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

Communications Letter

June 30, 2023

Independent School District No. 877
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**Report on Matters Identified as a Result of
the Audit of the Basic Financial Statements**

To the School Board and Management
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

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

- *Probable*. The future event or events are likely to occur.

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control 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 17, 2023, on such statements.

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 17, 2023

Independent School District No. 877
Required Communication

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2023. Professional standards require that we advise you of the following matters related to our audit.

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

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

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

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

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

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

Independent School District No. 877
Required Communication

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

Our Responsibility in Relation to Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)
As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Planned Scope and Timing of the Audit
We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence
The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified
We have identified the following significant risks of material misstatement:

- Improper revenue recognition of state aids and property taxes – Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the government's operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.
- Management override through journal entries – Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- Misappropriation of assets through payroll – If duties cannot be appropriately segregated within the accounting and finance department, there is a risk of unauthorized transactions being made through the payroll process.

Independent School District No. 877
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. In 2023, the District updated their capital asset policy to include verbiage for GASB 87 and GASB 96 assets. 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
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 ADM values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

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

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

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

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

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

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

Significant Difficulties Encountered during the Audit
We encountered no significant difficulties in dealing with management relating to the performance of the audit.

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

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

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the basic financial statements taken as a whole.

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

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

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

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

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

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the basic financial statements or to the basic financial statements themselves.

We were not engaged to report on the other information accompanying the basic financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

Independent School District No. 877
Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance.

Average Daily Membership and Pupil Units

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

	General Education Aid Formula Allowance	
Year	Amount	Percent Increase
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%
2022	6,728	2.5%
2023	6,863	2.0%
2024	7,138	4.0%
2025	7,281	2.0%

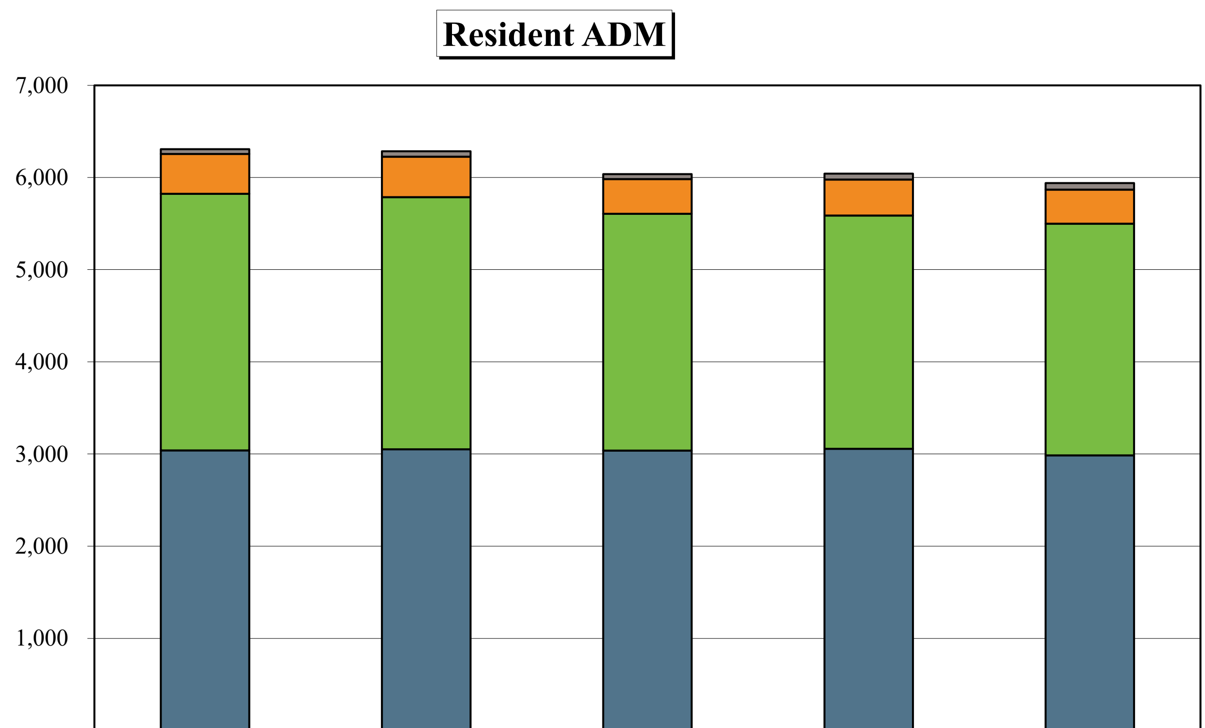
* General Education Aid - Of the $529 increase over 2014, $105 is for inflation at 1.9%; the remaining $424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

Independent School District No. 877
Financial Analysis

Resident Average Daily Membership and Pupil Units
Approximately 74% of the District's General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District's population trends is critical to overall budgeting plans.

