



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

Communications Letter

June 30, 2024

Independent School District No. 656
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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. 656
Faribault ISD
Faribault, 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. 656, Faribault, 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 certain deficiencies in internal control that we consider to be significant deficiencies.

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 January 17, 2025, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the management, the School Board, others within the District, 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 by anyone for any other purpose.

St. Cloud, Minnesota
January 17, 2025

PRELIMINARY

Independent School District No. 656
Significant Deficiency

Lack of Segregation of Accounting Duties

The District had 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 financial statements.

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

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all inclusive list:

Bullet points for general lack of segregation, payroll and disbursements below:

- The Director of Finance has access to all areas of the accounting system.
- The Payroll Clerk sets up employees in the payroll system, calculates and verifies pay, processes payroll, distributes paychecks and paystubs, completes quarterly reports and prepares W2s at the end of the calendar year.
- The Accounts Payable Clerk enters invoices into the accounts payable system, has access to blank check stock, prints checks and has access to digital signatures. The Accountant verifies coding and checks for proper approval of expenditures.
- Building secretaries receive cash and checks, prepare the deposit slips and take deposits to the bank.
- The Accounts Payable Clerk receives cash and checks, prepares the bank deposit slip, takes the deposits to the bank and enters receipts into the accounting system. The Accountant reconciles deposits with batches of receipts entered.

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

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 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 for the supplementary information accompanying the basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our Responsibility in Relation to *Government Auditing Standards*

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

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

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

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

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

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

Significant Risks Identified

We have identified the following significant risks of material misstatement:

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

**Independent School District No. 656
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 deadlines, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

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

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

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

Financial Statement Disclosures

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

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

**Independent School District No. 656
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 points 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.

- State receivables/revenues

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

Disagreements with Management

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

Representations Requested from Management

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

Management's Consultations with Other Accountants

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

Other Significant Matters, Findings, or Issues

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

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

Other Information Included in Annual Reports

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

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

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

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. 656 Financial Analysis

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

Average Daily Membership and Pupil Units

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

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

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

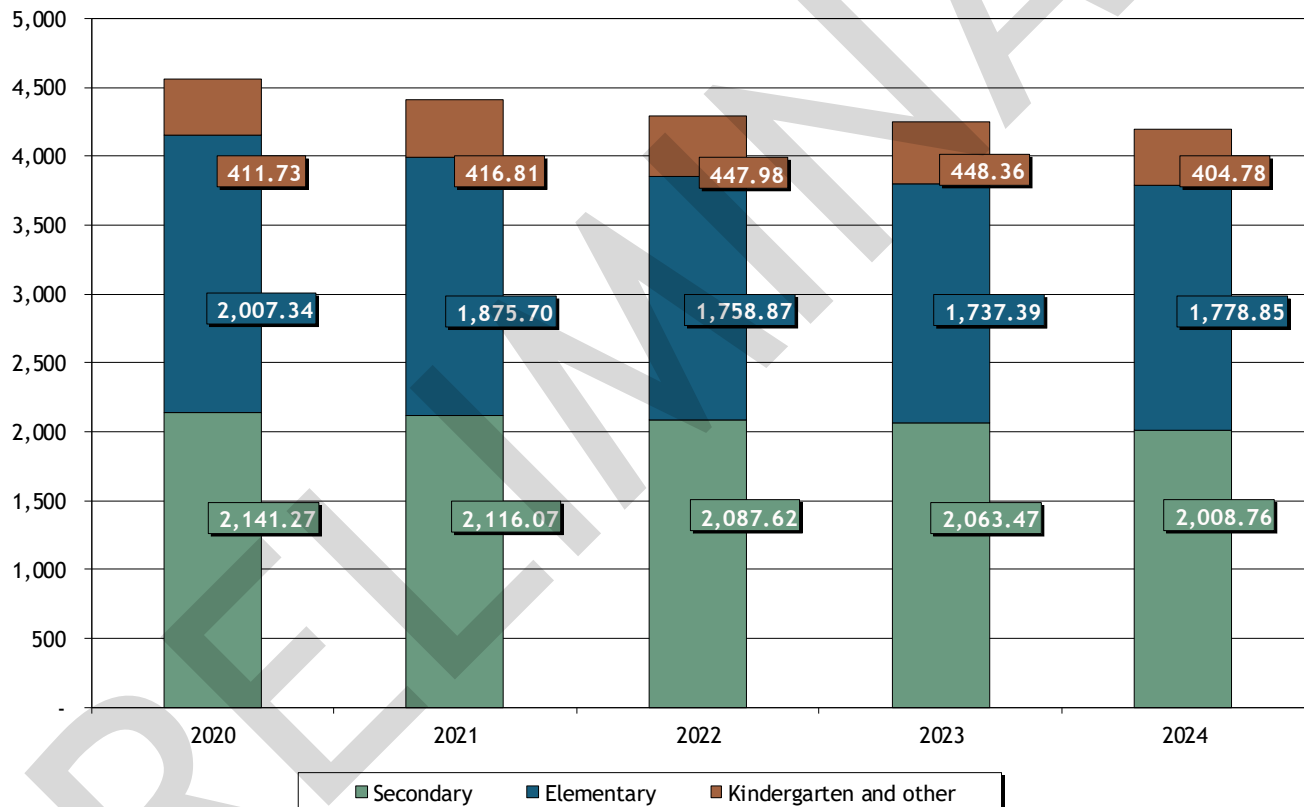
Independent School District No. 656 Financial Analysis

