



**Independent School District No. 726
Becker, Minnesota**

Communications Letter

June 30, 2024

**Independent School District No. 726
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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. 726
Becker, 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. 726, Becker, 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 auditing 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 a deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control 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 significant deficiency identified is stated within this letter.

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

Bugem KDV, Ltd.

St. Cloud, Minnesota
November 5, 2024

Independent School District No. 726 Significant Deficiency

Lack of Segregation of Accounting Duties

The District has a lack of segregation of accounting duties due to a limited number of office employees. Segregation of accounting duties related to four key areas: initiation/authorization, processing/recording, reconciling/reporting of financial data, and custody of assets. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- ◆ The Payroll Clerk records and processes all payroll transactions, has access to the electronic signature file, runs all checks, and stuffs envelopes.
- ◆ The Finance Assistant enters purchase orders and processes received invoices for payment.
- ◆ The Director of Business Services has access to all areas of the accounting system and the ability to make journal entries, while performing some initiation and reconciliation duties.

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

We recommend segregation or independent review be implemented whenever practical and cost effective.

**Independent School District No. 726
Required Communication**

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information 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 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 basic 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. 726
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:

- ◆ Risk of Misappropriation of Assets - If duties cannot be appropriately segregated within the accounting and finance department, there is a risk of inappropriate reconciling items in the bank reconciliations. Also, accounts payable and prepaids could be misstated at year end.
- ◆ Misappropriation of Assets and Management Override of Controls through the journal entry process.
- ◆ Improper Revenue Recognition Specific to 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.
- ◆ Risk of Noncompliant Federal Expenditures including transfers of the federal program funds.
- ◆ 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.
- ◆ 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 - Total 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.

**Independent School District No. 726
Required Communication**

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:

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 also dependent upon ADM values; however, in addition to those, this 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 Relating to Pensions and Deferred Inflows of Resources Relating 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.

**Independent School District No. 726
Required Communication**

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.

We identified uncorrected misstatements of the basic financial statements in the areas listed below. Management has determined their effects are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole.

- ◆ Subscription assets and related liabilities are not recorded.
- ◆ Investment earnings are understated due to unrecorded change in market value.

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.

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. 726
Required Communication**

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 basic 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. 726
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.

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this letter. The last section of this report, which contains a summary of legislative changes affecting school districts, gives an indication of how complicated the funding system is. The following section provides some state-wide funding and financial trend information.

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.

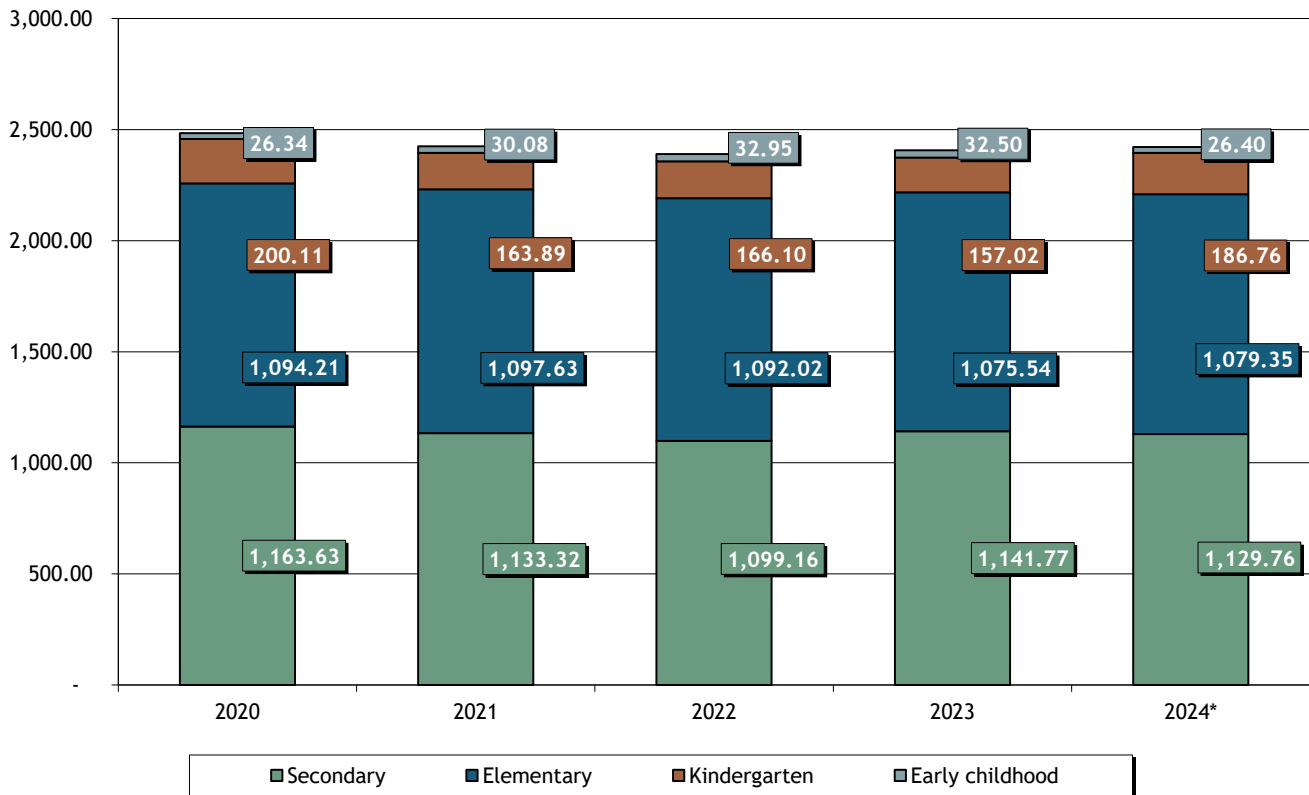
Independent School District No. 726 Financial Analysis

