Independent School District No. 118
Remer, Minnesota

Communications Letter

June 30, 2024

Independent School District No. 118
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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. 118
Remer, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 118, Remer, Minnesota, as of and for the year ended June 30, 2024, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The significant deficiency identified is stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated October 30, 2024, on such statements.

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

BergankDV, Ltd.

St. Cloud, Minnesota
October 30, 2024

Independent School District No. 118
Significant Deficiency

Lack of Segregation of Accounting Duties

The District has a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the basic financial statements.

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

Independent School District No. 118
Required Communication

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2024. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the 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 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.

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) (Continued)

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:

- Management Override of Controls – 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 – If duties cannot be appropriately segregated, there is a risk of unauthorized disbursements being made by the District. In addition, generally this results in less review taking place as transactions are recorded in the financial statements.
- Improper Revenue Recognition – Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.
- State Aid Valuation – Revenue and receivable amounts related to General Education Aid and Special Education Aid are generally material to the financial statements and involve significant estimates.
- Pension Valuation – Net pension liability, deferred outflows of resources related to pensions, and deferred inflows of resources related to pensions are generally material to the financial statements and involve significant estimates.
- Other Post Employment Benefits (OPEB) Valuation – Total OPEB liability, deferred outflows of resources related to OPEB, and deferred inflows of resources related to OPEB are generally material to the financial statements and involve significant estimates.

Independent School District No. 118
Required Communication

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2024. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates and Related Disclosures
Accounting estimates and related disclosures are an integral part of the basic financial statements prepared by management and are based on management's current judgements. Those judgements are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgements. The most sensitive estimates affecting the basic financial statements relate to:

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

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

Net Pension Liability, Deferred Outflows of Resources 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.

Independent School District No. 118
Required Communication

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

The following bullet point summarizes the uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements currently under audit.

- Subscription based information technology arrangement assets and liability are understated
- State aid and related receivable are overstated

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.

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. 118
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.

	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.

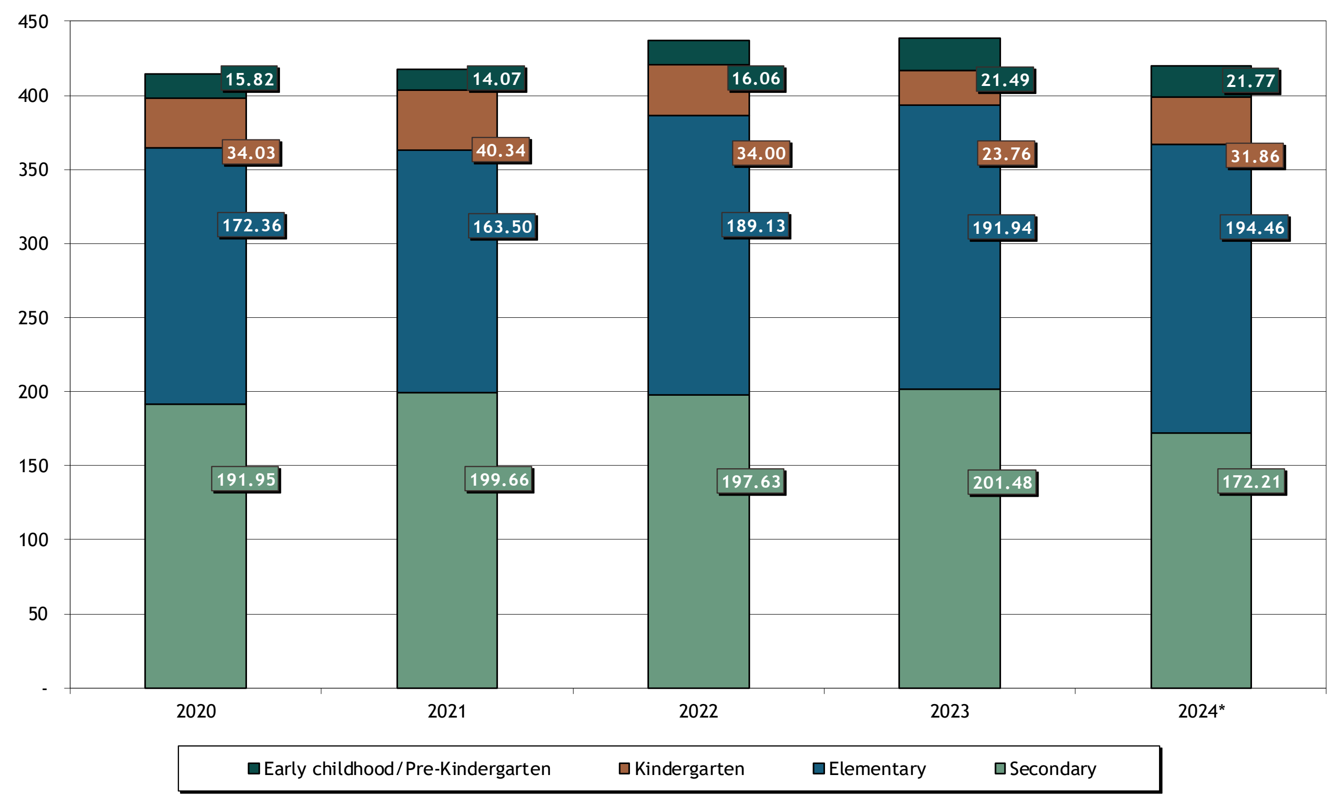
Independent School District No. 118
Financial Analysis

Resident Average Daily Membership and Pupil Units

Approximately 66% 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 ADM of the District for the past five years ended June 30.