Average Daily Membership and Pupil Units

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

ADM	2020	2021	2022	2023	2024
Other	107.50	127.38	127.09	133.22	113.11
Kindergarten	304.23	289.43	320.89	315.14	291.67
Elementary	2,007.34	1,875.70	1,758.87	1,737.39	1,778.85
Secondary	2,141.27	2,116.07	2,087.62	2,063.47	2,008.76
Total Resident ADM	4,560.34	4,408.58	4,294.47	4,249.22	4,192.39
Change from Prior Year	(51.77)	(151.76)	(114.11)	(45.25)	(56.83)

Students (ADM)



* Estimate

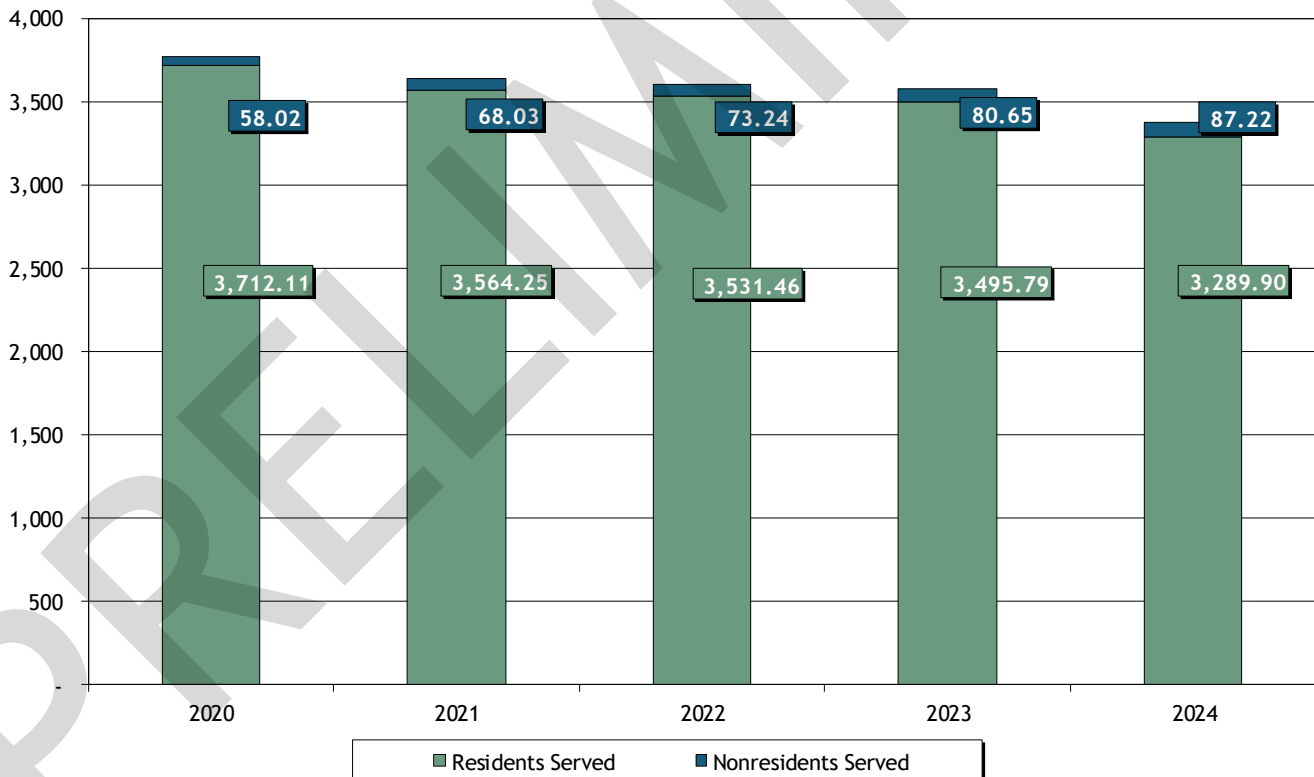
As the above chart indicates, resident ADM has, overall, decreased over the past five years, decreasing 367.95 ADM from 2020 to 2024. Resident ADM decreased from 2023 to 2024, by 56.83 ADM. The chart and graph on the next page apply weighting factors to ADM and include the effects of open enrollment.