Average Daily Membership and Pupil Units (Continued)

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

ADM	2020	2021	2022	2023	2024*
Early childhood	26.34	30.08	32.95	32.50	26.40
Kindergarten	200.11	163.89	166.10	157.02	186.76
Elementary	1,094.21	1,097.63	1,092.02	1,075.54	1,079.35
Secondary	1,163.63	1,133.32	1,099.16	1,141.77	1,129.76
Total Resident ADM	2,484.29	2,424.92	2,390.23	2,406.83	2,422.27
Total Adjusted ADM	2,866.46	2,897.25	2,798.19	2,786.34	2,809.20

Students (Average Daily Membership)



* Estimate

The table and graph above illustrate the change in resident ADM. The District experienced an increase in 2023 of approximately 15 resident ADM based on 2024 estimates.

Independent School District No. 726 Financial Analysis

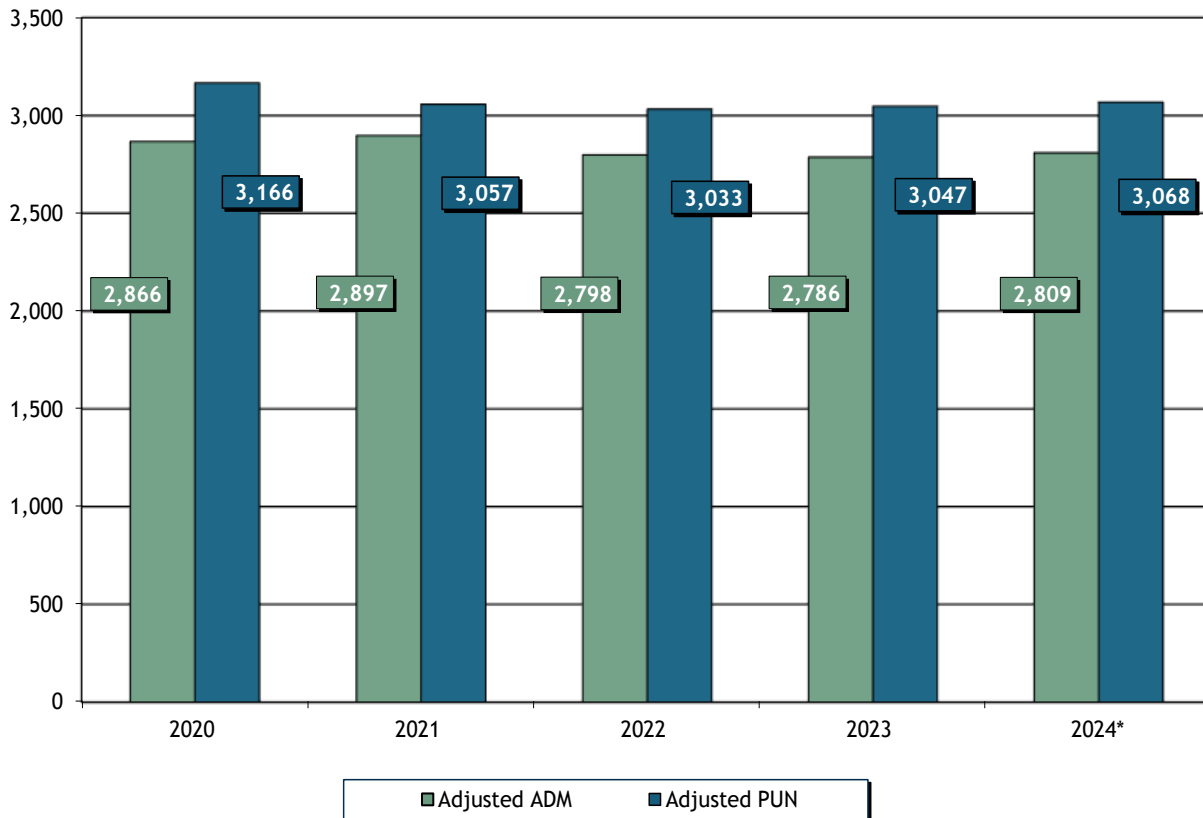
Resident ADM and Pupil Units

	Pupil Units Weighting					
	Early Childhood	Handicapped Kindergarten	Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
2020-2024	1.000	1.000	1.000	1.000	1.000	1.200

The table and graph below convert the resident ADM into adjusted pupil unit numbers (PUN) for the past five years, taking into consideration the above weighting factors and open enrollment. Since the majority of state aid is dependent on student counts, the change in students has a significant impact on the budget. Adjusted PUN increased approximately 21 students for 2024.

