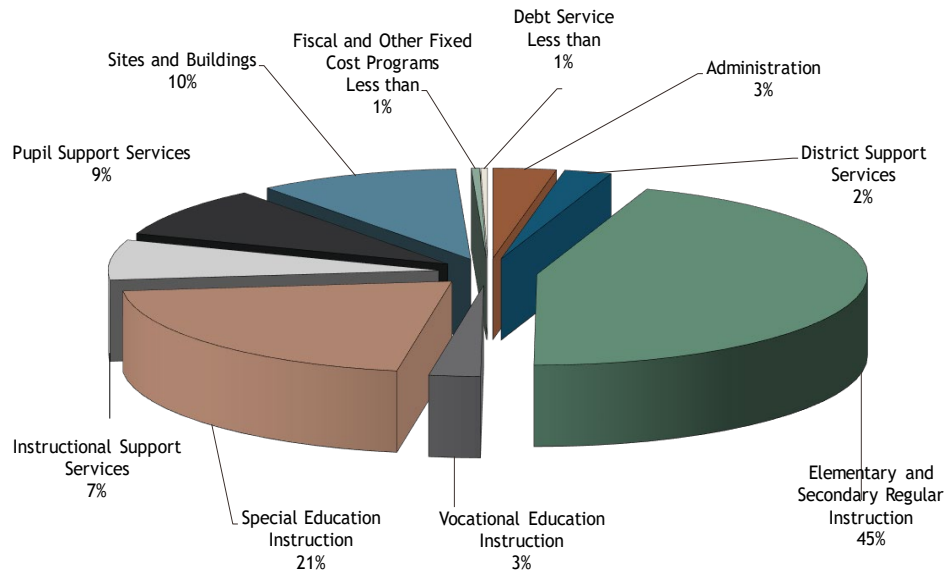
Revenues per ADM have consistently been below the state average, receiving less in property tax revenue per ADM as well as less state and federal aids per ADM. In relation to this, as a result of bringing in less revenue per ADM, the District is spending less per ADM than the state average.

## Independent School District No. 877 Financial Analysis

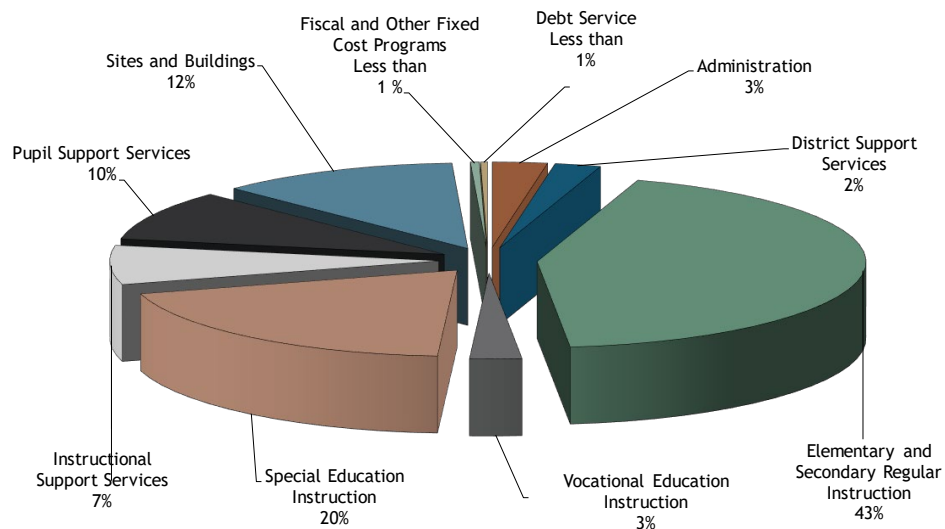
### General Fund Expenditures

The graphs below depict the percentage of expenditures by function in the General Fund for years 2023 and 2024. Expenditures increased by \$3,547,177, or 4.7%, from 2023 to 2024, and the allocation of expenditures remained very consistent. Education programs and instructional/pupil support made up 85% and 83% of the District's expenditures, for 2024 and 2023, respectively. Just 5% of expenditures were attributable to administration and district support services for 2024 and 2023.