Independent School District No. 656 Financial Analysis

Weighted Average Daily Membership Served/Pupil Units

	Pre-kindergarten and Handicapped Kindergarten				
	Kindergarten	Kindergarten	Elementary	Secondary	
2020 through 2024	1.000	1.000	1.000	1.200	
Pupil Units	2020	2021	2022	2023	2024
Residents	4,988.58	4,831.61	4,711.53	4,661.89	4,594.12
Resident pupil units going elsewhere	(1,276.47)	(1,267.36)	(1,180.07)	(1,166.10)	(1,304.22)
Nonresident pupil units coming in	58.02	68.03	73.24	80.65	87.22
Total Pupil Units Served	3,770.13	3,632.28	3,604.70	3,576.44	3,377.12
Change from the Prior Year	(132.88)	(137.85)	(27.58)	(28.26)	(199.32)
Adjusted ADM	3,434.01	3,302.16	3,271.24	3,247.41	3,060.16

Students Served

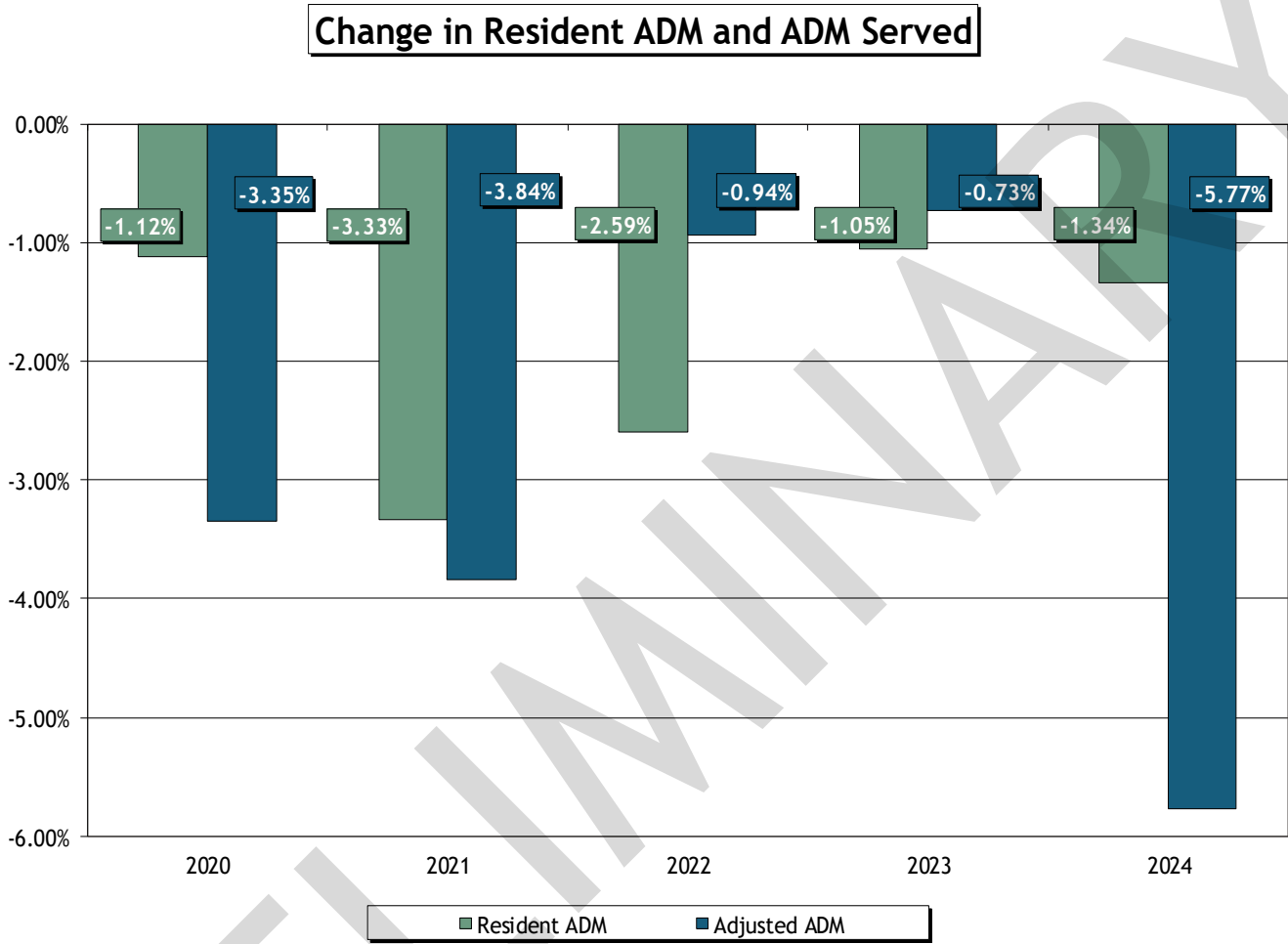


* Estimate

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

Independent School District No. 656
Financial Analysis

Average Daily Membership and ADM Served



* Estimate

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

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

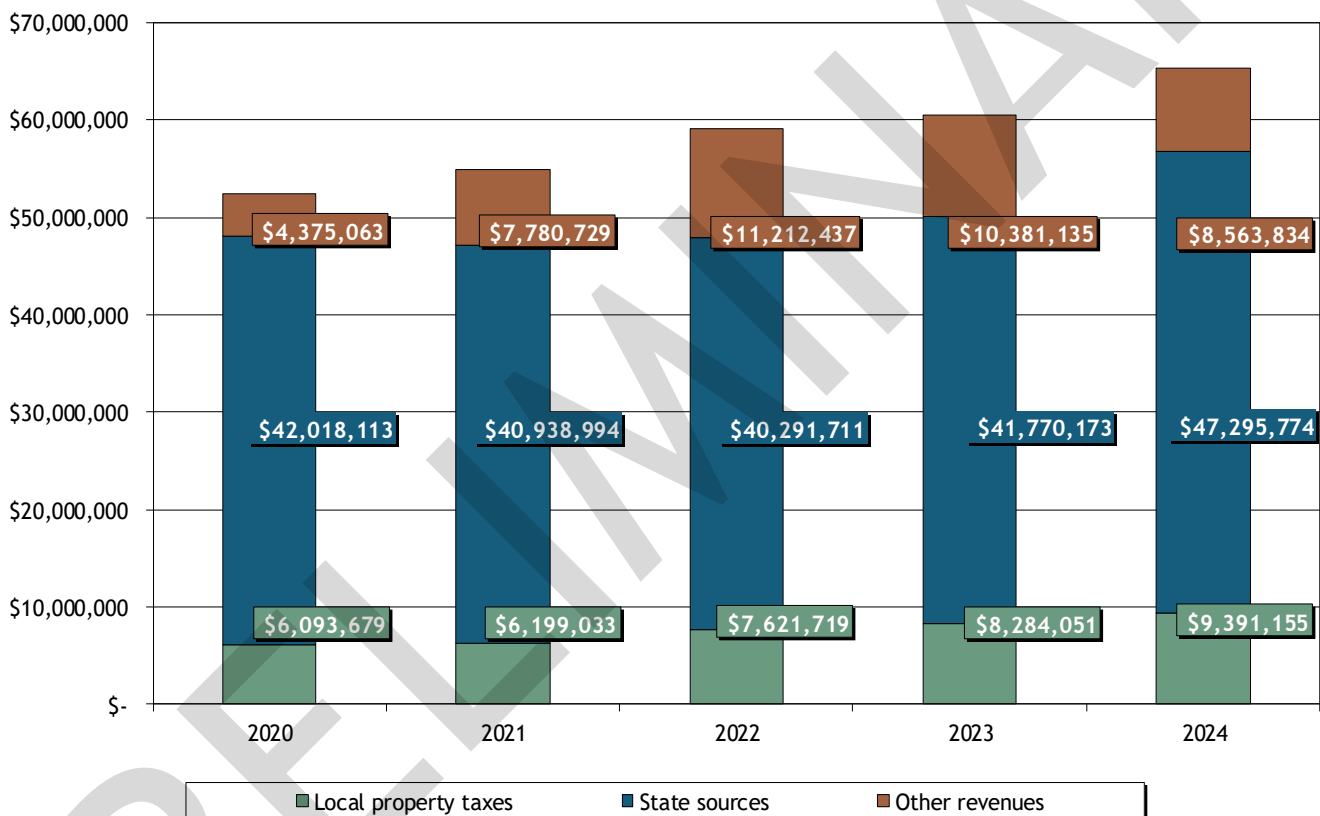
Independent School District No. 656 Financial Analysis

General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

	2020	2021	2022	2023	2024
Local property taxes	\$ 6,093,679	\$ 6,199,033	\$ 7,621,719	\$ 8,284,051	\$ 9,391,155
State sources	42,018,113	40,938,994	40,291,711	41,770,173	47,295,774
Other revenues	4,375,063	7,780,729	11,212,437	10,381,135	8,563,834
Total	\$ 52,486,855	\$ 54,918,756	\$ 59,125,867	\$ 60,435,359	\$ 65,250,763

General Fund Sources of Revenue



