

**Independent School District No. 656
Faribault
Faribault, Minnesota**

Communications Letter

June 30, 2022

PRELIMINARY



**Independent School District No. 656
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PRELIMINARY

**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. 656
Faribault ISD
Faribault, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 656, Faribault, Minnesota, as of and for the year ended June 30, 2022, 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 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.

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

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

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

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

The 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 October 13, 2022, on such statements.

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

St. Cloud, Minnesota
October 13, 2022

PRELIMINARY

Independent School District No. 656 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, 2022. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Basic Financial Statement Audit

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

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

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

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

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

Our Responsibility in Relation to *Government Auditing Standards*

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

**Independent School District No. 656
Required Communication**

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

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

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

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

Significant Risks Identified

We have identified the following significant risks of material misstatement:

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

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

**Independent School District No. 656
Required Communication**

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

Significant Accounting Estimates

Accounting estimates are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements 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 average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadlines, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

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

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

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.

Independent School District No. 656 Required Communication

Uncorrected and Corrected Misstatements (Continued)

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

- State receivables/revenues

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.

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.

**Independent School District No. 656
Required Communication**

Other Information Included in Annual Reports (Continued)

With respect to the supplementary information accompanying the basic 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.

PRELIMINARY

**Independent School District No. 656
Financial Analysis**

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours.

Average Daily Membership and Pupil Units

The largest single funding source for Minnesota school districts is basic General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to ADM. Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

<u>Year</u>	<u>General Education Aid Formula Allowance</u>	
	<u>Amount</u>	<u>Percent Increase</u>
2013	\$ 5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
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%

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

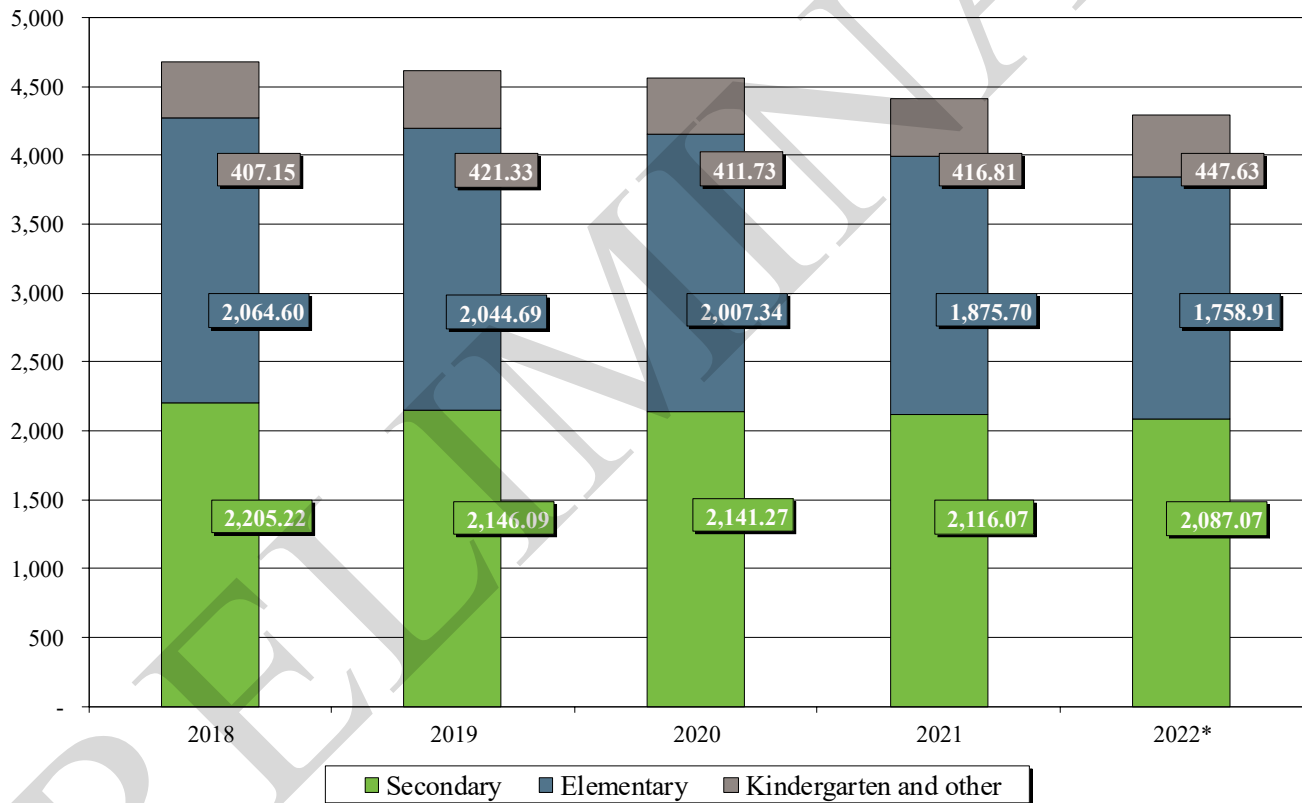
Independent School District No. 656 Financial Analysis