ADM	2020	2021	2022	2023	2024*
Early childhood/Pre-Kindergarten	15.82	14.07	16.06	21.49	21.77
Kindergarten	34.03	40.34	34.00	23.76	31.86
Elementary	172.36	163.50	189.13	191.94	194.46
Secondary	191.95	199.66	197.63	201.48	172.21
Total Resident ADM	**414.16**	**417.57**	**436.82**	**438.67**	**420.30**

Resident ADM



* Estimate

The chart and graph above illustrate the change in resident ADM encountered by the District over the previous five years. Resident ADM increased 1.5% since 2020 and decreased 4.2% between 2023 and 2024.

Resident Average Daily Membership and Pupil Units (Continued)

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.

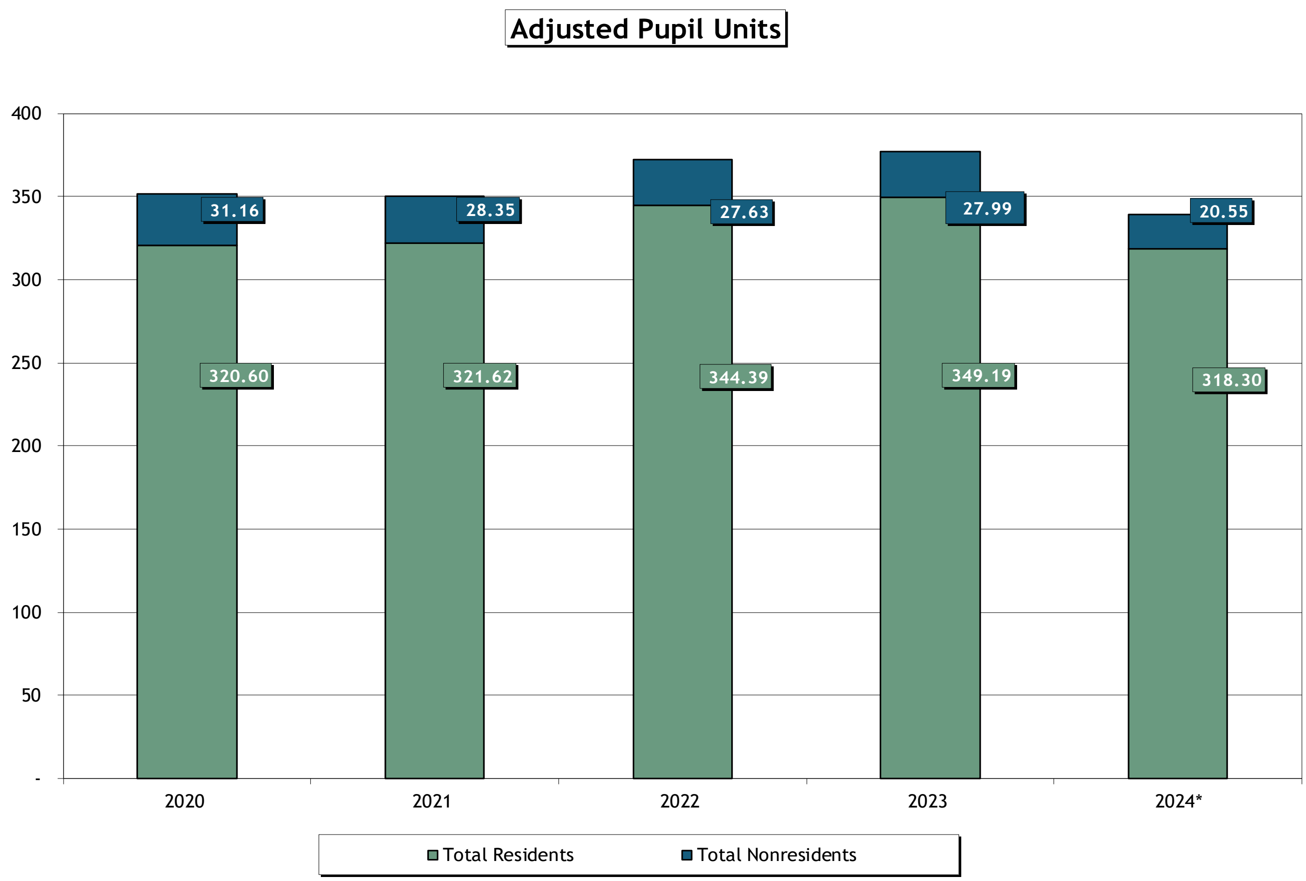
Pupil Units Weighting				
	Prekindergarten and Handicapped Kindergarten	Half and Full Kindergarten	Elementary Grades 1-3/4-6	Secondary
2020-2024	1.000	1.000	1.000	1.200

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

PUN	2020	2021	2022	2023	2024*
Residents	452.55	457.49	476.36	477.77	454.75
Resident PUN loss	(131.95)	(135.87)	(131.97)	(128.58)	(136.45)
Nonresident PUN gain	31.16	28.35	27.63	27.99	20.55
Total Adjusted PUN	**351.76**	**349.97**	**372.02**	**377.18**	**338.85**