Adjusted PUN	2020	2021	2022	2023	2024*
Residents	2,717.01	2,651.59	2,610.05	2,635.18	2,648.22
Resident loss	(157.40)	(166.11)	(164.56)	(186.62)	(196.49)
Nonresident gain	606.48	571.74	587.26	598.59	616.21
Total Adjusted PUN	3,166.09	3,057.22	3,032.75	3,047.15	3,067.94

Adjusted ADM and Adjusted PUN



◆ Estimate

**Independent School District No. 726
Financial Analysis**

General Fund Budget and Actual

The graph below outlines the District's final budget and actual results for the General Fund. The District initially approved a budget anticipating revenues would exceed expenditures by \$86,577. This was modified in June 2024, increasing expenditures by \$3,732,248. As of June 30, 2024, actual revenues and other financing sources exceeded actual expenditures and other financing uses by \$2,080,017.

Total General Fund revenues came in 0.6% over final budgeted amounts. The largest budget variance was other sources of revenue which were over budget primarily due to interest revenue being higher than anticipated.

Overall, expenditures were 6.0% under budget due to the building project not moving as fast as anticipated.

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues				
Local property taxes	\$ 8,009,157	\$ 8,018,184	\$ 8,116,871	\$ 98,687
State sources	29,711,190	30,513,798	29,924,444	(589,354)
Other	1,510,348	1,974,007	2,724,925	750,918
Total revenues	<u>39,230,695</u>	<u>40,505,989</u>	<u>40,766,240</u>	<u>260,251</u>
Expenditures				
Administration	1,822,194	1,821,194	1,811,792	(9,402)
District support services	848,145	1,086,620	1,039,151	(47,469)
Elementary and secondary regular instruction	19,558,819	19,619,622	19,098,973	(520,649)
Vocational education instruction	58,900	58,900	172,420	113,520
Special education instruction	7,094,866	7,112,866	7,218,028	105,162
Instructional support services	2,446,694	2,616,078	2,695,422	79,344
Pupil support services	2,911,676	3,097,800	3,396,392	298,592
Sites and buildings	3,888,278	6,887,988	4,234,733	(2,653,255)
Debt service, fiscal, and other fixed costs	514,546	575,298	623,312	48,014
Total expenditures	<u>39,144,118</u>	<u>42,876,366</u>	<u>40,290,223</u>	<u>(2,586,143)</u>
Excess of revenues over (under) expenditures	86,577	(2,370,377)	476,017	2,846,394
Net Other Financing Sources (Uses)				
Total other financing sources (uses)	-	1,482,000	1,604,417	122,417
Net change in fund balances	\$ 86,577	\$ (888,377)	\$ 2,080,434	\$ 2,968,811

**Independent School District No. 726
Financial Analysis**

General Fund Operations

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

For the Year Ended June 30,	2020	2021	2022	2023	2024
Revenues	\$ 35,182,563	\$ 37,080,691	\$ 36,740,811	\$ 37,454,940	\$ 40,766,240
Expenditures	34,347,042	34,967,805	35,984,630	37,904,320	40,290,223
Excess of revenues over (under) expenditures	835,521	2,112,886	756,181	(449,380)	476,017
Net other financing sources	45,846	138,829	218,641	1,716,973	1,604,417
Fund balance, July 1	462,130	1,345,218	3,596,933	4,571,755	5,839,348
Change in accounting principle	1,721	-	-	-	-
Fund Balance, June 30	\$ 1,345,218	\$ 3,596,933	\$ 4,571,755	\$ 5,839,348	\$ 7,919,782

Components	2020	2021	2022	2023	2024
Nonspendable	\$ 447,816	\$ 238,988	\$ 536,706	\$ 820,266	\$ 461,251
Restricted/reserved for*					
Operating capital	22,530	37,550	77,970	1,453,976	2,462,123
Long-term facilities maintenance	1,250	20,592	89,421	162,548	277,453
American Indian Education Aid	-	-	-	-	8,306
Student Activities	89,608	97,733	157,481	124,362	131,412
Scholarships	3,721	3,471	6,811	5,561	7,061
Assigned for					
Building level activity	115,864	116,890	142,739	196,720	345,397
Unassigned	664,429	3,081,709	3,560,627	3,075,915	4,226,362
Total	\$ 1,345,218	\$ 3,596,933	\$ 4,571,755	\$ 5,839,348	\$ 7,919,365