**General Fund Expenditures 2024**



**General Fund Expenditures 2023**



# Independent School District No. 877

## Financial Analysis

### General Fund Operations

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

	2020	2021	2022	2023	2024
Revenues	\$ 68,481,483	\$ 72,992,397	\$ 73,819,808	\$ 73,981,067	\$ 80,967,834
Expenditures	67,409,717	70,812,639	72,394,748	75,442,218	78,989,395
Excess of revenues over (under) expenditures	1,071,766	2,179,758	1,425,060	(1,461,151)	1,978,439
Transfers/other financing sources and uses	616	86,919	136,728	76,621	12,211
Change in accounting principle	28,484	-	-	-	-
Fund balance, July 1	14,666,516	15,767,382	18,034,059	19,595,847	18,211,317
<b>Fund Balance, June 30</b>	<b>\$ 15,767,382</b>	<b>\$ 18,034,059</b>	<b>\$ 19,595,847</b>	<b>\$ 18,211,317</b>	<b>\$ 20,201,967</b>

Components					
Unassigned	\$ 7,850,572	\$ 10,013,894	\$ 10,750,570	\$ 10,418,889	\$ 11,803,666
Nonspendable	559,231	607,010	808,200	706,309	821,258
Reserved/restricted for					
Student activities	26,151	21,121	38,012	42,337	45,429
Operating capital	1,015,094	1,182,366	1,497,207	1,749,715	1,940,960
Literacy Incentive Aid	-	-	-	-	182,371
American Indian Education Aid	-	-	-	-	8,407
Long-term facility maintenance	(115,278)	347,494	624,421	(198,064)	377,945
Medical assistance	308,929	482,065	488,888	326,694	379,846
Committed/assigned for					
Separation benefits	2,615,036	2,187,804	2,374,820	2,576,411	2,890,038
Student activities - fund 9	403,592	383,104	351,218	428,932	584,869
Q Comp	105,022	37,353	133,344	25,072	-
Capital	1,833,715	1,385,317	1,030,697	853,208	428,147
Carryover	904,295	1,201,806	1,421,168	1,352,588	759,431
Dental insurance	261,023	184,725	77,302	(70,774)	(20,400)
<b>Total</b>	<b>\$ 15,767,382</b>	<b>\$ 18,034,059</b>	<b>\$ 19,595,847</b>	<b>\$ 18,211,317</b>	<b>\$ 20,201,967</b>

Total General Fund revenue increased 9.4% from 2023 to 2024 as previously discussed.