Average Daily Membership and Pupil Units

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

ADM	2018	2019	2020	2021	2022*
Other	90.51	94.59	107.50	127.38	126.74
Kindergarten	316.64	326.74	304.23	289.43	320.89
Elementary	2,064.60	2,044.69	2,007.34	1,875.70	1,758.91
Secondary	2,205.22	2,146.09	2,141.27	2,116.07	2,087.07
Total Resident ADM	4,676.97	4,612.11	4,560.34	4,408.58	4,293.61
Change from Prior Year	(100.97)	(64.86)	(51.77)	(151.76)	(114.97)

Students (ADM)



* Estimate

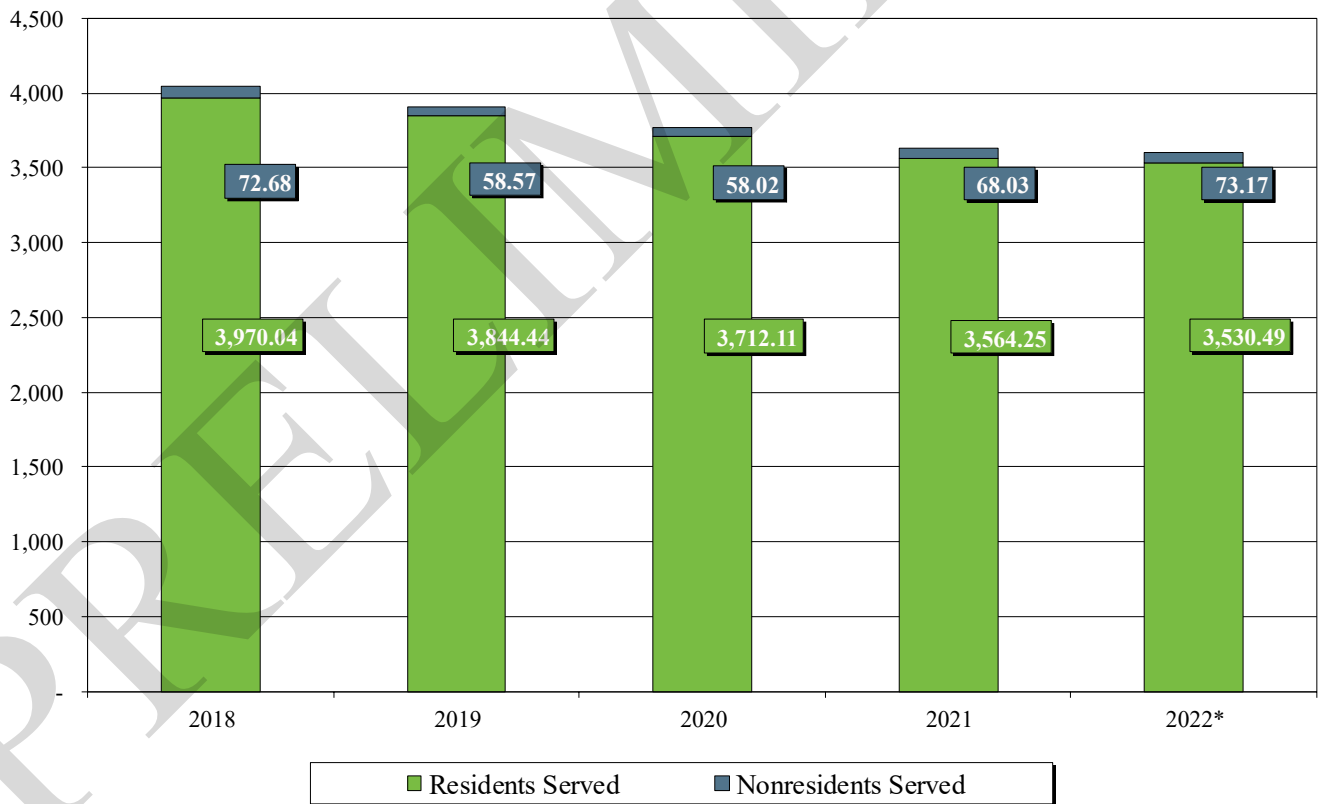
As the above chart indicates, resident ADM has, overall, decreased over the past five years, decreasing 383.36 ADM from 2018 to 2022. Resident ADM decreased from 2021 to 2022, by 114.97 ADM. The chart and graph on the next page apply weighting factors to ADM and include the effects of open enrollment.

**Independent School District No. 656
Financial Analysis**

Weighted Average Daily Membership Served/Pupil Units

Pre-kindergarten and Handicapped Kindergarten Kindergarten Elementary Secondary					
2018 through 2022	1.000	1.000	1.000	1.200	
Pupil Units	2018	2019	2020	2021	2022*
Residents	5,118.02	5,041.32	4,988.58	4,831.61	4,710.57
Resident pupil units going elsewhere	(1,147.98)	(1,196.88)	(1,276.47)	(1,267.36)	(1,180.08)
Nonresident pupil units coming in	72.68	58.57	58.02	68.03	73.17
Total Pupil Units Served	4,042.72	3,903.01	3,770.13	3,632.28	3,603.66
Change from the Prior Year	(134.75)	(139.71)	(132.88)	(137.85)	(28.62)
Adjusted ADM	3,673.92	3,553.00	3,434.01	3,302.16	3,270.31