State sources represent 72.5% of the General Fund total revenue, with local taxpayers contributing 14.4% of the funding with federal and other sources making up the remaining 13.1%.

Overall, General Fund revenues increased 8.0% or \$4,815,404 from 2023. Revenues from state sources increased \$5,525,601. This increase was due to the increase in formula allowance, partially offset by the decrease in enrollment. The District also saw an increase in special education revenue with the increase in special education students. Revenues from local property taxes increased \$1,107,104. This is the result of an increase in the General Fund's tax levy. Other revenue, which includes other local and county, federal and sales and other conversions of assets, decreased from the prior year by \$1,817,301 or 17.5% as a result of a decrease in federal funding related to COVID-19.

Independent School District No. 656 Financial Analysis

Revenues and Expenditures Per Student (ADM) Served

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

General Fund	2020*	2021*	2022*	2023*	2024**
Property taxes	\$ 1,701	\$ 1,828	\$ 2,171	\$ 2,394	\$ 2,941
Other local sources	472	447	506	626	759
State aid	11,879	12,198	11,815	12,358	14,813
Federal aid	796	1,907	2,871	2,526	1,923
Total General Fund Revenue	\$ 14,848	\$ 16,380	\$ 17,363	\$ 17,904	\$ 20,436
State-Wide*					
Property taxes	\$ 2,180	\$ 2,381	\$ 2,443	\$ 2,545	N/A
Other local sources	528	432	558	731	N/A
State aid	10,393	10,758	10,782	11,073	N/A
Federal aid	527	1,041	1,383	1,378	N/A
Total General Fund	\$ 13,628	\$ 14,612	\$ 15,166	\$ 15,727	N/A

Revenues per student for the General Fund increased 14.1% from 2023 to 2024 as students served decreased 5.2% and revenues increased 8.0%.