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

ADM	2019	2020	2021	2022	2023*
Early Childhood	52.68	59.92	51.72	63.51	71.79
Kindergarten	431.15	437.98	377.21	390.66	370.26
Elementary	2,784.83	2,736.87	2,570.59	2,530.69	2,513.87
Secondary	3,039.20	3,050.54	3,036.45	3,056.72	2,984.55
Total Resident ADM	**6,307.86**	**6,285.31**	**6,035.97**	**6,041.58**	**5,940.47**



	2019	2020	2021	2022	2023*
Early Childhood	52.68	59.92	51.72	63.51	71.79
Kindergarten	431.15	437.98	377.21	390.66	370.26
Elementary	2,784.83	2,736.87	2,570.59	2,530.69	2,513.87
Secondary	3,039.20	3,050.54	3,036.45	3,056.72	2,984.55

* Estimate as of September 18, 2023

Resident Average Daily Membership and Pupil Units (Continued)
The chart and graph on the previous page illustrate the fluctuations in resident ADM experienced by the District over the past five years. Total resident ADM decreased 5.8% since 2019 and decreased 1.7% from 2022.

To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting, based on the student's grade level. These weighting factors are presented in the table below.

Pupil Units Weighting				
	Pre-Kindergarten and Handicapped Kindergarten	Part-time and All-Day Kindergarten	Elementary Grades 1-3/4-6	Secondary
2019-2023	1.000	0.612/1.000	1.000	1.200

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

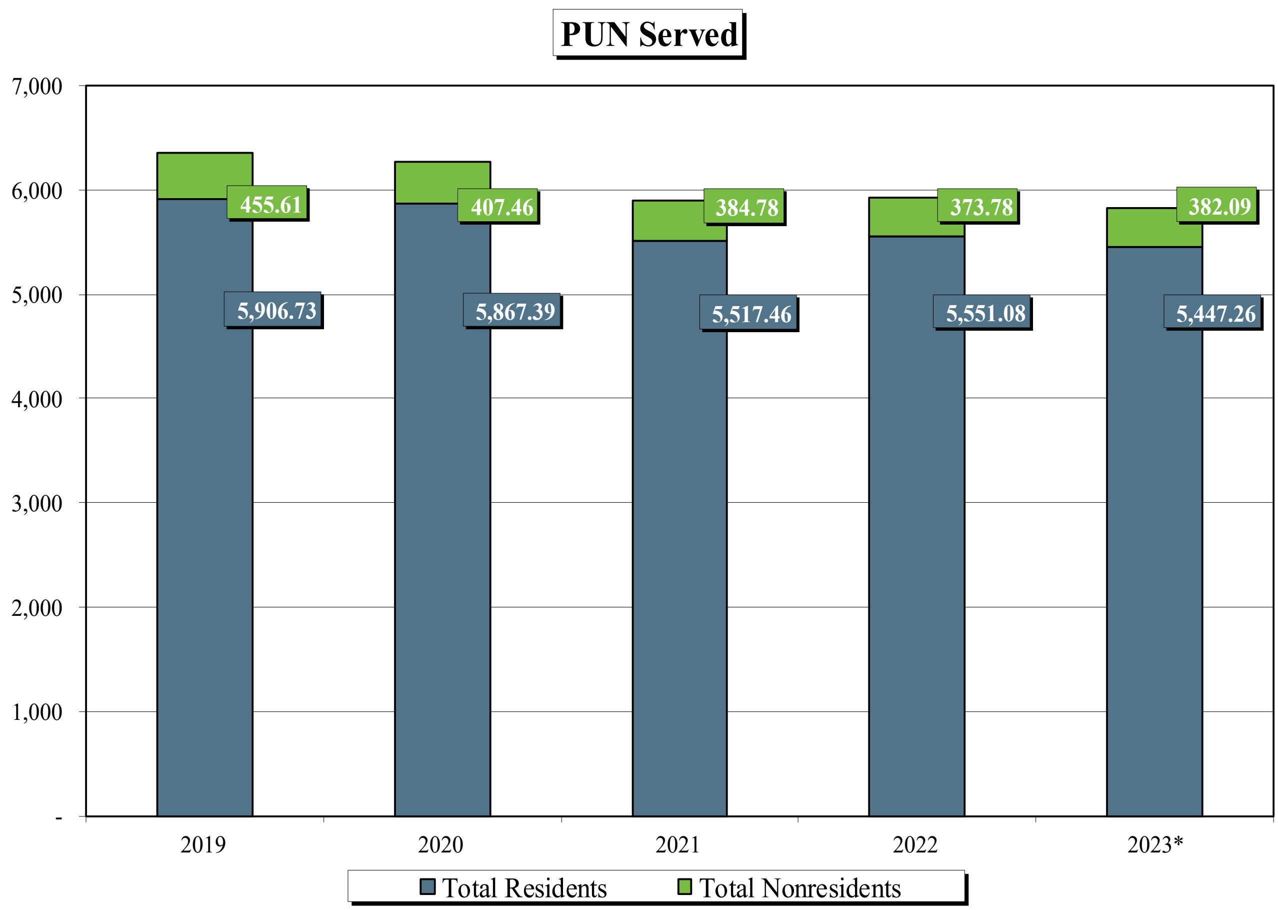
PUN	2019	2020	2021	2022	2023*
Residents	6,915.71	6,895.31	6,643.07	6,652.95	6,537.36
Resident PUN loss	(1,008.98)	(1,027.69)	(1,049.26)	(1,101.87)	(1,090.10)
Nonresident PUN gain	455.61	407.46	384.78	373.78	382.09
Total PUN Served	**6,362.34**	**6,275.08**	**5,978.59**	**5,924.86**	**5,829.35**

* Estimate as of September 18, 2023

Resident PUN decreased from 2022 by 115.59 units. PUN served has varied from year-to-year based on open enrollment. From 2022 to 2023, total PUN served decreased 95.51 units as a result of the decrease in resident PUN.