Students Served

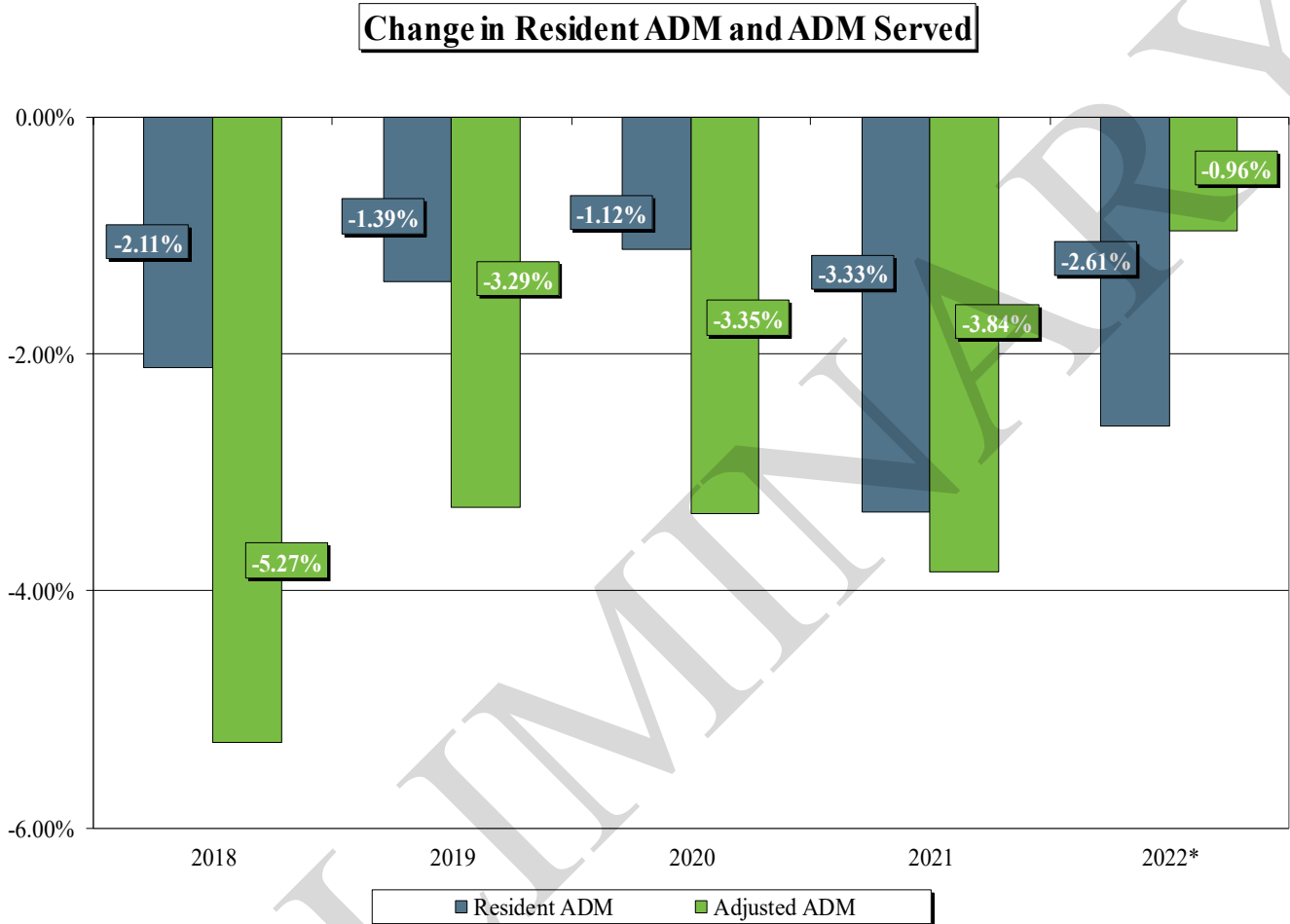


* Estimate

The District's pupil units served and ADM served have also decreased the past five years. This decrease is due to the District having a net loss on open enrollment numbers each year.

**Independent School District No. 656
Financial Analysis**

Average Daily Membership and ADM Served



* Estimate

When reviewing the five-year history, the District should be aware that student counts directly affect the amount of funding the District receives from the federal and state government.

As noted on the previous pages, ADM served and resident ADM decreased in all five of the years presented.