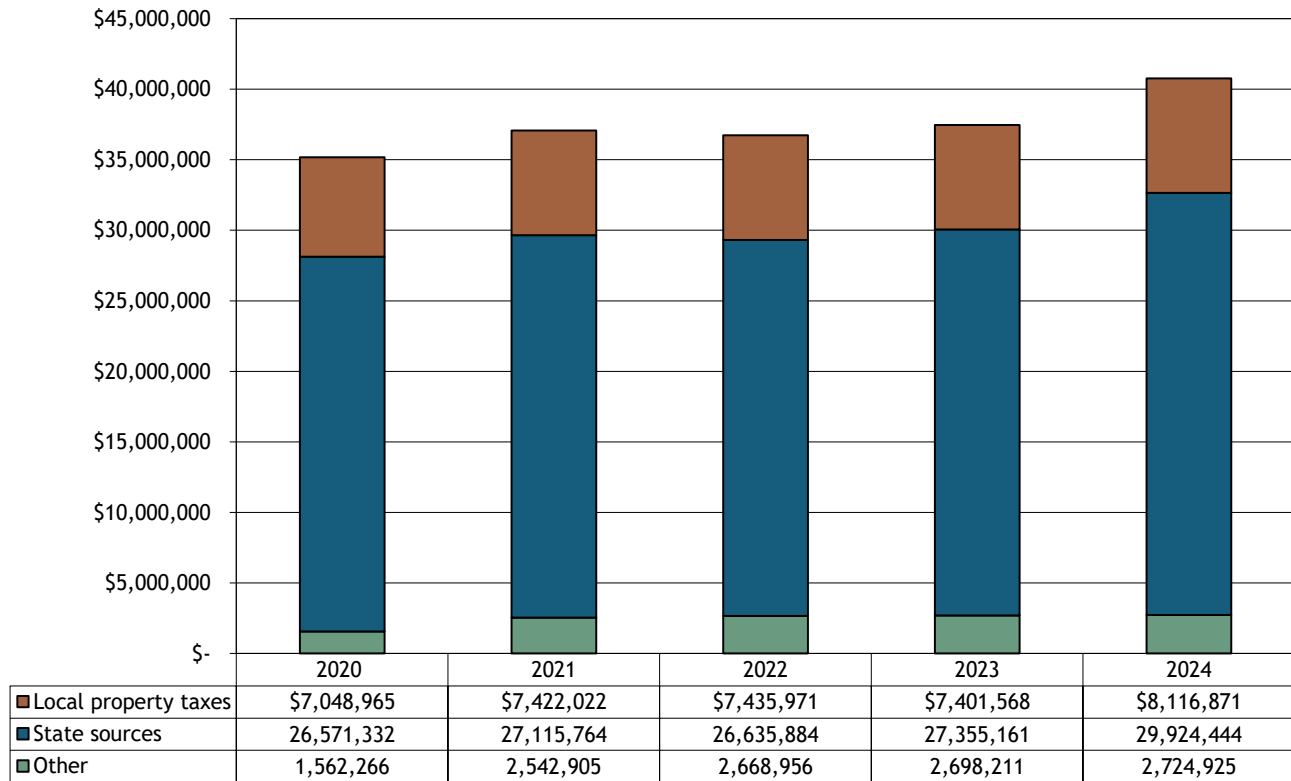
* Deficit amounts are reported as unassigned fund balance on the Balance Sheet.

The District has a minimum unassigned fund balance goal of one month, or 8% of the annual budget. As of June 30, 2024, the District had approximately 10.5% of the annual budget (based on year 2024 budget levels) in unassigned fund balance.

**Independent School District No. 726
Financial Analysis**

General Fund Sources of Revenue

General Fund Sources of Revenue



Total General Fund revenues increased \$3,311,300, or 8.8%, from 2023.

State revenue, which makes up the largest percentage of the District's revenue, increased \$2,569,283 due to the increase in the special education cross subsidy, an increase in general education aid, due to the increase in the formula allowance, and an increase in students served.

Local property tax revenue, which makes up the second largest percentage of the District's revenue, increased \$715,303 due to an increase in the levy.

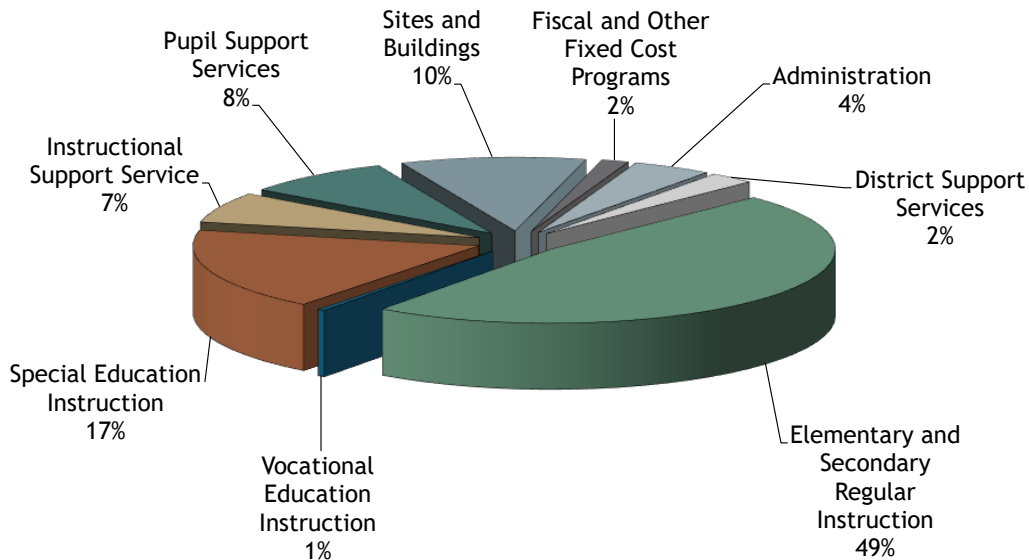
Revenues from other sources were fairly consistent with the prior year.