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

	2020*	2021*	2022*	2023*	2024**
General Fund	\$ 14,913	\$ 16,537	\$ 17,360	\$ 17,810	\$ 19,558
Statewide Average - General Fund	13,313	14,167	15,010	15,730	Unavailable

* Source: *School District Profiles*

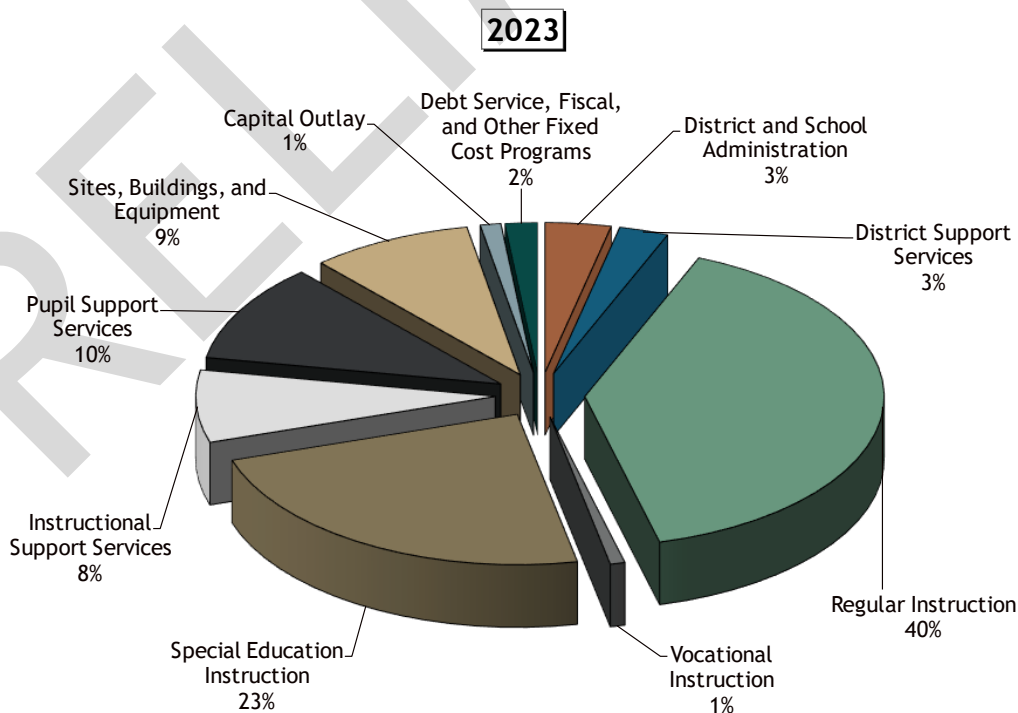
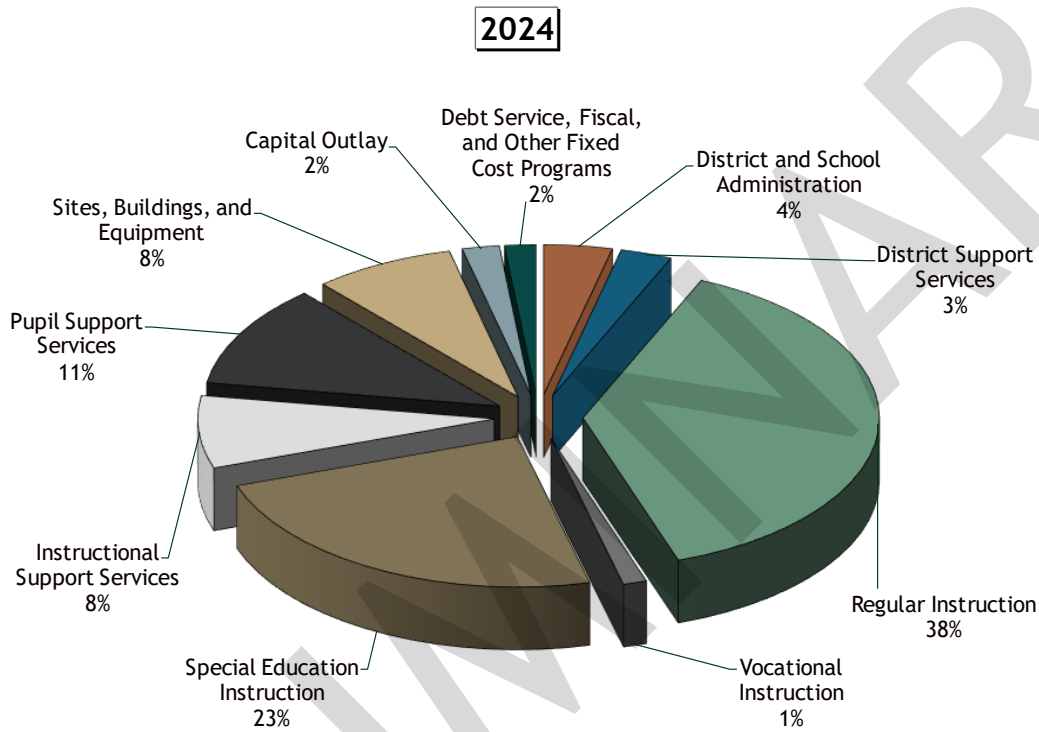
** Estimate