* Estimate

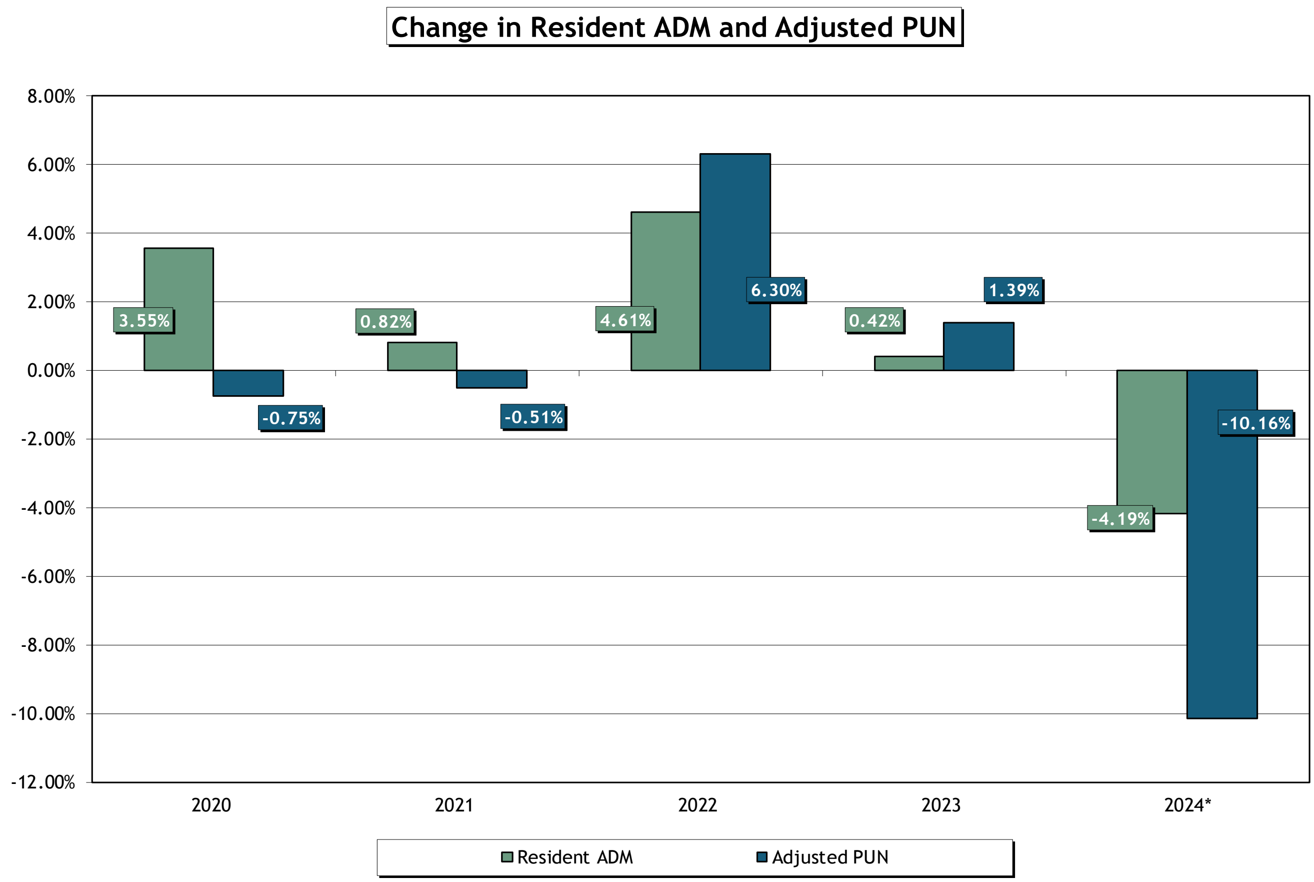
Pupil Units Served



* Estimate

Since 2020, pupil unit numbers have decreased overall by 12.91 units. Approximately 30.0% of the District's resident pupil units are leaving the District through open enrollment. This is partially offset by the 20.55 nonresident pupil units coming into the District. The District continues to experience a loss from open enrollment. This loss increased in 2024 (115.90 units) compared to 2023 (100.59 units). Overall, PUN decreased 38.33 units from 2023 to 2024 as a result of the decrease in the resident pupil unit number and greater loss from open enrollment.