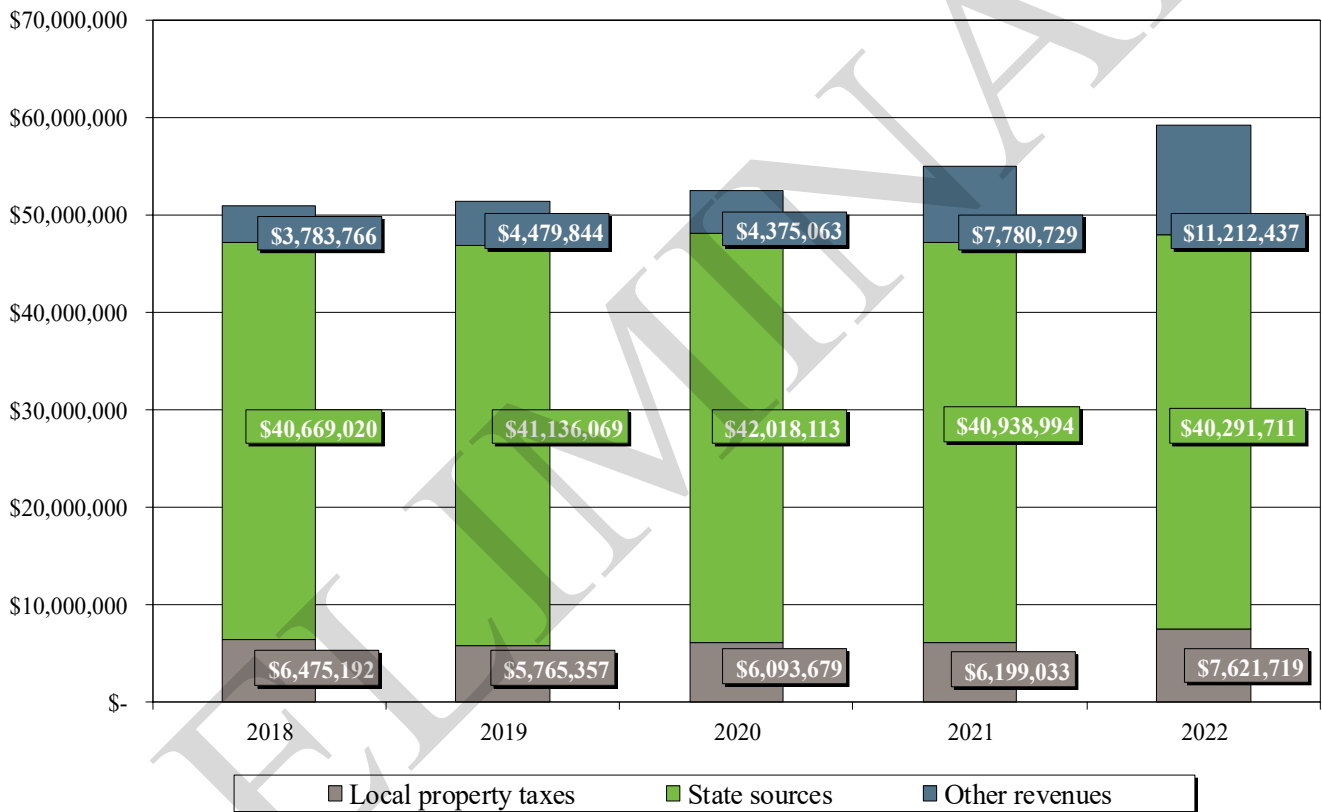
Independent School District No. 656 Financial Analysis

General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

	2018	2019	2020	2021	2022
Local property taxes	\$ 6,475,192	\$ 5,765,357	\$ 6,093,679	\$ 6,199,033	\$ 7,621,719
State sources	40,669,020	41,136,069	42,018,113	40,938,994	40,291,711
Other revenues	3,783,766	4,479,844	4,375,063	7,780,729	11,212,437
Total	\$ 50,927,978	\$ 51,381,270	\$ 52,486,855	\$ 54,918,756	\$ 59,125,867

General Fund Sources of Revenue



State sources represent 68.1% of the General Fund total revenue, with local tax payers contributing 12.9% of the funding with federal and other sources making up the remaining 19.0%.

Overall, General Fund revenues increased 7.7% or \$4,207,111 from 2021. Revenues from local property taxes increased \$1,422,686. This is the result of an increase in the General Fund's tax levy. Revenues from state sources decreased \$647,283. This decrease was due to a decrease in enrollment, partially offset by an increase of 2.5% in the formula allowance per student served for general education aid. Other revenue, which includes other local and county, federal and sales and other conversions of assets, increased from the prior year by \$3,431,708 or 44.1% as a result of an increase in federal funding related to COVID-19.

Independent School District No. 656
Financial Analysis

Revenues and Expenditures Per Student (ADM) Served

Revenues per student (ADM served) are summarized in the following table:

General Fund	2018*	2019*	2020*	2021*	2022**
Property taxes	\$ 1,686	\$ 1,560	\$ 1,701	\$ 1,828	\$ 2,242
Other local sources	461	463	472	447	431
State aid	10,742	11,278	11,879	12,198	11,853
Federal aid	574	795	796	1,907	2,867
Total General Fund Revenue	\$ 13,463	\$ 14,096	\$ 14,848	\$ 16,380	\$ 17,393

State-Wide*					
Property taxes	\$ 1,894	\$ 1,996	\$ 2,180	\$ 2,381	N/A
Other local sources	515	547	528	432	N/A
State aid	9,821	10,118	10,393	10,758	N/A
Federal aid	461	486	527	1,041	N/A
Total General Fund	\$ 12,691	\$ 13,147	\$ 13,628	\$ 14,612	N/A

Revenues per student for the General Fund increased 6.2% from 2021 to 2022 as students served increased 1.6% and revenues increased 7.7%.