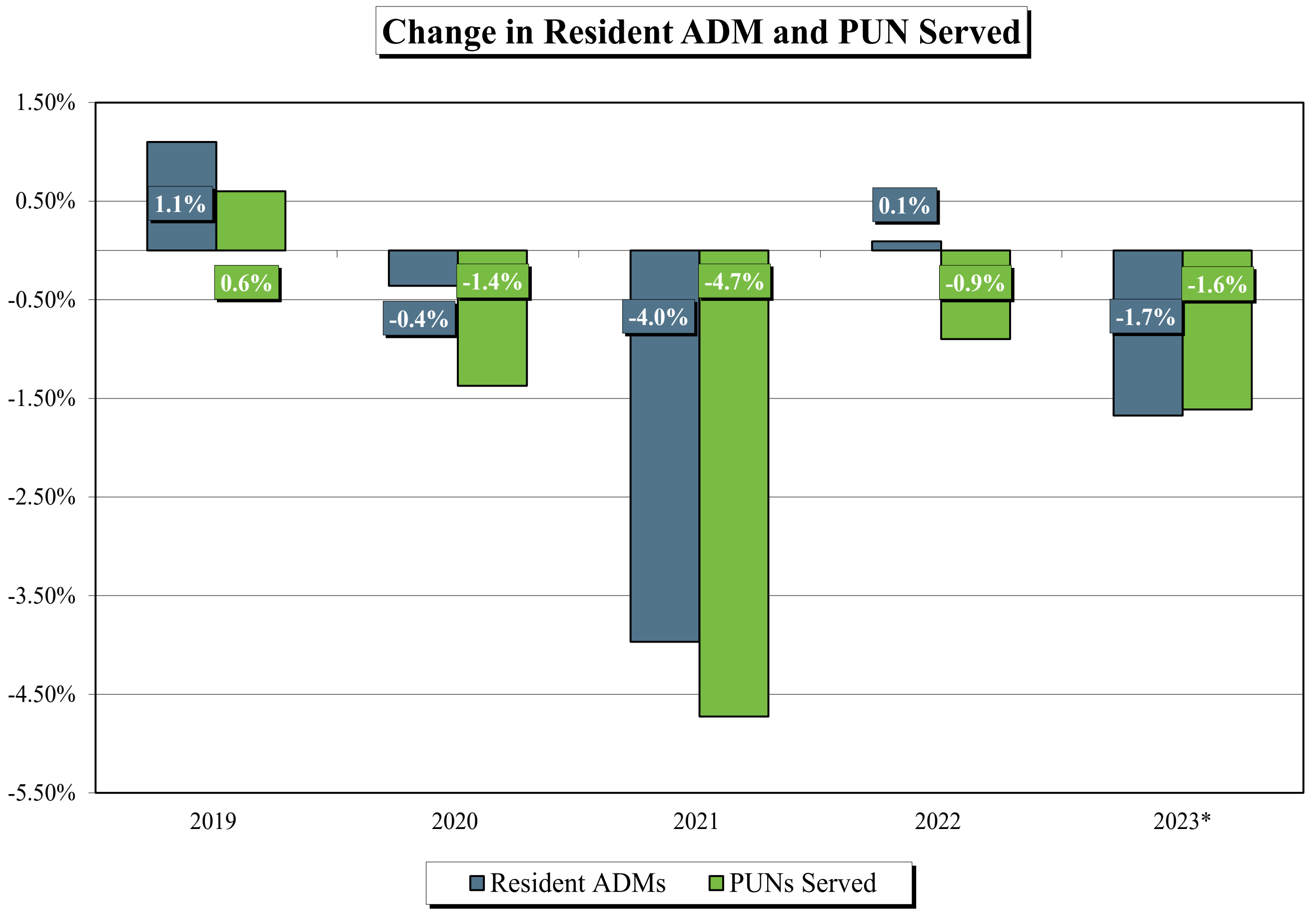
Independent School District No. 877
Financial Analysis

Pupil Units Weighting Served



* Estimate as of September 18, 2023

Pupil Units Weighting Served (Continued)