The District experienced an increase in expenditures per student (ADM served) from 2023 to 2024, which was the result of an increase in expenditures of 3.9% and a 5.2% decrease in the students served. The average 2023 expenditure per ADM served for districts in the 2,000-3,999 enrollment category was \$14,631 for the General Fund. As shown above, the District's revenues and expenditures per student served have consistently been higher than the state average for other districts. The District receives more federal and special education funding than comparable districts. Additional funding correlates directly to additional expenditures for federally restricted programs and special education as much of the funding is structured in a way that requires an equal match of funds reimbursed for funds expended.

Independent School District No. 656 Financial Analysis

General Fund Expenditures

The following graphs depict the percentage of expenditures by function in the General Fund. The allocation of expenditures between 2023 and 2024 has been very consistent from one year to the next.



Independent School District No. 656
Financial Analysis

General Fund Budget and Actual

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Over (under)
	Original	Final		
Revenues				
Local property taxes	\$ 9,157,615	\$ 9,348,690	\$ 9,391,155	\$ 42,465
Other local and county revenues	1,462,672	1,707,721	2,412,124	704,403
Revenue from state sources	47,359,595	48,016,234	47,295,774	(720,460)
Revenue from federal sources	6,239,082	6,280,302	6,139,757	(140,545)
Sales and other conversion of assets	15,600	15,600	11,953	(3,647)
Total revenues	64,234,564	65,368,547	65,250,763	(117,784)
Expenditures				
Administration	2,154,429	2,151,409	2,329,156	177,747
District support services	1,716,095	1,745,535	1,755,356	9,821
Regular instruction	25,846,934	27,136,312	23,889,085	(3,247,227)
Vocational instruction	501,374	502,535	798,402	295,867
Special education instruction	14,049,447	14,211,220	14,754,935	543,715
Instructional support services	4,794,210	5,021,075	4,864,722	(156,353)
Pupil support services	6,816,791	6,587,368	6,901,637	314,269
Sites and buildings	4,833,314	4,832,868	4,823,256	(9,612)
Fiscal and other fixed cost programs	244,000	244,000	250,524	6,524
Capital outlay	957,379	1,265,033	1,264,813	(220)
Debt service	801,818	801,818	814,996	13,178
Total expenditures	62,715,791	64,499,173	62,446,882	(2,052,291)
Excess of revenues over expenditures	1,518,773	869,374	2,803,881	1,934,507
Other Financing Sources (Uses)				
Transfer out	-	-	(285)	(285)
Proceeds from the sale of capital assets	10,000	99,754	99,754	-
Total other financing sources (uses)	10,000	99,754	99,469	(285)
Net change in fund balance	\$ 1,528,773	\$ 969,128	\$ 2,903,350	\$ 1,934,222

General fund revenues were under budgeted amounts by \$117,784, or 0.2%. Revenues from state sources were under budget \$720,460. This variance was due to budgeting too high for General Education Aid and Special Education Aid. Other local and county revenues were over budget \$704,403 due to budgeting conservatively for interest earnings. Other revenue sources were relatively consistent with budgeted amounts.

General fund expenditures were under budget \$2,052,291 or 3.2%. Regular instruction was \$3,247,227 under budget as a result of unforeseen staffing needs. Special education was over budget \$543,715 due to additional positions hired as a result of the service needs of students. Other expenditure sources were relatively consistent with budgeted amounts.