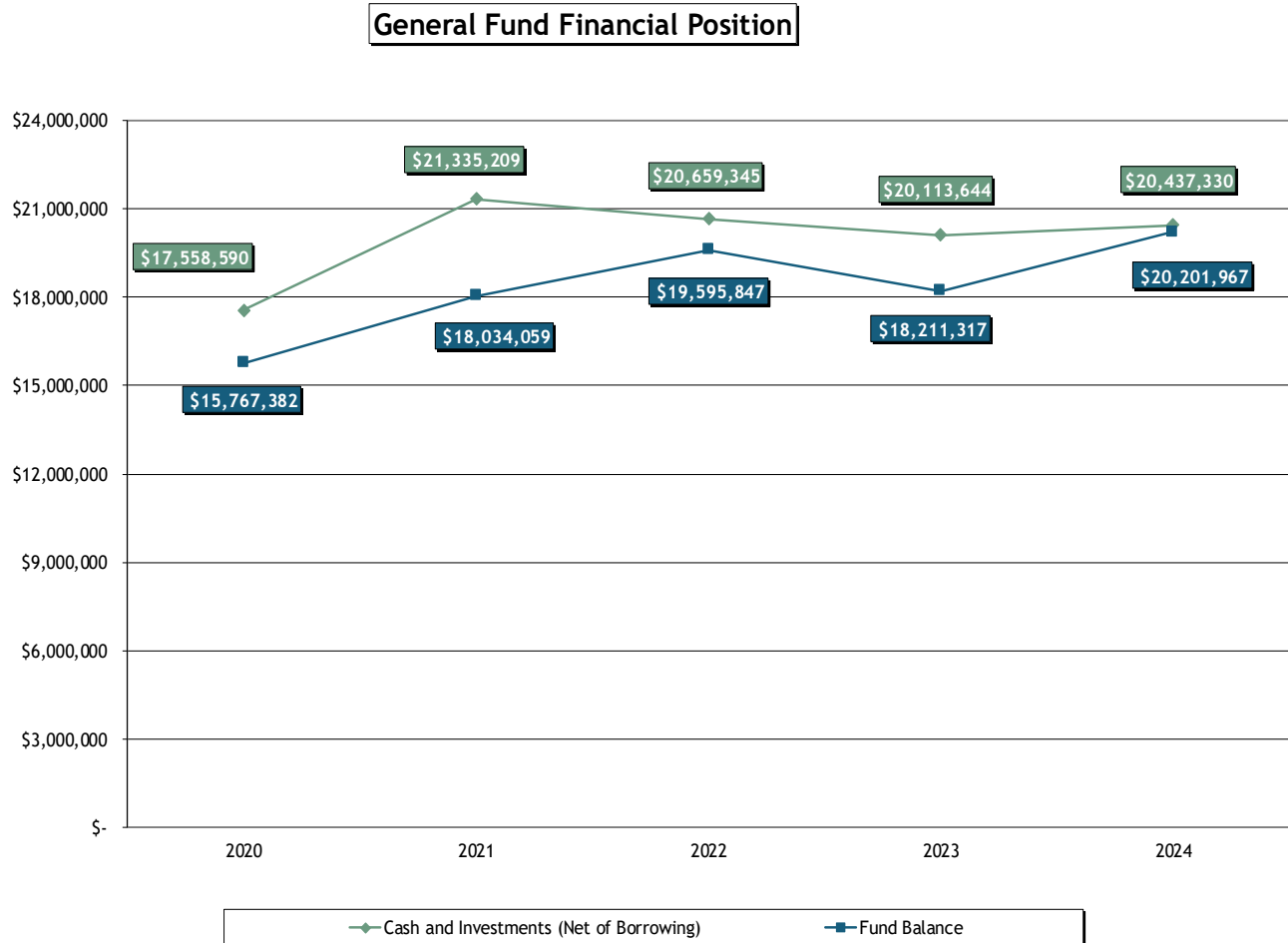
Total General Fund expenditures increased 4.7% from 2023 to 2024. This increase was across most programs primarily due to contractual increases in salaries and benefits.

Revenues exceeded expenditures during 2024, resulting in an increase in total fund balance of \$1,990,650. The increase was reported across most fund balance components with the largest increase in fund balance being unassigned, which increased \$1,384,777.

Unassigned fund balance as of June 30, 2024, amounted to \$11,803,666. This amount equals 14.9% of General Fund expenditures based on 2024 spending levels.

## Independent School District No. 877 Financial Analysis

### General Fund Operations (Continued)



This graph outlines the cash and investments (net of borrowing) and the fund balance for the General Fund for the past five years. A healthy fund balance allows the District to maintain a positive operating cash position when expenditures are timed prior to the receipt of significant revenues, including state aid and local property tax levies. At year-end when expenditure needs are significant and revenue receipts are delayed until subsequent to year-end, an increased positive fund balance position reduces the reliance on short-term borrowing.

The state pays out 90% of its aids during the fiscal year, with the remaining 10% coming after year-end.

**Independent School District No. 877**  
**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,	2020	2021	2022	2023	2024
Revenues	\$ 3,431,084	\$ 3,574,635	\$ 4,844,434	\$ 3,905,749	\$ 4,987,106
Expenditures, excluding OPEB	3,122,854	3,133,990	3,533,402	3,585,741	4,376,501
Excess of revenues over expenditures	308,230	440,645	1,311,032	320,008	610,605
Transfers/other financing sources	453	1,310	14,116	-	-
Fund balance, July 1	621,742	930,425	1,372,380	2,697,528	3,017,536
<b>Fund Balance, June 30</b>	<b>\$ 930,425</b>	<b>\$ 1,372,380</b>	<b>\$ 2,697,528</b>	<b>\$ 3,017,536</b>	<b>\$ 3,628,141</b>

In 2024, revenues exceeded expenditures by \$610,605. Revenues increased \$1,081,357 due to a State Legislative change and all student meals not federally funded were reimbursed by the State in 2024. This resulted in a significant increase in the number of meals served. Expenditures increased \$790,760 due to an increase in staff levels and food costs in correlation with the increase in the number of meals served.