* Estimate as of September 18, 2023

Independent School District No. 877
Financial Analysis

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

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 11,355,167	$ 11,382,153	$ 11,525,162	$ 143,009
Other local revenues	2,594,641	3,021,691	3,116,169	94,478
Revenue from state sources	55,638,922	55,717,882	54,427,728	(1,290,154)
Revenue from federal sources	3,263,940	4,727,558	4,874,318	146,760
Sales and other conversion of assets	22,000	22,000	37,690	15,690
Total revenues	72,874,670	74,871,284	73,981,067	(890,217)
Expenditures				
Administration	1,944,608	2,008,809	2,038,815	30,006
District support services	1,854,221	1,788,236	1,707,723	(80,513)
Regular instruction	32,811,203	33,546,636	32,767,856	(778,780)
Vocational instruction	2,132,676	1,898,254	1,921,827	23,573
Special education instruction	14,203,413	15,003,758	14,786,374	(217,384)
Instructional support services	5,219,381	5,778,000	5,545,079	(232,921)
Pupil support services	7,279,238	7,131,325	7,154,843	23,518
Sites and buildings	8,273,282	8,137,622	8,935,810	798,188
Fiscal and other fixed cost programs	302,255	302,255	327,925	25,670
Debt service	131,420	235,527	255,966	20,439
Total expenditures	74,151,697	75,830,422	75,442,218	(388,204)
Excess of revenues over (under) expenditures	(1,277,027)	(959,138)	(1,461,151)	(502,013)
Net Other Financing Sources	1,500	1,500	76,621	75,121
Net Change in Fund Balance	$ (1,275,527)	$ (957,638)	$ (1,384,530)	$ (426,892)

The Board approved a final General Fund revenue budget of $74,871,284. With actual revenues coming in at $73,981,067, the final budget produced a variance of ($890,217). The largest variance was in revenues from state sources, which were under budget due to decreased student counts affecting aid entitlements.

In total, General Fund expenditures were under budget 0.5%, or $388,204. Regular instruction and special education instruction salaries and benefits were under budget due to staff turnover and retirements and not being able to fill all the positions as anticipated. Partially offsetting these variances, sites and buildings expenditures were over budget due to long-term facilities maintenance projects and the unpredictability of project timelines.

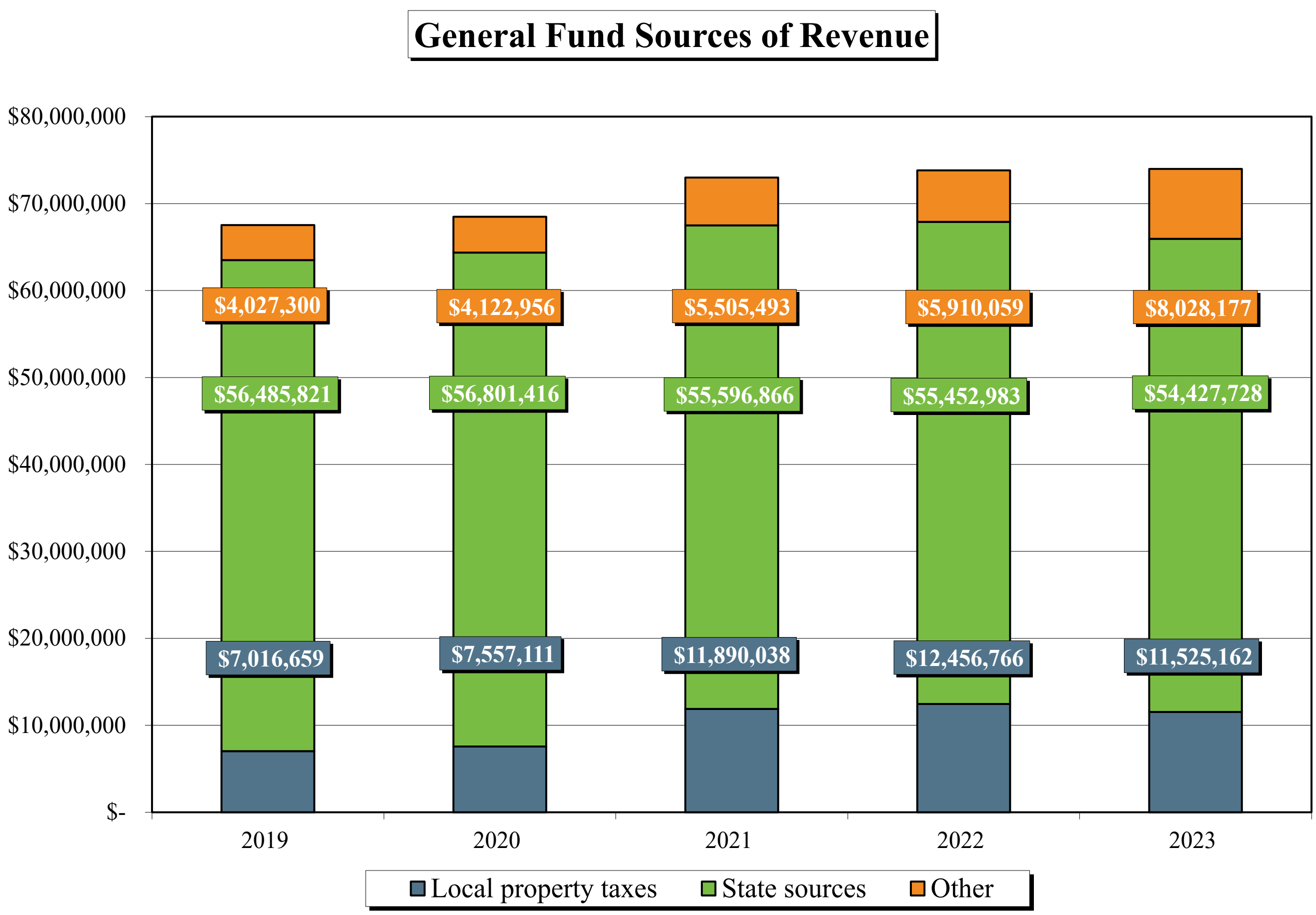
Independent School District No. 877
Financial Analysis