Resident Average Daily Membership and Adjusted Pupil Units



* Estimate

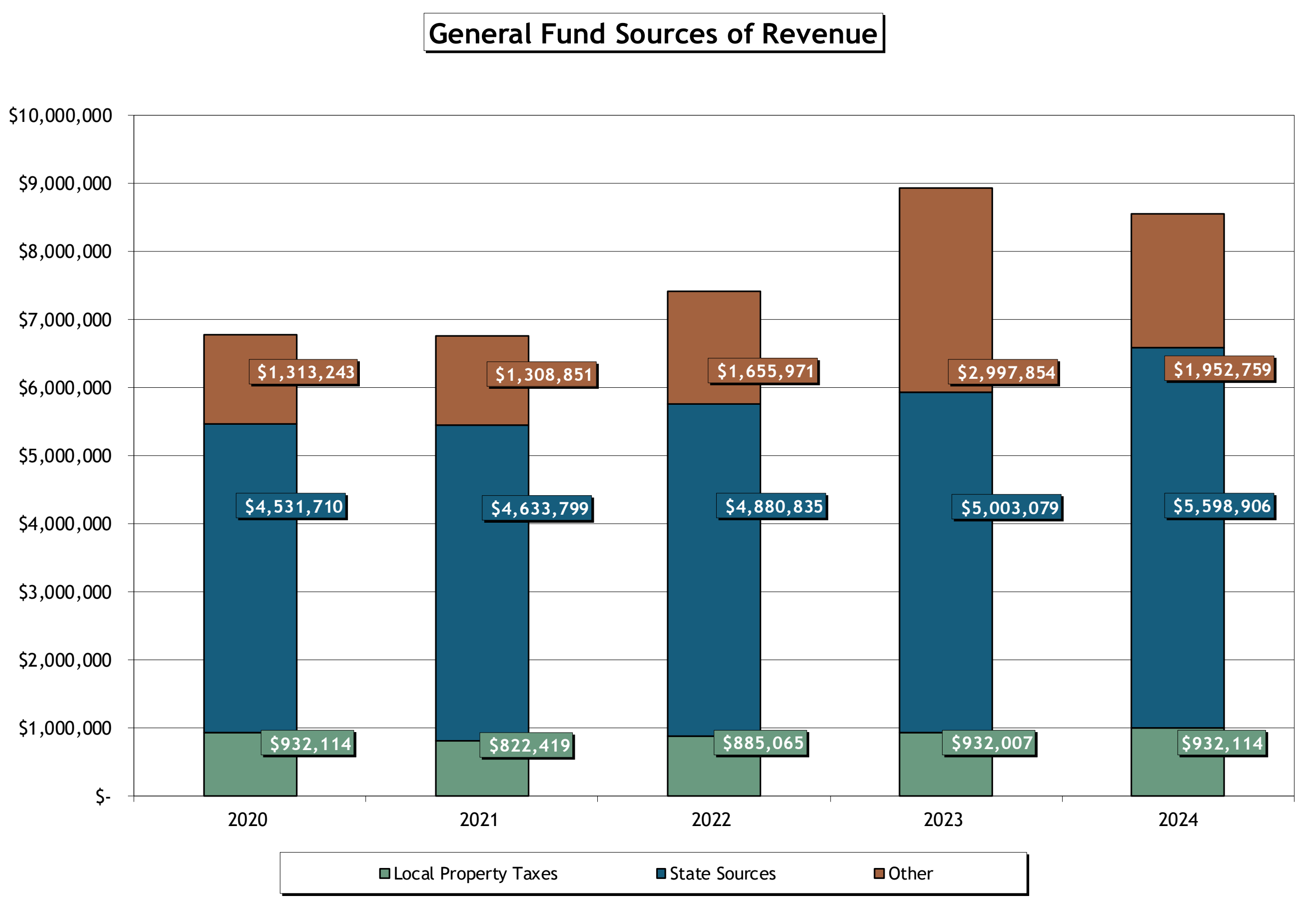
Independent School District No. 118
Financial Analysis

General Fund Sources of Revenue

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

	2020	2021	2022	2023	2024
Local Property Taxes	$ 932,114	$ 822,419	$ 885,065	$ 932,007	$ 996,153
State Sources	4,531,710	4,633,799	4,880,835	5,003,079	5,598,906
Other	1,313,243	1,308,851	1,655,971	2,997,854	1,952,759
Total	**$ 6,777,067**	**$ 6,765,069**	**$ 7,421,871**	**$ 8,932,940**	**$ 8,547,818**

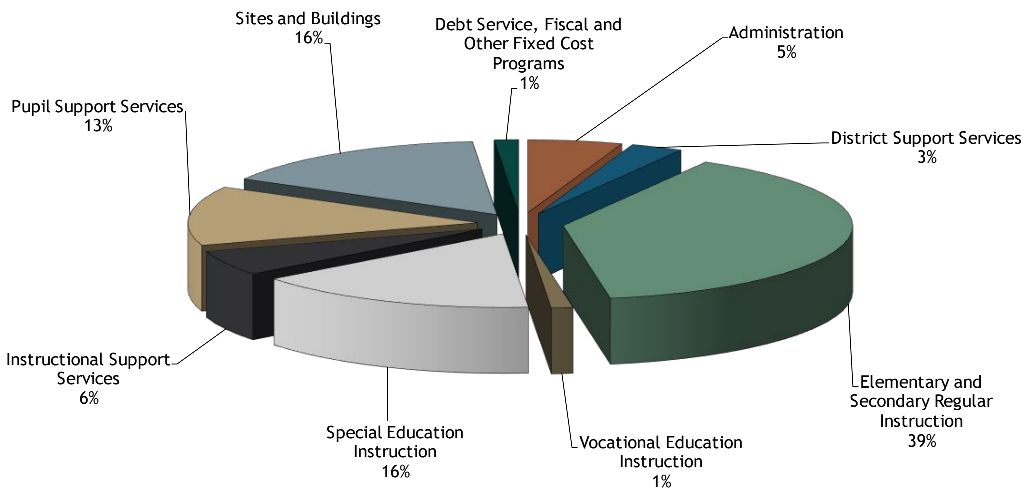
In total, General Fund revenues decreased $385,122, or 4.3%, from 2023 to 2024. State sources comprise 65.5% of General Fund total revenue, local taxpayers contributed 11.7% of the funding, and federal and other sources make up the remaining 22.8%. Local property tax revenue increased $64,146 in 2024 with an increase in the levy for the General Fund. Revenues from state sources increased $595,827, or 11.9%, mainly due to increases in special education aid and general education compensatory aids. Other local revenues, revenues from federal sources, and sales and other conversion of assets combine to make up other sources of revenues. These revenues decreased by $1,045,095 due primarily to receiving lesser funds from the Elementary and Secondary School Education Relief Fund (ESSER) in 2024 compared to the prior year.