Expenditures per student (ADM served) for all programs are summarized as follows:

	2018*	2019*	2020*	2021*	2022**
General Fund	\$ 13,574	\$ 15,237	\$ 14,913	\$ 16,537	\$ 17,481
Statewide Average - General Fund	12,596	13,025	13,313	14,167	N/A

* Source: *School District Profiles*

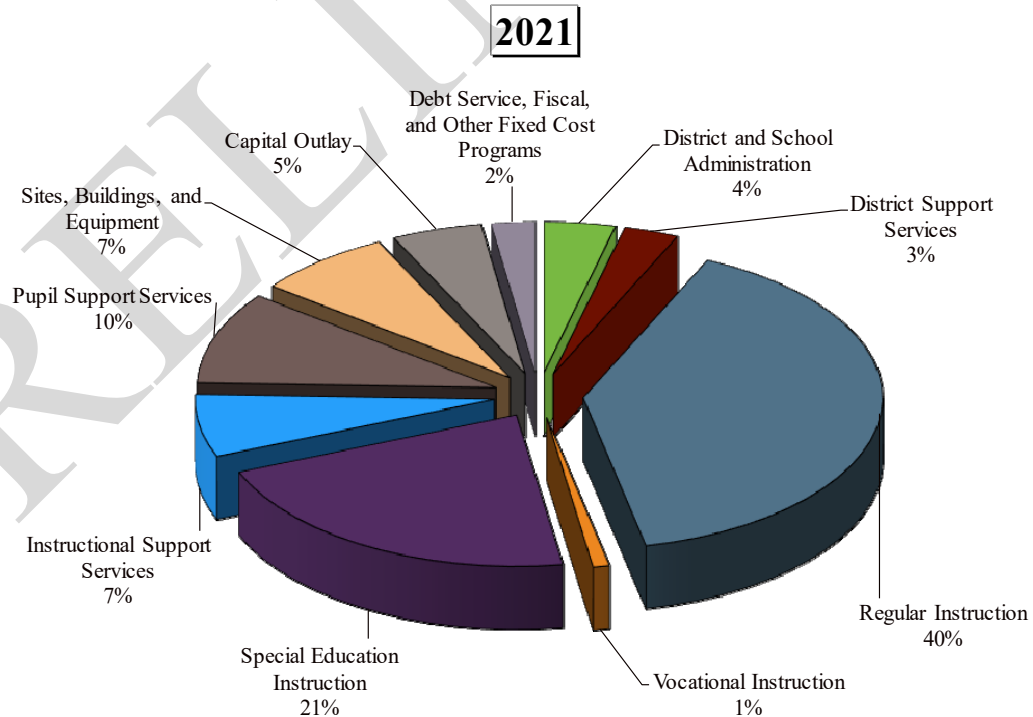
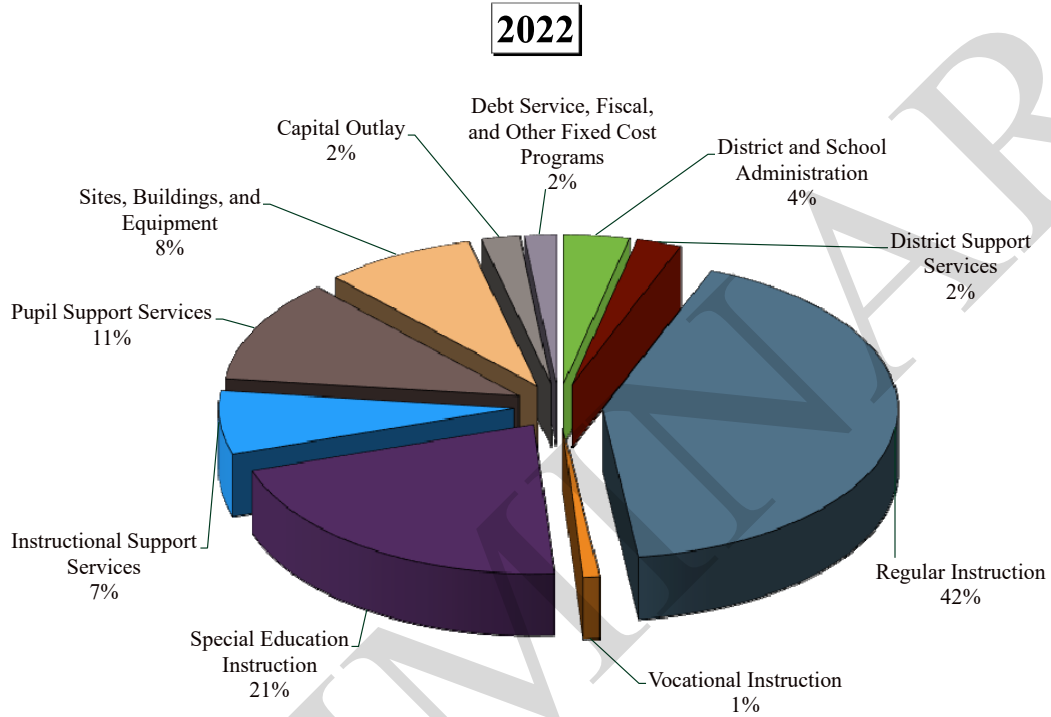
** Estimate

The District experienced an increase in expenditures per student (ADM served) from 2021 to 2022, which was the result of an increase in expenditures of 6.1% and a 1.6% increase in the students served. The average 2021 expenditure per ADM served for districts in the 2,000-3,999 enrollment category was \$13,385 for the General Fund. As shown above, the District's revenues and expenditures per student served have consistently been higher than the state average for other districts. The District receives more federal and special education funding than comparable districts. Additional funding correlates directly to additional expenditures for federally restricted programs and special education as much of the funding is structured in a way that requires an equal match of funds reimbursed for funds expended.

Independent School District No. 656 Financial Analysis

General Fund Expenditures

The following graphs depict the percentage of expenditures by function in the General Fund. The allocation of expenditures between 2021 and 2022 has been very consistent from one year to the next.