General Fund Sources of Revenue

General Fund Sources of Revenue are summarized as follows for the last five years:

	2019	2020	2021	2022	2023
Local property taxes	$ 7,016,659	$ 7,557,111	$ 11,890,038	$ 12,456,766	$ 11,525,162
State sources	56,485,821	56,801,416	55,596,866	55,452,983	54,427,728
Other	4,027,300	4,122,956	5,505,493	5,910,059	8,028,177
Total	**$ 67,529,780**	**$ 68,481,483**	**$ 72,992,397**	**$ 73,819,808**	**$ 73,981,067**

Total General Fund revenue increased $161,259, or 0.2%, from 2022 to 2023. Local property taxes decreased by $931,604 with a decrease in the levy amount. Other sources increased $2,118,118 due to a positive change in the fair market value of investments and increased spending of federal pandemic relief funding. State revenue sources decreased by $1,025,255 as a result of the decrease in ADM served.



Independent School District No. 877
Financial Analysis

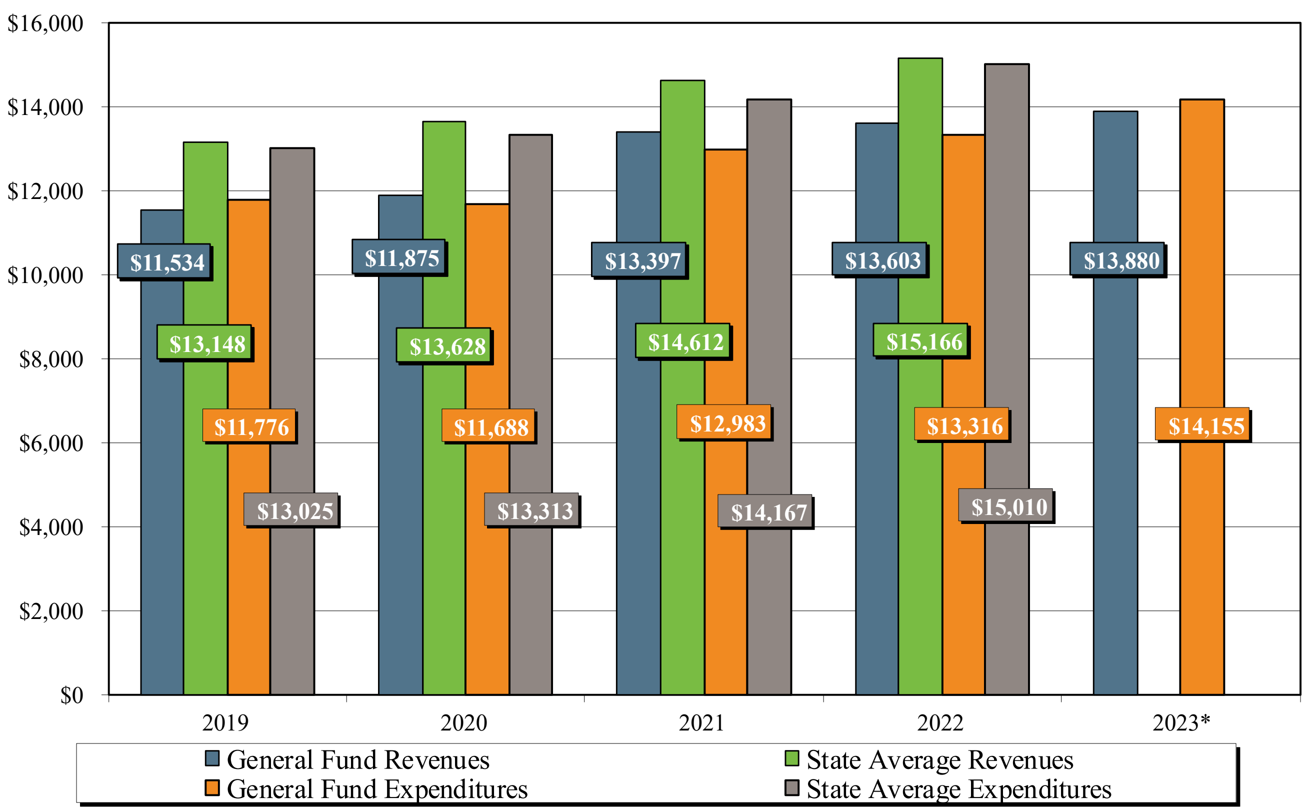
Revenues and Expenditures Per ADM Served
General Fund revenues per students (ADM) served, are summarized in the following table, and graph:

	2019	2020	2021	2022	2023*
General Fund	$ 11,534	$ 11,875	$ 13,397	$ 13,603	$ 13,880
General Fund state average	13,148	13,628	14,612	15,166	N/A

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

	2019	2020	2021	2022	2023*
General Fund	$ 11,776	$ 11,688	$ 12,983	$ 13,316	$ 14,155
General Fund state average	13,025	13,313	14,167	15,010	N/A

Revenues and Expenditures Per ADM Served



2019 through 2022 amounts obtained from the Minnesota Department of Education Financial Profile Reports.
* 2023 averages not yet available.

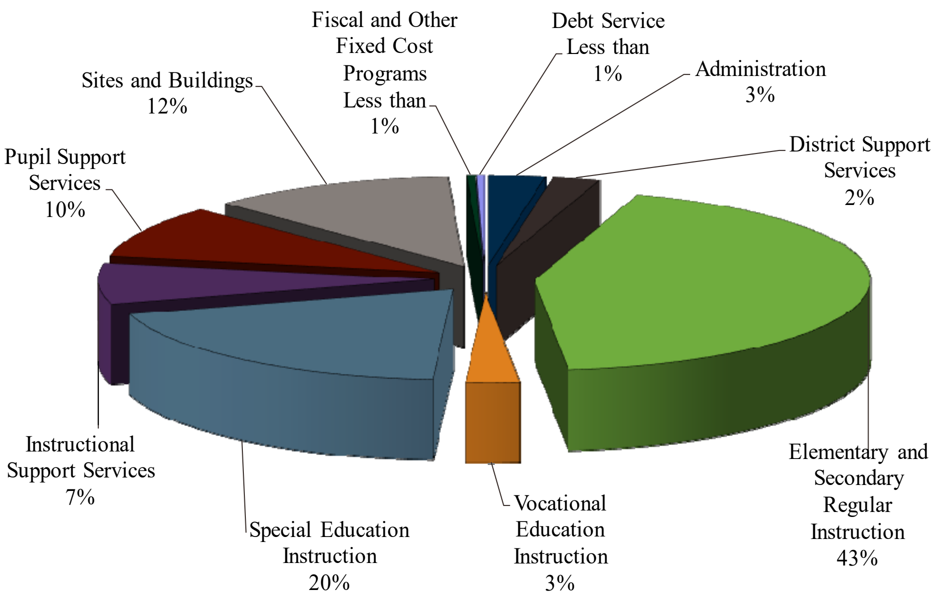
Revenues per ADM have consistently been below the state average, receiving less in property tax revenue per ADM as well as less state and federal aids per ADM. In relation to this, as a result of bringing in less revenue per ADM, the District is spending less per ADM than the state average.

Independent School District No. 877
Financial Analysis

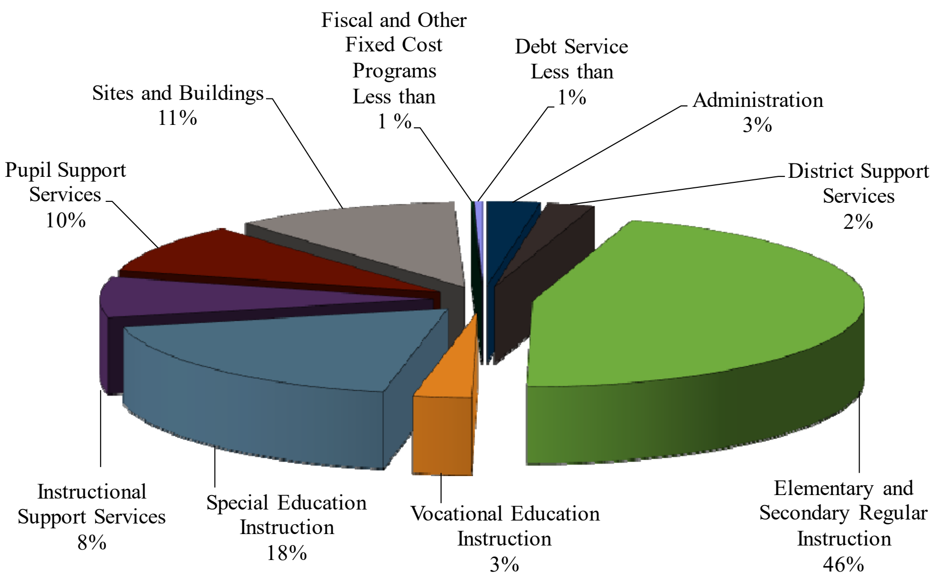
General Fund Expenditures

The graphs below depict the percentage of expenditures by function in the General Fund for years 2022 and 2023. Expenditures increased by $3,047,470, or 4.2%, from 2022 to 2023, and the allocation of expenditures remained very consistent. Education programs and instructional/pupil support made up 83% and 84% of the District's expenditures, for 2023 and 2022, respectively. Just 5% of expenditures were attributable to administration and district support services for 2023 and 2022.