**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,	2020	2021	2022	2023	2024
Revenues	\$ 3,380,387	\$ 3,014,480	\$ 3,794,664	\$ 4,160,988	\$ 4,684,255
Expenditures, excluding OPEB	3,472,360	3,098,360	3,467,083	3,752,012	4,099,179
Excess of revenues over (under) expenditures	(91,973)	(83,880)	327,581	408,976	585,076
Transfers/other financing sources	-	-	-	-	266
Fund balance, July 1	(33,383)	(125,356)	(209,236)	118,345	527,321
<b>Fund Balance, June 30</b>	<b>\$ (125,356)</b>	<b>\$ (209,236)</b>	<b>\$ 118,345</b>	<b>\$ 527,321</b>	<b>\$ 1,112,663</b>

<b>Components</b>					
Unassigned	\$ (50,506)	\$ (50,687)	\$ (73,462)	\$ (78,301)	\$ (93,675)
Nonspendable	5,168	2,037	10,244	1,781	2,967
Restricted/reserved for					
ECFE	114,542	196,617	225,808	195,493	206,487
Community education	(226,840)	(438,776)	(122,940)	307,973	875,192
School readiness	19,935	44,612	78,695	100,375	121,692
Adult basic education	12,345	36,961	-	-	-
<b>Total</b>	<b>\$ (125,356)</b>	<b>\$ (209,236)</b>	<b>\$ 118,345</b>	<b>\$ 527,321</b>	<b>\$ 1,112,663</b>

Revenues exceeded expenditures for the third time in the five years presented, resulting in an increase in fund balance of \$585,342. Revenues increased \$523,267 while expenditures increased \$347,167. Revenues increased as a result of increased programming and participation across activities including KidKare, school readiness, and drivers education. Expenditures increased due to the addition of staff for increased programming.

## **Independent School District No. 877 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**

The period in which this aid can be carried over has been revised from six months to one year to be consistent with district financial reporting. Permanent School Fund Supplemental Aid is set at \$40,000 in 2025 for tribal contract schools.

### **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. School districts can apply for this new funding stream for 2024 and beyond. Allowable recipients for this aid have been modified to include cooperative units that provide their own transportation for ALCs.

### **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. Unspent "Q Comp" funds must be reserved in a restricted fund balance and used only for their intended purpose.

### **Basic General Education Aid**

The formula allowance for 2024 was set at \$7,138 and for 2025, the formula allowance increases to \$7,281, which is a 2% increase over 2024. For fiscal years 2026 and beyond, the actual increase will be equal to the Consumer Price Index - Urban with a floor of 2% and a cap of 3%.

### **Basic Skills Revenue**

School districts are permitted to execute a one-time transfer of restricted balance sheet funds into another restricted balance sheet that is in alignment with uses.

### **Charter School Lease Aid Review**

The Commissioner may develop a system of analyzing charter school lease aid applications. The system will support consistency in applications and allow for the evaluation of the financial viability of multiple charter school leases.

### **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.

## **Independent School District No. 877**

### **Legislative Summary**

#### **English Learner Aid and Cross Subsidy**

For 2024-2026, aid is \$1,228 times the greater of 20 or total English learner ADM and \$436 times English learner pupil units (concentration). For 2027, this increases to \$1,775 times the greater of 20 or total English learner ADM and \$4630 times English learner pupil units (concentration), and 25% Cross Subsidy Aid Reduction based on second prior year qualifying services.

#### **Facilities**

Districts subject to non-voter approved building projects that require a review and comment do not need to publish or hold a public hearing on the results of the review and comment except districts eligible for non-voter construction projects under *Minnesota Statutes* § 126C.40, subd. 6 must hold a public meeting within 45 days of a review and comment decision. The dates of publication of review and comment have been changed to at least 48 days and not more than 70 days before a referendum. Prior legislation was not more than 60 days before a referendum.

#### **Food Service Fund**

Lunchroom furniture, including tables and chairs used by pupils to eat, were added as an eligible expense in the food service fund if a surplus exists for three consecutive years.

#### **Local Optional Revenue**

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

#### **Paraprofessionals**

For the 2024-2025 school year, districts are required to provide 6 hours of training and may be reimbursed for up to 6 hours. A separate payment equal to 2 hours of the district average wage rate will be made. Consultation with the union representative must be made before planning required trainings.