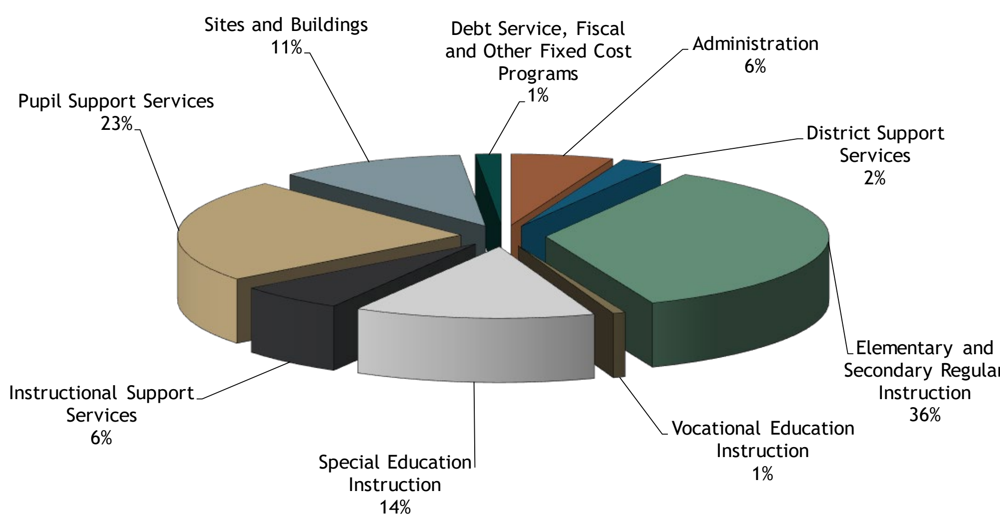
Independent School District No. 118
Financial Analysis

General Fund Expenditures
The graphs below depict the percentage of expenditures by function in the General Fund for years 1899 and 2024. Expenditures decreased by $443,143, or 4.8%, from 2023 to 2024. The allocation of expenditures amongst programs remained fairly consistent with the prior year, with the exception of pupil support services, which decreased 10% due to higher capital expenditures related to the bus garage construction in 2023.

General Fund Expenditures 2024
$8,757,207



General Fund Expenditures 2023
$9,200,350



Independent School District No. 118
Financial Analysis

General Fund Budget and Actual

The graph below shows the District's General Fund budget in comparison to the actual revenue and expenditures. The original budget anticipated a deficit of approximately $53,000, while the final budget anticipated a deficit of approximately $43,000. At year-end, fund balance decreased by $111,626 based on operations.

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 869,776	$ 1,061,035	$ 996,153	$ (64,882)
State sources	5,680,625	5,786,752	5,598,906	(187,846)
Other sources	1,820,507	1,726,845	1,952,759	225,914
Total revenues	8,370,908	8,574,632	8,547,818	(26,814)
Expenditures				
Administration	545,688	423,487	462,666	39,179
District Support Services	261,962	269,585	256,588	(12,997)
Elementary and Secondary Regular Instruction	3,786,835	3,505,484	3,432,048	(73,436)
Vocational Education Instruction	37,403	106,645	105,243	(1,402)
Special Education Instruction	1,198,963	1,380,918	1,392,627	11,709
Instructional Support Services	373,683	378,440	482,784	104,344
Pupil Support Services	837,099	1,092,717	1,143,034	50,317
Sites and Buildings	1,222,819	1,341,302	1,363,641	22,339
Debt Service and Fiscal	159,472	119,472	118,576	(896)
Total expenditures	8,423,924	8,618,050	8,757,207	139,157
Excess of revenues under expenditures	(53,016)	(43,418)	(209,389)	(165,971)
Other Financing Sources	-	-	97,763	97,763
Net change in fund balance	$ (53,016)	$ (43,418)	$ (111,626)	$ (68,208)

In total, actual revenues were 0.3% under final budgeted revenues. Revenues from other sources were $225,914 over budget due in part to greater than anticipated revenues from tuition from other districts, medical assistance, and investment earnings. Revenues from State sources were $187,846 under budget due to general education and special education aids being less than budgeted based on decreased student counts.

Actual expenditures were approximately 1.6% over the final budgeted expenditures. Instructional support services expenditures were over budget by $104,344 due in large part to the recording of the copier lease of approximately $94,000, which is offset by the proceeds recorded in the Other Financing Sources section. Elementary and secondary regular instruction was $73,436 under budget mainly due to the budgeting of additional capital equipment purchases than were incurred during the year within the program. The other expenditure categories were relatively consistent with budgeted amounts.

Revenues and Expenditures Per ADM Served for the General Fund
The tables below and the graphs on the following page show a comparison of revenues and expenditures per students (ADM served) by the District and all Minnesota school districts. ADM served includes students enrolled outside the District through tuition agreements as the tuition cost remains with the District.

	2020	2021	2022	2023	2024
Total revenues per student	$ 20,446	$ 20,767	$ 21,063	$ 25,158	$ 26,031
State average	13,628	14,612	15,166	15,727	N/A

	2020	2021	2022	2023	2024
Total expenditures per student	$ 19,874	$ 21,198	$ 21,306	$ 25,858	$ 26,660
State average	13,313	14,167	15,010	15,730	N/A

Source: *School District Profiles* for 2020-2023; fiscal year 2024 is an estimate.