General Fund Expenditures 2023



General Fund Expenditures 2022



Independent School District No. 877
Financial Analysis

General Fund Operations

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

	2019	2020	2021	2022	2023
Revenues	$ 67,529,780	$ 68,481,483	$ 72,992,397	$ 73,819,808	$ 73,981,067
Expenditures	68,940,965	67,409,717	70,812,639	72,394,748	75,442,218
Excess of revenues over (under) expenditures	(1,411,185)	1,071,766	2,179,758	1,425,060	(1,461,151)
Transfers/other financing sources and uses	7,964	616	86,919	136,728	76,621
Change in accounting principle	-	28,484	-	-	-
Fund balance, July 1	16,069,737	14,666,516	15,767,382	18,034,059	19,595,847
Fund Balance, June 30	$ 14,666,516	$ 15,767,382	$ 18,034,059	$ 19,595,847	$ 18,211,317

Components					
Unassigned	$ 6,136,605	$ 7,850,572	$ 10,013,894	$ 10,750,570	$ 10,418,889
Nonspendable	574,149	559,231	607,010	808,200	706,309
Reserved/restricted for					
Student activities	-	26,151	21,121	38,012	42,337
Teacher development and evaluations	103,096	-	-	-	-
Operating capital	733,445	1,015,094	1,182,366	1,497,207	1,749,715
Long-term facility maintenance	(71,833)	(115,278)	347,494	624,421	(198,064)
Medical assistance	217,324	308,929	482,065	488,888	326,694
Committed/assigned for					
Separation benefits	3,340,760	2,615,036	2,187,804	2,374,820	2,576,411
Student activities - fund 9	389,589	403,592	383,104	351,218	428,932
3rd party special education	560,353	-	-	-	-
Q Comp	66,719	105,022	37,353	133,344	25,072
Capital	1,833,715	1,833,715	1,385,317	1,030,697	853,208
Carryover	587,621	904,295	1,201,806	1,421,168	1,352,588
Dental insurance	194,973	261,023	184,725	77,302	(70,774)
Total	$ 14,666,516	$ 15,767,382	$ 18,034,059	$ 19,595,847	$ 18,211,317

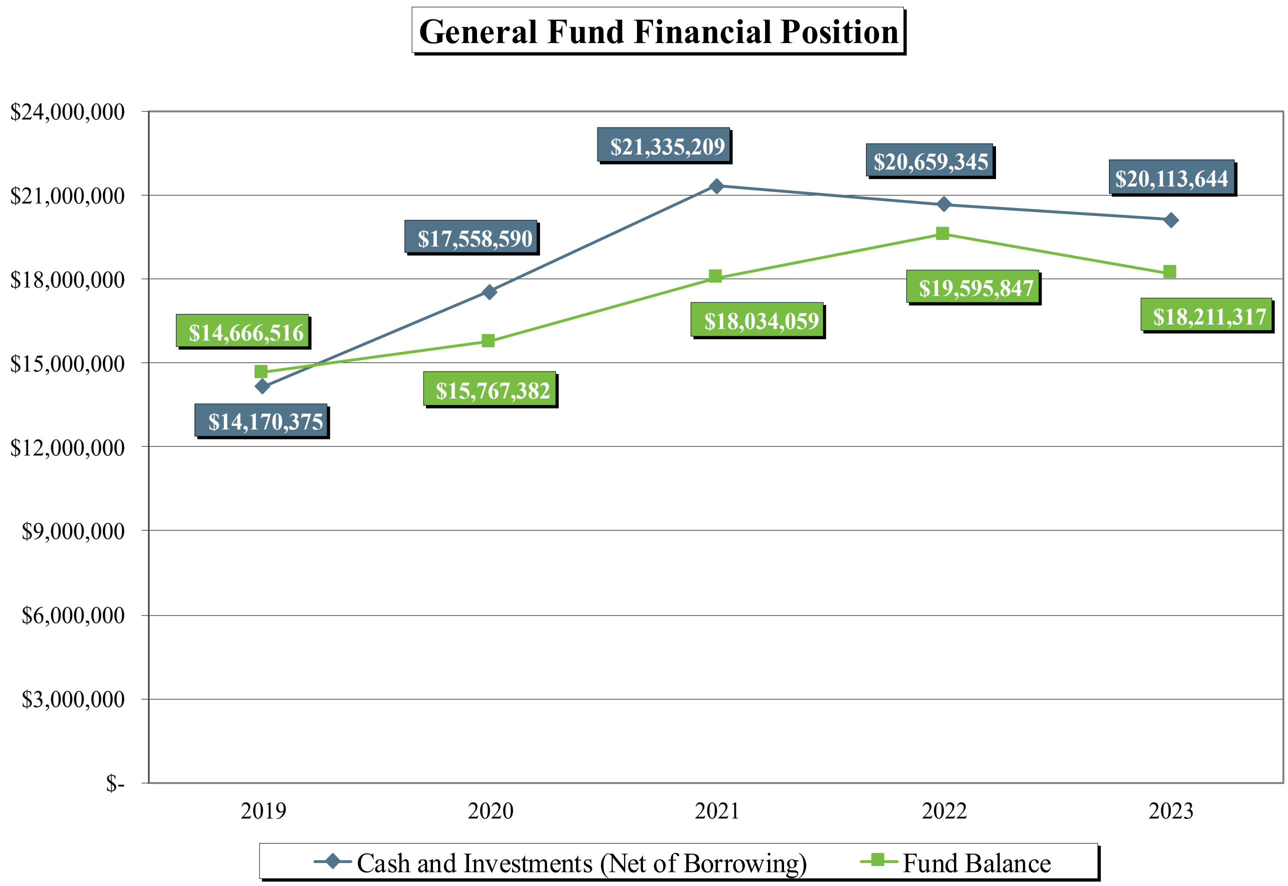
Total General Fund revenue increased 0.2% from 2022 to 2023 as previously discussed.