**Independent School District No. 656
Financial Analysis**

General Fund Budget and Actual

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Over (under)
	Original	Final		
Revenues				
Local property taxes	\$ 7,438,527	\$ 7,460,545	\$ 7,621,719	\$ 161,174
Other local and county revenues	1,303,280	1,389,859	1,436,413	46,554
Revenue from state sources	39,455,758	40,311,605	40,291,711	(19,894)
Revenue from federal sources	9,762,566	11,197,794	9,745,914	(1,451,880)
Sales and other conversion of assets	10,000	10,000	30,110	20,110
Total revenues	<u>57,970,131</u>	<u>60,369,803</u>	<u>59,125,867</u>	<u>(1,243,936)</u>
Expenditures				
Administration	2,055,448	2,049,788	2,128,019	78,231
District support services	1,565,218	1,483,968	1,450,585	(33,383)
Regular instruction	26,578,454	26,701,637	24,968,088	(1,733,549)
Vocational instruction	559,053	559,053	518,247	(40,806)
Special education instruction	11,677,871	11,876,781	12,531,662	654,881
Instructional support services	3,946,934	4,571,257	4,078,956	(492,301)
Pupil support services	5,535,276	6,793,914	6,646,598	(147,316)
Sites and buildings	4,259,731	4,451,060	4,854,492	403,432
Fiscal and other fixed cost programs	197,007	197,007	213,881	16,874
Capital outlay	1,104,073	1,229,319	1,221,808	(7,511)
Debt service	569,774	817,976	810,281	(7,695)
Total expenditures	<u>58,048,839</u>	<u>60,731,760</u>	<u>59,422,617</u>	<u>(1,309,143)</u>
Excess of revenues over (under) over expenditures	<u>(78,708)</u>	<u>(361,957)</u>	<u>(296,750)</u>	<u>65,207</u>
Other Financing Sources				
Lease proceeds	-	-	305,547	305,547
Proceeds from the sale of capital assets	-	60,000	93,432	33,432
Total other financing sources	<u>-</u>	<u>60,000</u>	<u>398,979</u>	<u>338,979</u>
Net change in fund balance	<u>\$ (78,708)</u>	<u>\$ (301,957)</u>	<u>\$ 102,229</u>	<u>\$ 404,186</u>

General fund revenues were under budgeted amounts by \$1,243,936, or 2.1%. Revenues from federal sources were under budget \$1,451,880. This variance was due to not spending all of the COVID federal funding allocated in the current year, allowing for future use of these funds. Other revenue sources were relatively consistent with budgeted amounts.

General fund expenditures were under budget \$1,309,143 or 2.2%. Regular instruction was under budget \$1,733,549. This variance was due in part to several unanticipated positions open throughout the year and also lower than expected purchased services and supply costs. Special education was over budget \$654,881 due to additional positions hired as a result of the service needs of students. Instructional support services was under budget \$492,301 due to anticipating higher needs for supplies with the return to in person learning. Sites and buildings was over budget \$403,432. This was primarily due to increased repair costs in 2022.

Independent School District No. 656
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,	2018	2019	2020	2021	2022
Revenues	\$ 50,927,978	\$ 51,381,270	\$ 52,486,855	\$ 54,918,756	\$ 59,125,867
Expenditures	51,351,316	56,741,783	52,716,593	56,012,561	59,422,617
Excess of revenues under expenditures	(423,338)	(5,360,513)	(229,738)	(1,093,805)	(296,750)
Lease Proceeds	-	1,212,714	-	567,965	305,547
Insurance Recovery	9,277	-	-	-	-
Less transfers out	(18,260)	(38,663)	-	-	-
Sale of Equipment	-	229,171	36,280	-	93,432
Fund balance, July 1	12,493,873	12,061,552	8,104,261	7,991,557	7,465,717
Change in accounting principle	-	-	80,754	-	-
Fund Balance, June 30	12,061,552	8,104,261	7,991,557	7,465,717	7,567,946
Nonspendable for					
Prepaid items	150,908	25,574	641,085	55,575	43,056
Inventory	58,833	21,407	-	-	-
Restricted for					
Student Activities	-	-	84,957	92,785	105,172
Staff Development	28,545	28,767	48,919	45,387	54,917
Operating Capital	359,812	412,230	299,048	423,872	300,670
Safe Schools Levy	-	-	40,451	27,665	39,716
LTFM	1,619,274	1,033,968	758,941	(419,131)	(6,473)
Basic Skills Programs	-	-	55,797	-	-
Committed for					
Separation/retirement benefits	2,451,000	-	-	-	-
Assigned for					
Athletic Equipment	112,186	8,659	112,186	112,186	-
CVSEC Long-term receivable	-	-	-	318,827	318,827
Unassigned	7,280,994	6,573,656	5,950,173	6,808,551	6,712,061
Fund Balance, June 30	\$ 12,061,552	\$ 8,104,261	\$ 7,991,557	\$ 7,465,717	\$ 7,567,946

As previously discussed, General Fund revenue increased 7.7% from 2021. General Fund expenditures increased 6.1% over the same period. The most significant increases in General Fund expenditures were in regular instruction and pupil support services. Regular instruction expenditures and pupil support services increased due to an increase in salaries related to ESSER funding received.