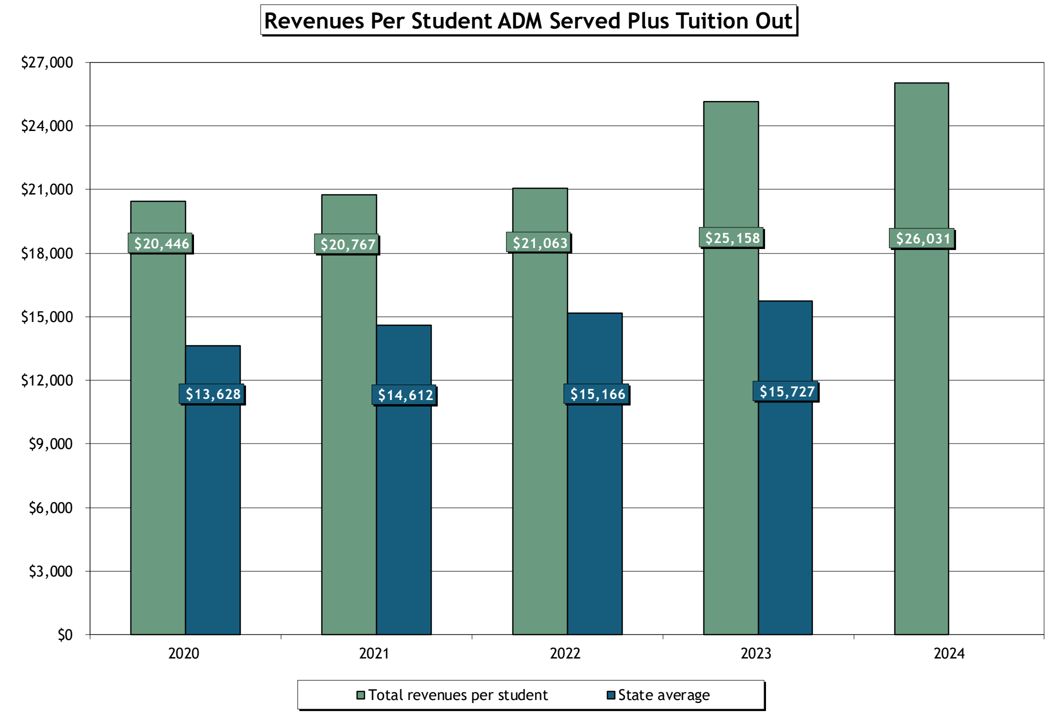
The District's revenues per ADM served have consistently remained above the state average. Revenues per ADM served increased $873, or 3.5%, from 2023 to 2024 as a result of the decrease in ADM served outweighing the decrease in revenue for the year. The District's revenues per ADM served have increased $5,585 from 2020 to 2024.

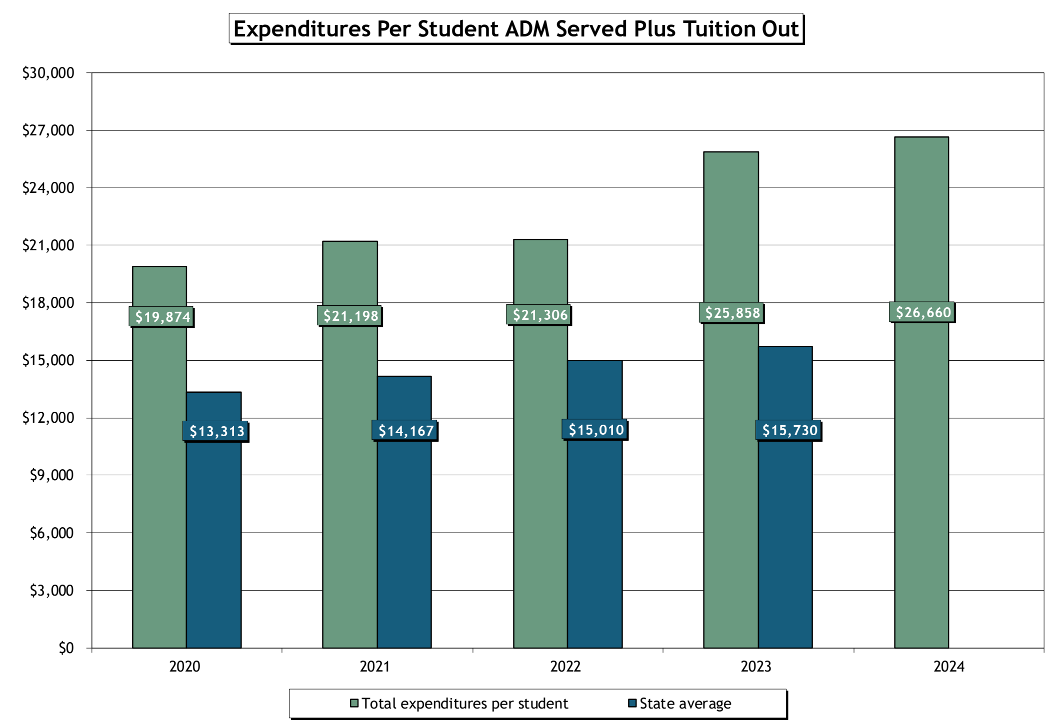
The District saw an increase of $802, or 3.1% in expenditures per ADM served from 2023 to 2024 due to the decrease in student counts for the year. The District's expenditures per ADM served have increased $6,786 from 2020 to 2024. The District has been above the overall state average for 2020 through 2023.

The District's revenues per ADM served increased 27.3% over the past five years while expenditures per ADM served increased 34.1% over the same period.

Independent School District No. 118
Financial Analysis

Revenues and Expenditures Per ADM Served





* Source: *School District Profiles* for 2020-2023; fiscal year 2024 is an estimate.