Independent School District No. 656
Financial Analysis

General Fund Operations

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

For the year ended June 30,	2020	2021	2022	2023	2024
Revenues	\$ 52,486,855	\$ 54,918,756	\$ 59,125,867	\$ 60,435,359	\$ 65,250,763
Expenditures	52,716,593	56,012,561	59,422,617	60,117,720	62,446,882
Excess of revenues over (under) expenditures	(229,738)	(1,093,805)	(296,750)	317,639	2,803,881
Lease Proceeds	-	567,965	305,547	-	-
Less transfers out	-	-	-	-	(285)
Sale of Equipment	36,280	-	93,432	99,929	99,754
Fund balance, July 1	8,104,261	7,991,557	7,465,717	7,567,946	7,985,514
Change in accounting principle	80,754	-	-	-	-
Fund Balance, June 30	7,991,557	7,465,717	7,567,946	7,985,514	10,888,864
Nonspendable for					
Prepaid items	641,085	55,575	43,056	8,411	20,370
Inventory	-	-	-	-	24,372
CVSEC Long-term receivable	-	-	-	318,827	318,827
Restricted for					
Student Activities	84,957	92,785	105,172	108,719	114,528
Staff Development	48,919	45,387	54,917	44,539	45,895
Literacy Incentive Aid	-	-	-	-	67,403
Operating Capital	299,048	423,872	300,670	306,646	386,910
Safe Schools Levy	40,451	27,665	39,716	149,335	139,182
Area Learning Center/Targeted Service	-	-	-	481,722	753,842
Gfited and Talented	-	-	-	-	15,244
School Library Aid	-	-	-	-	52,666
LTFM	758,941	(419,131)	(6,473)	9,156	-
Basic Skills Programs	55,797	-	-	-	-
Assigned for					
Athletic Equipment	112,186	112,186	-	-	-
CVSEC Long-term receivable	-	318,827	318,827	-	-
Unassigned	5,950,173	6,808,551	6,712,061	6,558,159	8,949,625
Fund Balance, June 30	\$ 7,991,557	\$ 7,465,717	\$ 7,567,946	\$ 7,985,514	\$ 10,888,864

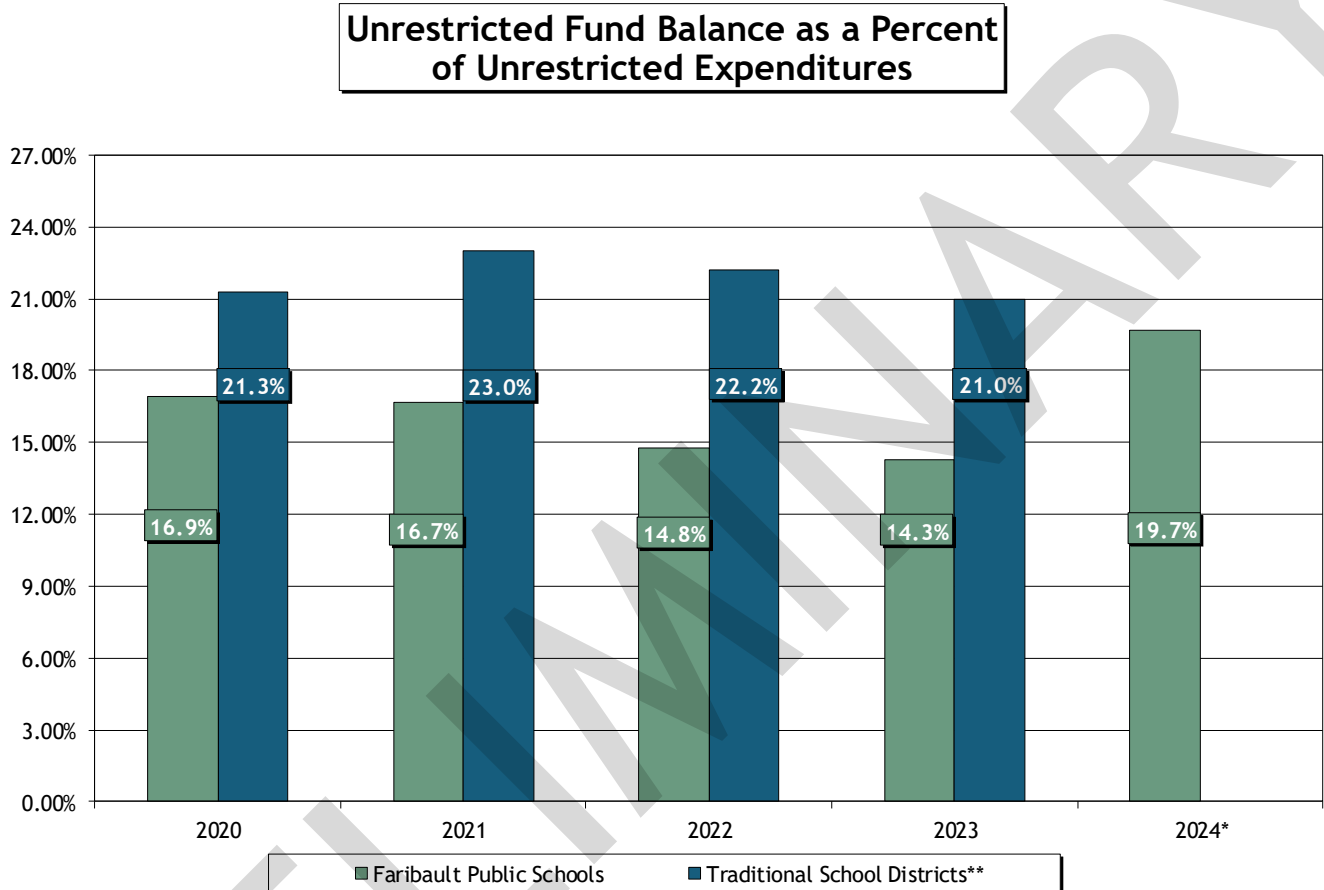
As previously discussed, General Fund revenue increased 8.0% from 2023. General Fund expenditures increased 3.9% over the same period.