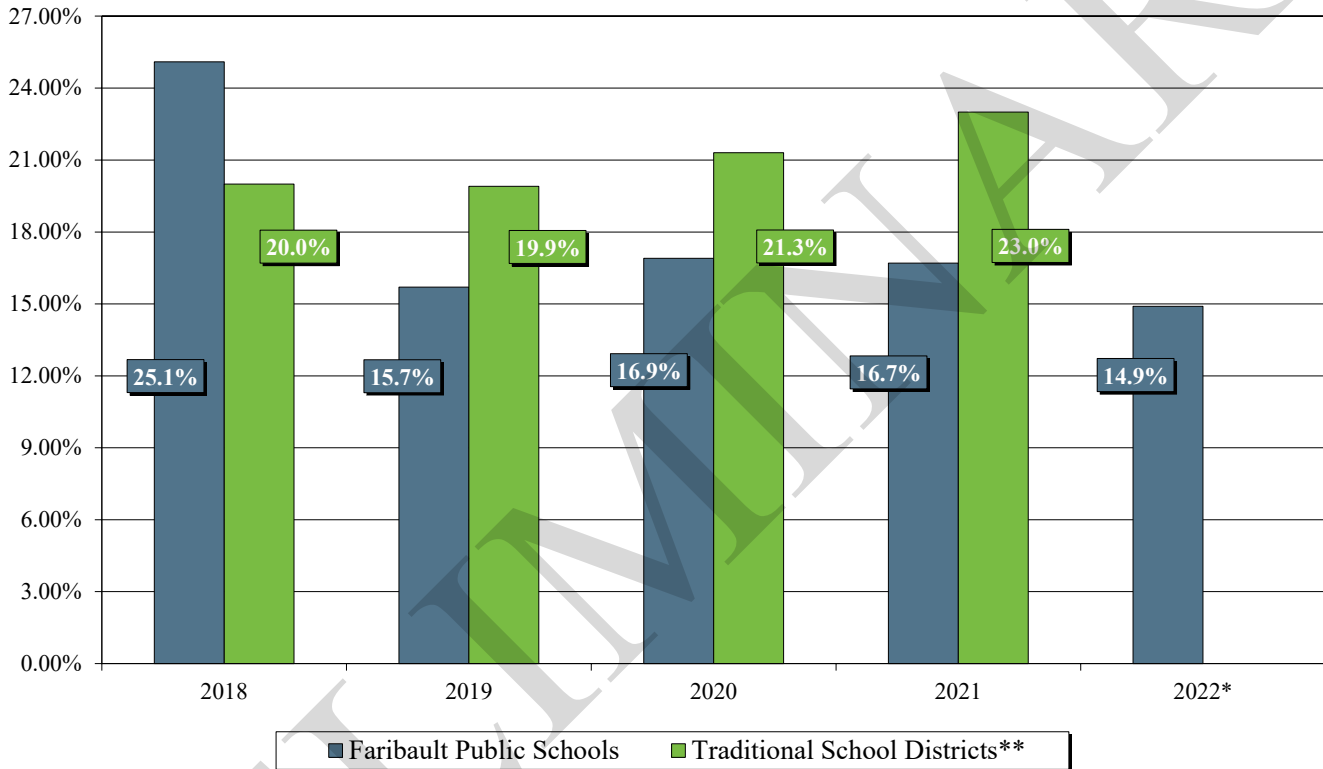
At June 30, 2022, the District's unassigned fund balance of \$6,712,061 represented 11.1% of the annual budgeted expenditures. The District's target General Fund balance is a minimum of 9.5% of the annual budgeted expenditures.

Independent School District No. 656 Financial Analysis

General Fund Financial Health

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

**Unrestricted Fund Balance as a Percent
of Unrestricted Expenditures**



* Figures for 2022 are not available for state-wide averages. District percentage obtained from MDE Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Report.

** Information was obtained from MDE web site report *Fiscal Year 2018-2021 General Fund Unreserved Balance*.

The graph on the above details the total fund balance as a percentage of expenditures. The District's fund balance as a percentage of expenditures is lower than the average of all Minnesota school districts for 2019 through 2021. Fund balance as percent of expenditures has decreased from 2018 to 2022.

Independent School District No. 656
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,	2018	2019	2020	2021	2022
Revenues	\$ 2,337,113	\$ 2,165,811	\$ 2,291,394	\$ 2,075,549	\$ 3,235,257
Expenditures	2,306,739	1,988,051	2,147,274	2,092,370	2,255,456
Excess of revenues over (under) expenditures	30,374	177,760	144,120	(16,821)	979,801
Plus transfers in	18,260	38,663	-	-	-
Fund balance, July 1	234,283	282,917	499,340	643,460	626,639
Fund Balance, June 30	282,917	499,340	643,460	626,639	1,606,440
Less nonspendable fund balance	(10,627)	-	-	-	-
Restricted Fund					
Balance, June 30	\$ 272,290	\$ 499,340	\$ 643,460	\$ 626,639	\$ 1,606,440

Revenues increased \$1,159,708 from 2021 to 2022, while expenditures increased \$163,086 over the same period. The increase in both revenues and expenditures is primarily due to increased COVID-19 funding and increased costs for food. The 2022 activity in the Food Service Fund resulted in an increase in fund balance of \$979,801 to \$1,606,440. Ending fund balance in 2022 represents 71.2% of expenditures, or approximately six months of expenditures based on a nine-month operating year. The MDE recommends districts maintain a food service net cash fund balance not to exceed six months of expenditures, based on a nine-month operating year.