Independent School District No. 726 Financial Analysis

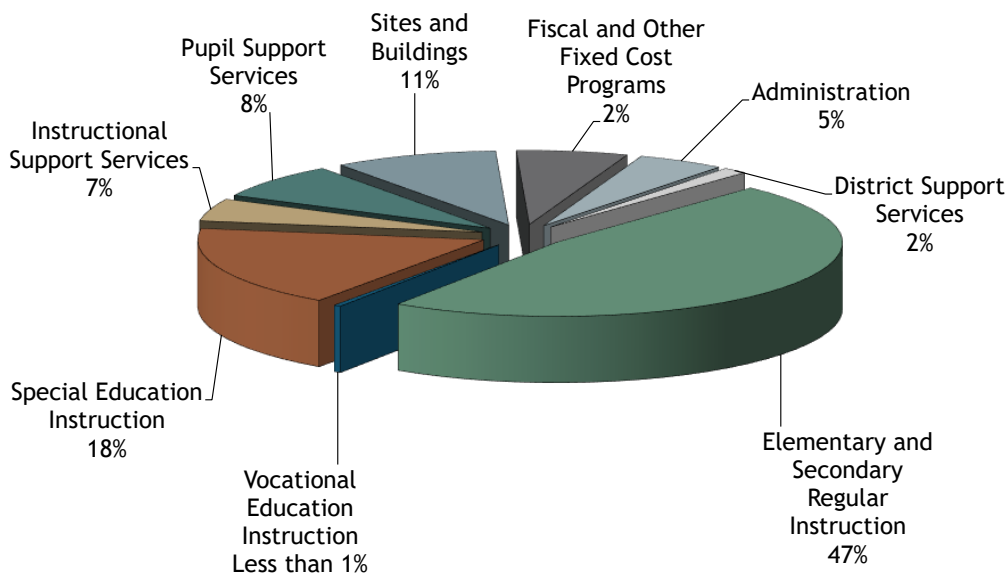
General Fund Expenditures

The following charts outline a comparison of General Fund expenditures for the past two years.

2024 General Fund Expenditures \$40,290,640



2023 General Fund Expenditures \$37,904,320

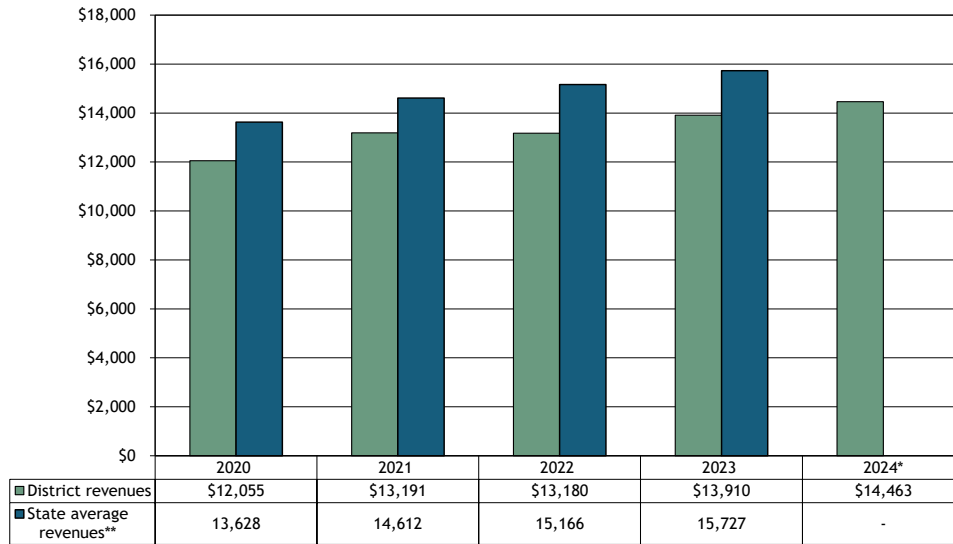


Compared to the prior year, 2024 expenditures increased \$2,386,320, or 6.3%. Regular instruction expenditures increased primarily due to increases in wages and benefits and purchases of equipment.

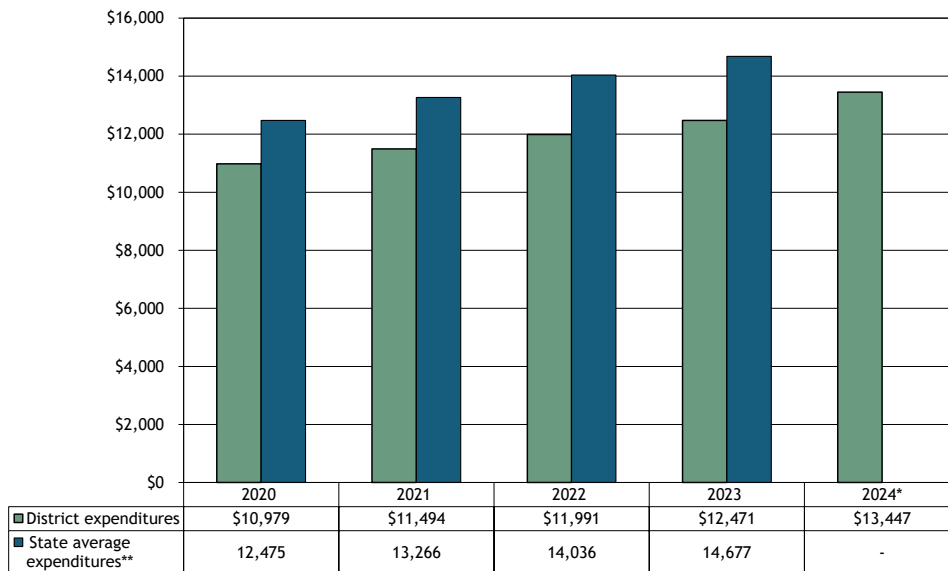
Independent School District No. 726 Financial Analysis

General Fund Revenues and Expenditures Per ADM Served

Revenues Per ADM Served



Expenditures Per ADM Served



* Estimate

** State averages obtained from the Minnesota Department of Education's (MDE) publication *School District Profiles*. Amounts for 2024 are not yet available.