** State average expenditures per ADM served obtained from *School District Profiles*; fiscal year ending 2024 not yet available

Independent School District No. 118
Financial Analysis

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

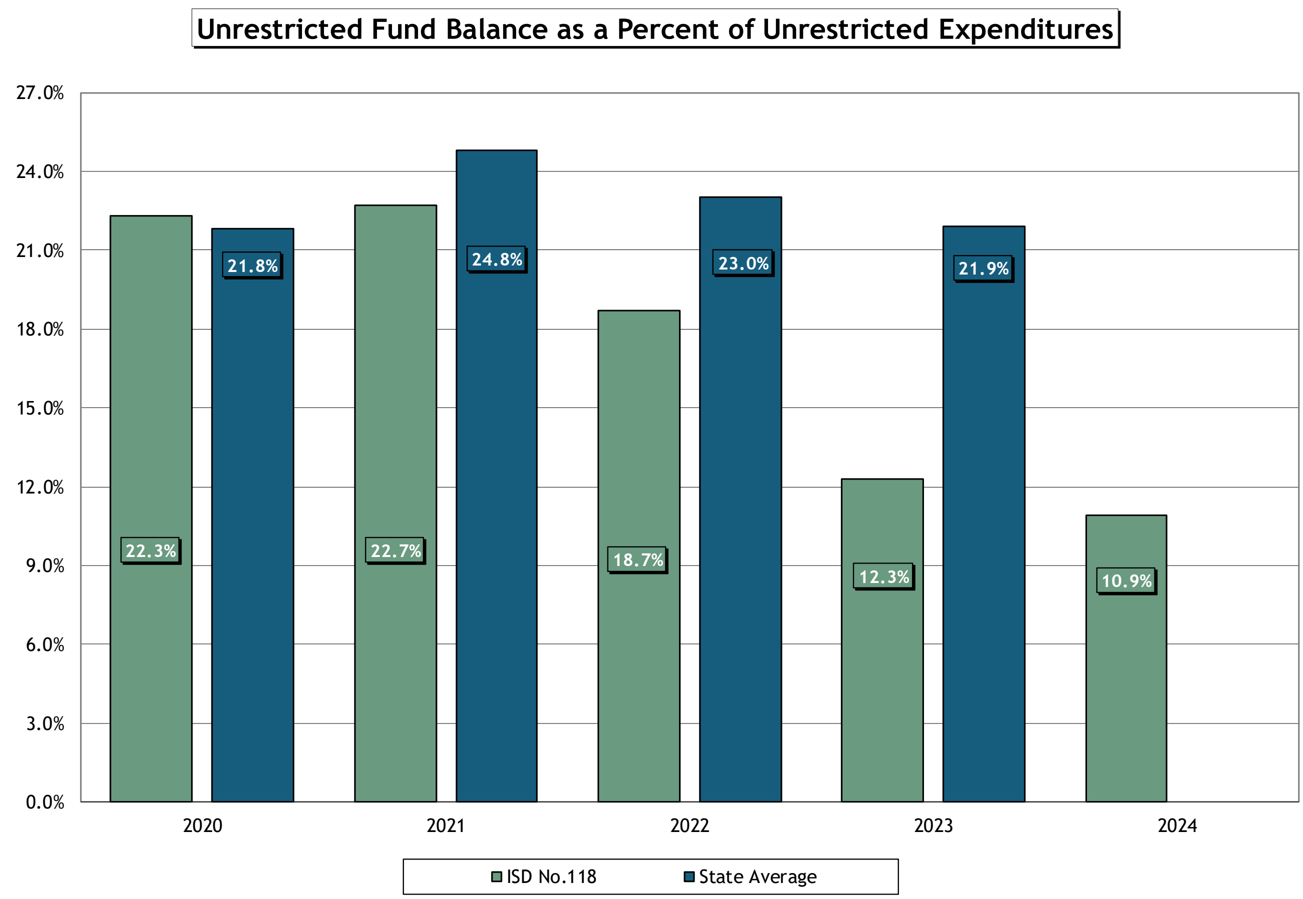
	2020	2021	2022	2023	2024
Revenues	$ 6,777,067	$ 6,765,069	$ 7,421,871	$ 8,932,940	$ 8,547,818
Expenditures	6,728,952	7,104,707	7,645,742	9,200,350	8,757,207
Excess of revenues over (under) expenditures	48,115	(339,638)	(223,871)	(267,410)	(209,389)
Other financing sources/uses	145,214	200,298	138,380	19,288	97,763
Fund balance, July 1	1,952,296	2,059,277	1,919,937	1,834,446	1,586,324
Change in accounting principle	47,425	-	-	-	-
Prior period adjustments	(133,773)	-	-	-	-
Fund Balance, June 30	**$ 2,059,277**	**$ 1,919,937**	**$ 1,834,446**	**$ 1,586,324**	**$ 1,474,698**

Components					
Nonspendable	$ 17,300	$ -	$ 4,628	$ 52,475	$ -
Restricted/Reserved for					
Student Activities	69,442	75,717	67,924	66,382	66,758
Scholarships	58,451	53,734	61,374	67,874	75,624
Staff Development	-	-	13,690	12,591	5,911
Learning and Development	2,095	9,960	-	-	-
Literacy Incentive Aid	-	-	-	-	9,258
American Indian Ed Aid	-	-	-	-	(5,625)
Gifted and Talented	24,525	29,061	33,903	38,645	32,781
Teacher Development	10,868	10,749	10,749	10,749	10,749
Basic Skills	44,721	25,270	25,270	25,270	663
School Library Aid	-	-	-	-	28,018
Safe Schools	53,767	(7,007)	3,318	769	5,045
Achievement and Integration	13,068	15,961	14,130	1,876	-
Basic Skills Extended Time	60,235	32,574	3,303	1	-
Medical Assistance	16,014	35,621	83,976	78,904	102,610
Operating Capital	293,374	253,146	215,207	145,280	176,204
Title VII - Impact Aid	1,028	-	-	-	-
Long-term Facilities Maintenance	105,466	32,130	85,639	160,473	194,625
Unassigned	1,288,923	1,353,021	1,211,335	925,035	772,077
Total	**$ 2,059,277**	**$ 1,919,937**	**$ 1,834,446**	**$ 1,586,324**	**$ 1,474,698**

As previously stated, total General Fund revenue decreased 4.3% from 2023 to 2024, while total General Fund expenditures decreased 4.8% during the same time period.