At June 30, 2024, the District's unassigned fund balance of \$8,949,625 represented 13.9% of the annual budgeted expenditures. The District's target General Fund balance is a minimum of 9.5% of the annual budgeted expenditures.

Independent School District No. 656
Financial Analysis

General Fund Financial Health

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



* Figures for 2024 are not available for state-wide averages. District percentage obtained from MDE Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Report.

** Information was obtained from MDE web site report *Fiscal Year 2020-2023 General Fund Unreserved Balance*.

The graph on the above details the total fund balance as a percentage of expenditures. The District's fund balance as a percentage of expenditures is lower than the average of all Minnesota school districts for 2020 through 2023. Fund balance as percent of expenditures has increased from 2020 to 2024.

Independent School District No. 656
Financial Analysis

Food Service Fund

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

For the year ended June 30,	2020	2021	2022	2023	2024
Revenues	\$ 2,291,394	\$ 2,075,549	\$ 3,235,257	\$ 2,528,956	\$ 2,952,905
Expenditures	2,147,274	2,092,370	2,255,456	2,272,035	2,697,514
Excess of revenues over (under) expenditures	144,120	(16,821)	979,801	256,921	255,391
Plus transfers in	-	-	-	-	285
Fund balance, July 1	499,340	643,460	626,639	1,606,440	1,863,361
Fund Balance, June 30	\$ 643,460	\$ 626,639	\$ 1,606,440	\$ 1,863,361	\$ 2,119,037

Revenues increased \$423,949 from 2023 to 2024, while expenditures increased \$425,479 over the same period. The increase in revenues is primarily due to the new free lunch program for all students as well as an increase in federal funds received due to increased need related to free, reduced, and after school programs. The increase in expenditures were as a result of contract increases and equipment purchases. The 2024 activity in the Food Service Fund resulted in an increase in fund balance of \$255,676 to \$2,119,037. Ending fund balance in 2024 represents 78.6% of expenditures, or approximately seven of expenditures based on a nine-month operating year. The MDE recommends districts maintain a food service net cash fund balance not to exceed six months of expenditures, based on a nine-month operating year.

Independent School District No. 656
Financial Analysis

Community Service Fund

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

For the year ended June 30,	2020	2021	2022	2023	2024
Revenues	\$ 2,799,865	\$ 3,135,596	\$ 3,348,689	\$ 3,507,903	\$ 4,391,006
Expenditures	2,814,371	2,831,777	3,478,617	3,559,265	4,193,235
Excess of revenues over (under) expenditures	(14,506)	303,819	(129,928)	(51,362)	197,771
Plus transfers in	-	-	-	-	-
Fund balance, July 1	864,108	849,602	1,153,421	1,023,493	972,131
Fund Balance, June 30	849,602	1,153,421	1,023,493	972,131	1,169,902
Components of fund balance					
Restricted					
Community education	421,507	581,686	466,731	417,422	550,245
Early childhood and family education	34,224	117,084	186,111	192,083	197,824
School readiness	188,724	220,169	220,703	205,966	225,781
Adult basic education	166,470	222,639	148,314	147,101	156,476
Community service	38,677	11,843	1,634	9,559	39,576
Total Fund Balance, June 30	\$ 849,602	\$ 1,153,421	\$ 1,023,493	\$ 972,131	\$ 1,169,902

Community Service Fund revenues exceeded expenditures in 2024. Revenues increased \$883,103 in 2024 due to an increase in participation in various programs as well as an increase in state and federal grants. Expenditures in 2024 increased \$633,970 due to the increase in grant related activity. All categories of restricted fund balance remained positive at year end.

Independent School District No. 656 Legislative Summary

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

American Indian Education Aid

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

American Rescue Plan (ARP) Act

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

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

Area Learning Center (ALC) Transportation Aid

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

Basic Alternative Teacher Compensation Aid (Q-Comp)

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

Basic General Education Aid

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

Basic Skills Revenue

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

Charter School Lease Aid Review

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

Compensatory Education Revenue

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

Independent School District No. 656 Legislative Summary

English Learner Aid and Cross Subsidy

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

Facilities

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

Food Service Fund

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

Local Optional Revenue

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

Paraprofessionals

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

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

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

Pension Bill and Pension Adjustment Revenue

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

Special Education Aid

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

Student Support Personnel Aid

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

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

Student Teacher Stipend Pilot Program

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

Unemployment Insurance Aid

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

Voluntary Prekindergarten (VPK)

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

Independent School District No. 656 Emerging Issues

Executive Summary

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

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

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

**Independent School District No. 656
Emerging Issues**

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

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

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

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

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

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

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

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

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

**Independent School District No. 656
Emerging Issues**

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

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

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

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

- ◆ The District knows about the concentration or constraint prior to financial statement issuance.
- ◆ The concentration or constraint makes the District is vulnerable to risk of a substantial impact.
- ◆ An event or events associated with the concentration or constraint that could cause a substantial impact 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.

**Independent School District No. 656
Emerging Issues**

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

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.