The District's General Fund operating expenditures and revenues per ADM served have been overall increasing, although consistently less than the state averages.

Independent School District No. 726 Financial Analysis

General Fund Expenditures by Program and General Fund Operations

District and state expenditures by program are shown below as a percentage of the total spent.

	District 2023	State Average 2023**	District 2024*	State Average 2024**
District and School Administration	7.4%	8.7%	6.9%	N/A
Regular Instruction***	47.4%	42.0%	46.4%	N/A
Vocational instruction	0.4%	1.3%	0.4%	N/A
Special education instruction	17.7%	18.6%	17.9%	N/A
Instructional support services	4.1%	5.3%	5.3%	N/A
Pupil support services****	7.7%	9.9%	8.3%	N/A
Sites, buildings, and equipment	7.8%	7.6%	10.0%	N/A
Capital outlay	7.5%	6.7%	4.8%	N/A
Total	100.0%	100.0%	100.0%	N/A

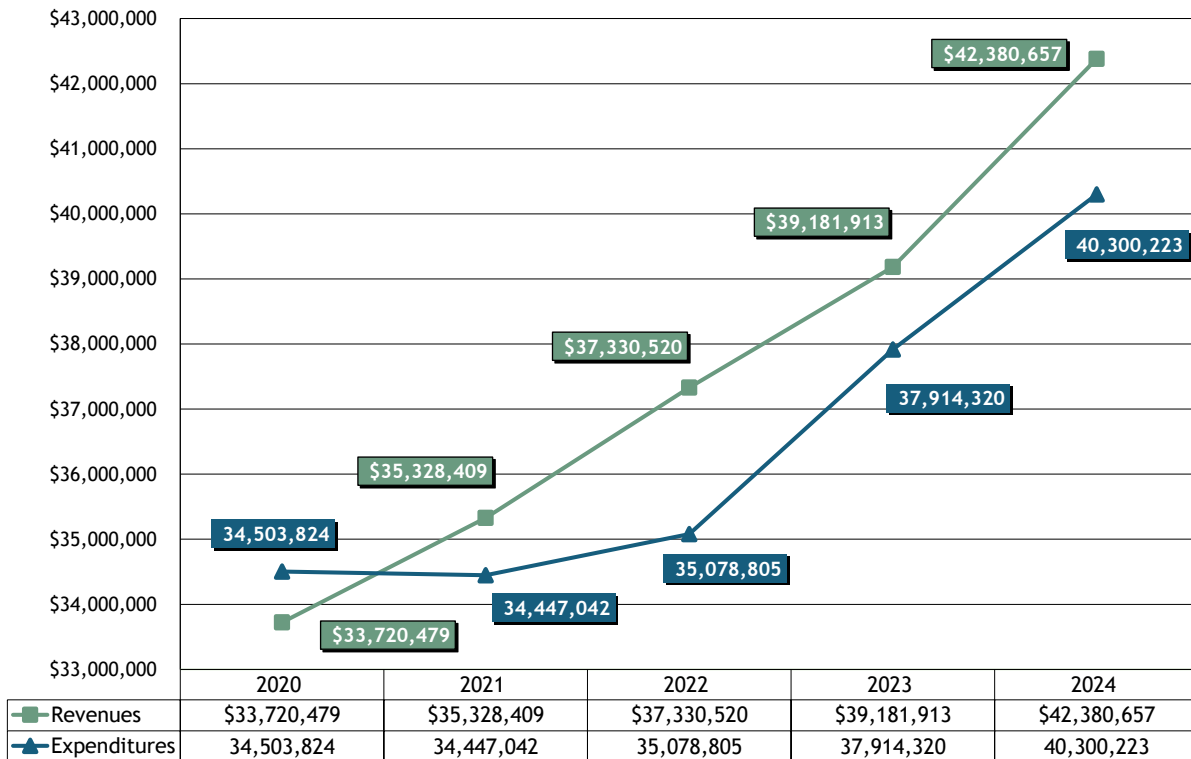
* Estimate

** State averages obtained from the Minnesota Department of Education's (MDE) publication *School District Profiles*. Amounts for 2024 are not yet available.