Special education paraprofessionals employed and paid with special education funding during 2024 may continue to be paid with State special education fund (not federal) for 2025 if they meet competencies 4 and 9 in the competency grid or are enrolled in a qualifying training and testing program.

MDE and the Professional Educator Licensing and Standards Board (PELSB) are required to review paraprofessional qualifications.

#### **Pension Bill and Pension Adjustment Revenue**

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.

#### **Special Education Aid**

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

#### **Student Support Personnel Aid**

Districts and charters may retain unspent aid in a restricted fund balance, limited to the amount of the prior year's aid allocation.

**Independent School District No. 877**  
**Legislative Summary**

**Student Teacher Stipend Pilot Program**

Funding of \$6,543,000 has been approved for 8 teacher preparation programs to provide student teachers placed in Minnesota schools during the 2024-2025 school year. Stipends should be awarded at approximately \$6,880 per student teacher.

**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. This aid now required to be paid on a 90/10 basis.

**Voluntary Prekindergarten (VPK)**

VPK seats were increased to 12,360 in 2025 using a \$50 million set aside from 2023. Minneapolis and St. Paul districts are individual regions for purposes of seat allocations, so the allocations of other regions are not impacted by this change. Districts were notified of the new allocation by July 1, 2024.



## Independent School District No. 877 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:

- ◆ **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.
- ◆ **Accounting Standard Update - GASB Statement No. 102 - *Certain Risk Disclosures***  
GASB has issued GASB Statement No. 102 relating to risk disclosures. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact.
- ◆ **Accounting Standard Update - GASB Statement No. 103 - *Financial Reporting Model Improvements***  
GASB has issued GASB Statement No. 103 relating to changes in financial reporting requirements. The changes provide clarity, enhance the relevance of information, provide more useful information for decision-making, and provide for greater comparability amongst government entities.

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.

**Independent School District No. 877**  
**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](http://www.gasb.org).

## Independent School District No. 877 Emerging Issues

### **Accounting Standard Update - GASB Statement No. 102 - *Certain Risk Disclosures***

The objective of this Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability.

This Statement provides definitions for concentration and constraint. A concentration is a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority.

This Statement requires a government to assess whether a concentration or constraint could present a risk of financial difficulty. The District will need to make a disclosure in the notes to the financial statements if all three of the following criteria are true:

- ◆ The District knows about the concentration or constraint prior to financial statement issuance.
- ◆ The concentration or constraint makes the District is vulnerable to risk of a substantial impact.
- ◆ An event or events associated with the concentration or constraint that could cause a substantial impact to have either (1) happened; (2) started to happen; or (3) are more likely than not to start happening within 12 months of the financial statements being issued.

If a government determines the above criteria for disclosure have been met, it should disclose information in notes to financial statements in sufficient detail to enable users of financial statements to understand the nature of the circumstances disclosed and the government's vulnerability to the risk of a substantial impact. Disclosures are required for the government as a whole as well as any opinion unit in the financial statements that includes outstanding revenue debt. Disclosures can be combined to avoid unnecessary duplication (e.g., a subsequent event footnote).

GASB Statement No. 102 is effective for fiscal years beginning after June 15, 2024. Earlier application is encouraged.

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).

## Independent School District No. 877 Emerging Issues

### **Accounting Standard Update - GASB Statement No. 103 - *Financial Reporting Model Improvements***

The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

This Statement addresses 5 areas of the financial statements (1) Management's Discussion and Analysis (MD&A), (2) Unusual or Infrequent Items, (3) Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position, (4) Major Component Unit Information, and (5) Budgetary Comparison Information.

This Statement continues the requirement that the MD&A precede the basic financial statements as part of the Required Supplementary Information (RSI). This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. The Statement stresses that detailed analyses should explain why balances and results of operations changed, rather than stating amounts and "boilerplate" discussions.

This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. The Statement provides clarification regarding operating and nonoperating revenues and expenses. Also, this Statement requires that a subtotal for operating income (loss) and noncapital subsidies be presented before reporting other nonoperating revenues and expenses.

This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

This Statement requires governments to present budgetary comparison information using a single method of communication - RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

GASB Statement No. 103 is effective for fiscal years beginning after June 15, 2025. Earlier application is encouraged.

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).