Independent School District No. 656
Financial Analysis

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,	2018	2019	2020	2021	2022
Revenues	\$ 2,369,560	\$ 2,952,114	\$ 2,799,865	\$ 3,135,596	\$ 3,348,689
Expenditures	2,280,315	2,704,065	2,814,371	2,831,777	3,478,617
Excess of revenues over (under) expenditures	89,245	248,049	(14,506)	303,819	(129,928)
Fund balance, July 1	526,814	616,059	864,108	849,602	1,153,421
Fund Balance, June 30	616,059	864,108	849,602	1,153,421	1,023,493
Nonspendable					
Prepaid Items	-	2,957	-	-	-
Restricted					
Community education	325,819	458,702	421,507	581,686	466,731
Early childhood and family education	5,251	22,161	34,224	117,084	186,111
School readiness	76,868	189,308	188,724	220,169	220,703
Adult basic education	147,759	147,958	166,470	222,639	148,314
Restricted for Other Purposes	60,362	43,022	-	-	-
Community service	-	-	38,677	11,843	1,634
Total Fund Balance, June 30	\$ 616,059	\$ 864,108	\$ 849,602	\$ 1,153,421	\$ 1,023,493

Community Service Fund expenditures exceeded revenues in 2022. Revenues increased \$213,093 in 2022 due to an increase in COVID funding. Expenditures in 2022 increased \$646,840 due to additional positions hired. All categories of restricted fund balance remained positive at year end.

Independent School District No. 656 Legislative Summary

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

State Aid Appropriations

The formula allowance for 2022 is set at \$6,728 and for 2023, the formula allowance is set at \$6,863.

Special Education

The special education hold harmless guarantee was limited to the sum of 80% in 2022 and 75% in 2023 and later, of current year special education program costs plus 100% of special transportation costs plus the tuition adjustment. The annual inflation adjustment used in the calculation of the hold harmless will be reduced by 0.2% per year from 4.4% in 2021 until the inflation adjustment reaches 2.0%.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

Funding provided includes Governor's Emergency Education Relief (GEER) funding totaling \$38.1 million to MDE to be used for technology and summer school programming. Elementary and Secondary School Emergency Relief (ESSER) funding totaling \$140.1 million is 90% allocated based on 2020 Title I, part A allocations and 9.5% is allocated as grants, with the remaining 0.5% available for administration. Child Nutrition Grants to States funding totaled \$160.3 million. ESSER and GEER funds are eligible for spending through September 30, 2022.

Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act

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

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.

Property Tax Bill

Effective for taxes payable in 2018, there will be a property tax credit on all property classified as agricultural. The credit will be equal to 40% of the tax on the property attributable to school district bonded debt levies. The credit is increased to 50% for taxes payable in 2020, 55% for taxes payable in 2021, 60% for taxes payable in 2022, and 70% for taxes payable in 2023 and thereafter. Estimated property tax relief totals \$10.9 million for pay 2020, \$18.2 million for pay 2021, and \$27.2 million for pay 2022.

**Independent School District No. 656
Legislative Summary**

Voluntary Prekindergarten (VPK)/School Readiness Plus

For 2022 and 2023 only, the 4,000 seats currently expiring after 2021 will continue to be funded.

Pension Bill

Augmentation has been eliminated for TRA members after December 31, 2017, and early retirement subsidies have been phased out.

Post-retirement cost of living adjustments (COLAs) have been reduced –

- 1) TRA – lowers the COLA from 2% to 1% for five years; then the rate will increase by 0.1% each year until it reaches 1.5%
- 2) PERA – the increase will be 50% of the increase for Social Security announced January 1, but not less than 0.5% or more than 1.5%
- 3) Defers commencement of COLA for early retirees

The rate of interest paid on refunds of employee contributions to former employees has been reduced from 4% to 3%. TRA required contributions have increased to 7.75% for employees effective for fiscal year 2024. Required employer contributions will increase 0.21% for fiscal year 2019 to fiscal year 2023 and 0.2% in fiscal year 2024 until a required contribution rate of 8.75% is reached. Pension adjustment revenue will increase to match the required contribution increases.

Independent School District No. 656 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. 96 – Subscription-Based Information Technology Arrangements**
GASB has issued GASB Statement No. 96 relating to accounting and financial reporting for subscription-based information technology arrangements. The requirements of this Statement will improve financial reporting by establishing a definition for subscription-based information technology arrangements and providing uniform guidance for accounting and financial reporting for transactions that meet that definition.
- **Accounting Standard Update – GASB Statement No. 100 – Accounting Changes and Error Corrections**
GASB has issued GASB Statement No. 100 relating to accounting and financial reporting for accounting changes and error corrections. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability.
- **Accounting Standard Update – GASB Statement No. 101 – Compensated Absences**
GASB has issued GASB Statement No. 101 relating to accounting and financial reporting for compensated absences. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

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

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*

This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

Independent School District No. 656
Emerging Issues

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements (Continued)*

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, – which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

Independent School District No. 656
Emerging Issues

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements (Continued)*

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

GASB Statement No. 96 is effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged.

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

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

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

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

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

Independent School District No. 656
Emerging Issues

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

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

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

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

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

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

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. 656
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. 100 is effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged.

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