*** Includes student activities and athletics.

**** Includes transportation.

General Fund Revenues and Expenditures



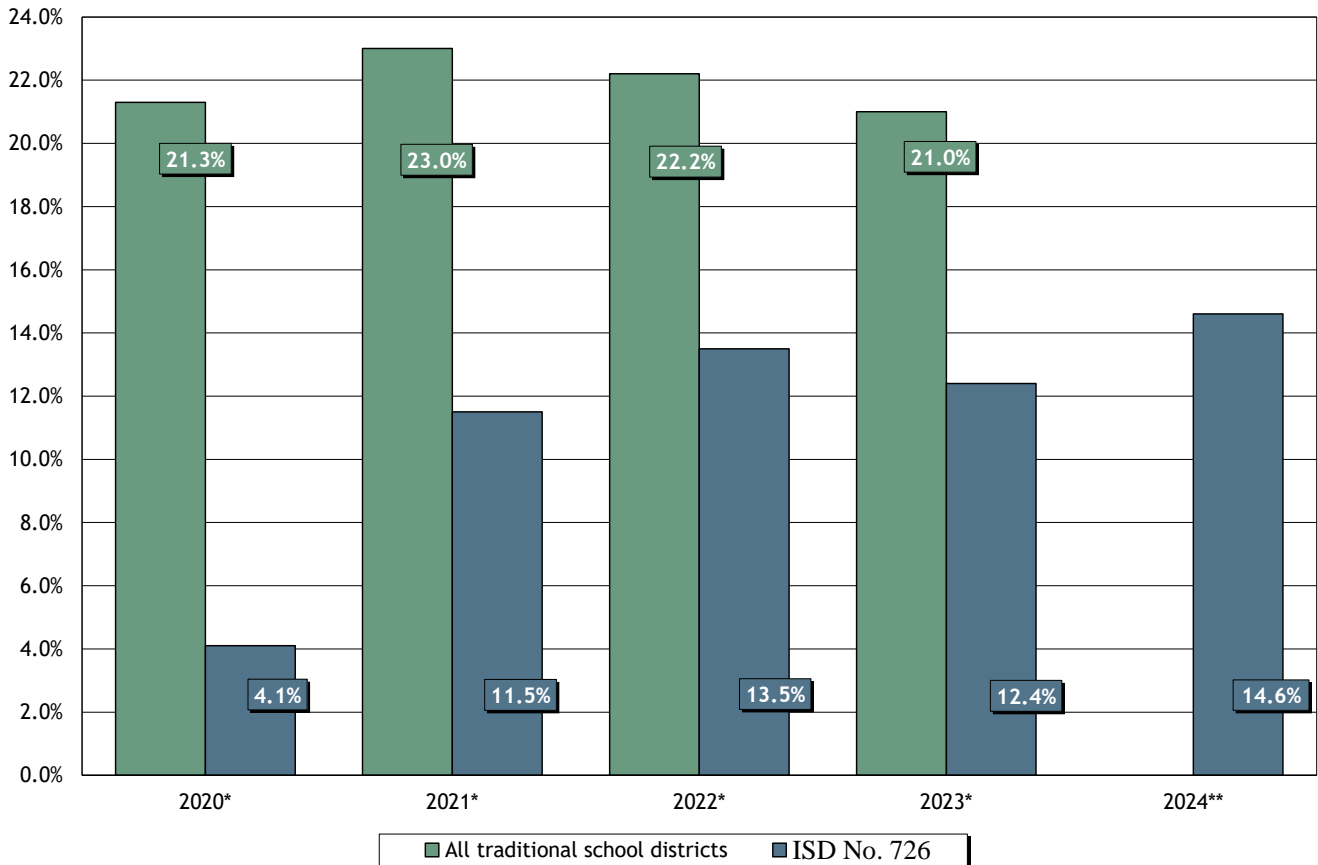
While expenditures and other financing uses increased \$2,386,320 and revenues and other financing sources increased \$3,198,744 from the prior year, revenues exceeded expenditures again in 2024.

Independent School District No. 726 Financial Analysis

General Fund Financial Health

One of the most common comparable statistics used to evaluate school district financial health is the operating fund balance as a percentage of operating expenditures.

General Fund Expenditures of Fund Balance



* Information was obtained from the MDE web site report *Fiscal Year 2013-2022 General Fund Unreserved Balance*. 2024 information is not available.

** Estimate

The calculations above reflect the unassigned, assigned, committed and nonspendable fund balances of the General Fund and the corresponding expenditures, which is the same method the state uses for the statutory operating debt (SOD) calculation.