Total General Fund expenditures increased 4.2% from 2022 to 2023. This increase was across most programs due primarily to contractual increases in salaries and benefits and an increase in long-term facilities maintenance projects in 2023.

Expenditures exceeded revenues during 2023, resulting in a decrease in total fund balance of $1,384,530. The decrease was reported across most fund balance components with the largest decrease in fund balance reserved/restricted for long-term facility maintenance (LTFM).

Unassigned fund balance as of June 30, 2023, amounted to $10,418,889. This amount equals 13.8% of General Fund expenditures based on 2023 spending levels.

General Fund Operations (Continued)



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

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

Independent School District No. 877
Financial Analysis

Food Service Fund

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

For the Year Ended June 30,	2019	2020	2021	2022	2023
Revenues	$ 3,055,039	$ 3,431,084	$ 3,574,635	$ 4,844,434	$ 3,905,749
Expenditures, excluding OPEB	2,910,459	3,122,854	3,133,990	3,533,402	3,585,741
Excess of revenues over expenditures	144,580	308,230	440,645	1,311,032	320,008
Transfers/other financing sources	5,575	453	1,310	14,116	-
Fund balance, July 1	471,587	621,742	930,425	1,372,380	2,697,528
Fund Balance, June 30	$ 621,742	$ 930,425	$ 1,372,380	$ 2,697,528	$ 3,017,536

In 2023, revenues exceeded expenditures by $320,008. Revenues decreased $938,685 due to federal food service program changes and not all meals served being federally reimbursed in 2023. Expenditures stayed relatively consistent with the previous year.

Community Service Fund

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

For the Year Ended June 30,	2019	2020	2021	2022	2023
Revenues	$ 3,687,299	$ 3,380,387	$ 3,014,480	$ 3,794,664	$ 4,160,988
Expenditures, excluding OPEB	3,444,580	3,472,360	3,098,360	3,467,083	3,752,012
Excess of revenues over (under) expenditures	242,719	(91,973)	(83,880)	327,581	408,976
Fund balance, July 1	(276,102)	(33,383)	(125,356)	(209,236)	118,345
Fund Balance, June 30	$ (33,383)	$ (125,356)	$ (209,236)	$ 118,345	$ 527,321

Components					
Unreserved/unassigned	$ (44,476)	$ (50,506)	$ (50,687)	$ (73,462)	$ (78,301)
Nonspendable	390	5,168	2,037	10,244	1,781
Restricted/reserved for					
ECFE	122,452	114,542	196,617	225,808	195,493
Community education	(115,528)	(226,840)	(438,776)	(122,940)	307,973
School readiness	(8,566)	19,935	44,612	78,695	100,375
Adult basic education	12,345	12,345	36,961	-	-
Total	$ (33,383)	$ (125,356)	$ (209,236)	$ 118,345	$ 527,321

Revenues exceeded expenditures for the third time in the five years presented, resulting in an increase in fund balance of $408,976. Revenues increased $366,324 while expenditures increased $284,929. Revenues increased as a result increased programming and participation across activities. Expenditures increased due to the addition of a director role.

Independent School District No. 877
Legislative Summary

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

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

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

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

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

Basic Alternative Teacher Compensation Aid (Q-Comp)
The total cap for basic alternative teacher compensation aid increased from $88,118,000 to $88,461,000 for 2024 and 2025 and $89,486,000 for 2026 and beyond.

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

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

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

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

Independent School District No. 877
Legislative Summary

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

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

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

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

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

Long-term Facilities Maintenance (LTFM) Revenue
Joint powers districts may be included in the LTFM program along with intermediate and secondary cooperative districts.

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

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

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

Independent School District No. 877
Legislative Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent School District No. 877
Emerging Issues

Executive Summary

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

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

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

Implementation Guide No. 2021-1 – Amending Capitalization Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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