The unassigned portion of the General Fund balance, which is the amount available for future spending, decreased $152,958 to $772,077. Expenditures have exceeded revenues in four of the five years shown above, which included the decrease in 2024. The unassigned balance at June 30, 2024, represents a little over one month, or 8.8%, of 2024 expenditures. The District fund balance policy outlines a goal of a minimum unassigned General Fund balance of 15% of the annual budget. At June 30, 2024, the District is not in compliance with the minimum fund balance policy.

General Fund Balance



The above graph shows the total unrestricted fund balance as a percentage of expenditures. The District had been above state averages up until 2021, before falling below the state average in 2021 and the subsequent years. The percentage decreased from 12.3% in 2023 down to 10.9% in 2024.

Independent School District No. 118
Financial Analysis

Food Service Fund

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

For the Year Ended June 30,	2020	2021	2022	2023	2024
Revenues	$ 290,126	$ 274,073	$ 391,501	$ 321,045	$ 322,847
Expenditures	266,108	245,824	275,221	294,292	348,988
Excess of revenues over (under) expenditures	24,018	28,249	116,280	26,753	(26,141)
Fund balance, July 1	52,909	76,927	105,176	221,456	248,209
Fund Balance, June 30	**$ 76,927**	**$ 105,176**	**$ 221,456**	**$ 248,209**	**$ 222,068**

Expenditures in the Food Service Fund exceeded revenues in 2024 for the first time in the past five years, with expenditures outweighing revenues by $26,141. From 2023 to 2024, food service revenues increased 0.6% and expenditures increased 18.6% due primarily to capital equipment purchases made in 2024. While the fund has seen a surplus in four of the last five years presented, the District should continue to monitor this fund to ensure revenues are covering the cost of operations.

Community Service Fund

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

For the Year Ended June 30,	2020	2021	2022	2023	2024
Revenues	$ 222,581	$ 232,498	$ 213,906	$ 254,751	$ 259,453
Expenditures	195,453	237,925	262,161	360,003	271,550
Excess of revenues over (under) expenditures	27,128	(5,427)	(48,255)	(105,252)	(12,097)
Fund balance, July 1	239,555	266,683	261,256	213,001	107,749
Fund Balance, June 30	**$ 266,683**	**$ 261,256**	**$ 213,001**	**$ 107,749**	**$ 95,652**
Components					
Restricted for					
ECFE	$ 127,478	$ 60,712	$ 56,814	$ 40,518	$ 43,907
Community Education	84,291	94,832	79,452	59,463	33,978
School Readiness	38,086	65,041	64,404	7,768	17,767
Community Service	16,828	40,671	12,331	-	-
Total	**$ 266,683**	**$ 261,256**	**$ 213,001**	**$ 107,749**	**$ 95,652**

Expenditures exceeded revenues in the Community Service Fund with a deficit of $12,097 in 2024. During the year, revenues increased 1.9% while expenditures decreased 24.6%. Expenditures decreased in 2024 due to having more spending in 2023 for the outdoor classroom. The result of operations was a decrease in fund balance down to $95,652. All components of fund balance remain positive at year end for the Community Service Fund.

Independent School District No. 118
Legislative Summary

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

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

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

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

Area Learning Center (ALC) Transportation Aid
ALC transportation aid reimburses school districts for costs associated with transportation of students to and from an ALC program. School districts can apply for this new funding stream for 2024 and beyond. Allowable recipients for this aid have been modified to include cooperative units that provide their own transportation for ALCs.

Basic Alternative Teacher Compensation Aid (Q-Comp)
The total cap for basic alternative teacher compensation aid increased from $88,118,000 to $88,461,000 for 2024 and 2025, and $89,486,000 for 2026 and beyond. Unspent "Q Comp" funds must be reserved in a restricted fund balance and used only for their intended purpose.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unemployment Insurance Aid
Effective May 28, 2023, certain non-certified hourly school workers may qualify for "between term" summer unemployment benefits. A new aid has been created to reimburse districts for between term unemployment insurance costs, which are not eligible for levy reimbursement. The total aid available is $135 million in fiscal year 2024 and is available until fiscal year 2027 or depletion. This aid now required to be paid on a 90/10 basis.

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

Independent School District No. 118
Emerging Issues

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

- **Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences***
  GASB has issued GASB Statement No. 101 relating to accounting and financial reporting for compensated absences. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.
- **Accounting Standard Update – GASB Statement No. 102 – *Certain Risk Disclosures***
  GASB has issued GASB Statement No. 102 relating to risk disclosures. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact.
- **Accounting Standard Update – GASB Statement No. 103 – *Financial Reporting Model Improvements***
  GASB has issued GASB Statement No. 103 relating to changes in financial reporting requirements. The changes provide clarity, enhance the relevance of information, provide more useful information for decision-making, and provide for greater comparability amongst government entities.

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

Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences*
The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

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

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 fiscal years beginning after December 15, 2023. Earlier application is encouraged.

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

Accounting Standard Update – GASB Statement No. 102 – *Certain Risk Disclosures*
The objective of this Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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