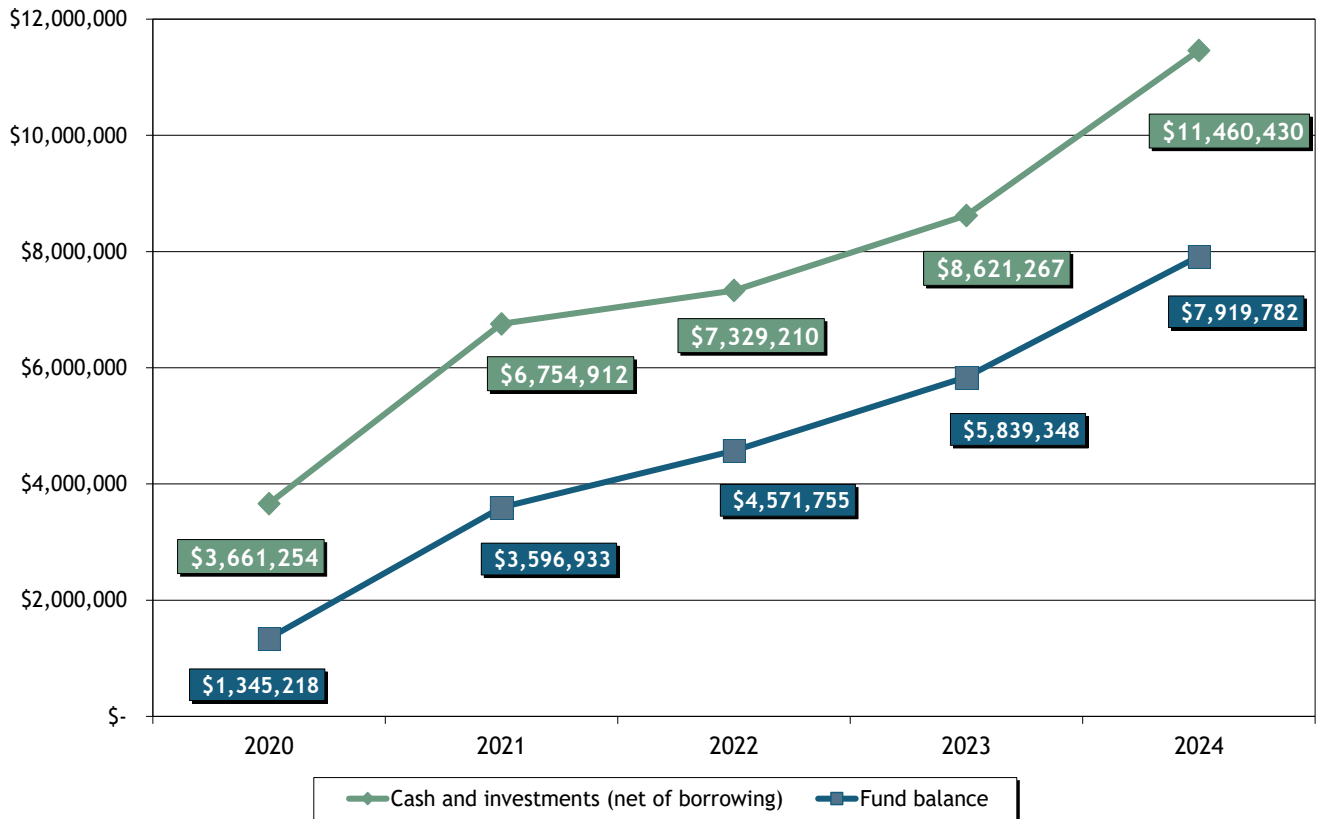
The District's percentage has been consistently below state averages but did increase from 12.4% in 2023 to 14.6% in 2024.

Independent School District No. 726 Financial Analysis

General Fund Operations

The graph below charts cash and investments (net of borrowing) for the General Fund versus the total fund balance for the General Fund.

General Fund Financial Position



The General Fund's cash and investments balance significantly exceeds the fund balance due to the large amount of salaries and benefits payable primarily related to July and August teacher payrolls and property taxes received prior to being recognized as revenue.

**Independent School District No. 726
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	\$ 1,533,416	\$ 2,078,853	\$ 2,775,538	\$ 2,046,137	\$ 2,645,157
Expenditures	1,470,741	1,649,404	2,044,357	2,217,824	2,720,489
Excess of revenues over (under) expenditures	62,675	429,449	731,181	(171,687)	(75,332)
Fund balance, July 1	55,736	118,411	547,860	1,279,041	1,107,354
Fund Balance, June 30	\$ 118,411	\$ 547,860	\$ 1,279,041	\$ 1,107,354	\$ 1,032,022

In 2024, fund balance decreased \$75,332. Revenues increased \$599,020 due to an increase in the reimbursement rates as all meals were free for all students in 2024. Expenditures increased \$502,665 due to an increase in food costs with an increase in meals served and equipment purchases.

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	\$ 1,258,603	\$ 1,355,510	\$ 1,592,931	\$ 1,661,919	\$ 1,816,604
Expenditures	1,311,818	1,385,024	1,616,519	1,757,800	1,744,720
Excess of revenues over (under) expenditures	(53,215)	(29,514)	(23,588)	(95,881)	71,884
Transfer in	100,000	111,000	10,000	10,000	10,000
Fund balance, July 1	131,301	178,086	259,572	245,984	160,103
Fund Balance, June 30	\$ 178,086	\$ 259,572	\$ 245,984	\$ 160,103	\$ 241,987

Components	2020	2021	2022	2023	2024
Nonspendable	\$ 9,840	\$ 8,833	\$ 12,738	\$ 10,674	\$ 16,173
Restricted/reserved for					
Community Education*	8,555	25,549	(6,880)	(80,978)	(169,990)
Early Childhood and Family Education	150,717	185,376	210,906	251,988	271,615
School Readiness	5,833	35,852	20,884	(30,726)	120,441
Community Service	3,141	3,962	8,336	9,145	3,748
Fund Balance, June 30	\$ 178,086	\$ 259,572	\$ 245,984	\$ 160,103	\$ 241,987

* In years when deficit, the deficit amount is shown in the unassigned fund balance on the balance sheet.

In 2024, revenues increased \$154,385 due to improved market performance. Expenditures remained fairly consistent. The General Fund transferred \$10,000 to offset revenue shortfalls in the early childhood screening program.

Independent School District No. 726 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. 726 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 competences 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. 726
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. 726 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.

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.

Independent School District No. 726
Emerging Issues

Accounting Standard Update - GASB Statement No. 101 - *Compensated Absences (Continued)*

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.

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 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.

**Independent School District No. 726
Emerging Issues**

Accounting Standard Update - GASB Statement No. 102 - *Certain Risk Disclosures (Continued)*

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.

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.

**Independent School District No. 726
Emerging Issues**

Accounting Standard Update - GASB Statement No. 103 - *Financial Reporting Model Improvements* (Continued)

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.

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