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Independent School District No. 742
St. Cloud, Minnesota

Communications Letter

June 30, 2023

Independent School District No. 742
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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. 742
St. Cloud, Minnesota

In planning and performing our audit of the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 742, St. Cloud, Minnesota, as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a 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 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, 2023, 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 control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

BerganKDV, Ltd.

St. Cloud, Minnesota
October 30, 2023

Independent School District No. 742
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 basic financial statements. Examples of the lack of segregation of accounting duties include, but are not limited to the following:

- The Executive Director of Finance and Business Services has full access to the general ledger.
- Secretaries at the elementary schools and community education office receipt cash and prepare the deposit.
- The Business Services Bookkeeper receipts cash, posts amounts into the finance system, prepares the deposit, and makes the deposit.
- The Payroll Secretary enters timecard information into the system and processes payroll. The Accounting Coordinator reviews the payroll report and certain paper timecards. The Payroll Coordinator also reviews random selections of paper timecards to ensure information was entered correctly into the District's payroll system.

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

Independent School District No. 742
Required Communication

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

Our Responsibility in Relation to the 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. 742
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:

- Improper Revenue Recognition – Revenue recognition is considered a risk on substantially all engagements as it is generally the largest line item impacting a District's operating results.

- Management Override Through Journal Entries – Management override of controls is required to be considered a risk in each engagement.

- Misappropriation of Assets – Misappropriation of assets through the payroll process was identified as a risk as the majority of the District's expenditures are payroll related.

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. The School Board approved an amended Investment Policy during 2023. 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.

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

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

> Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.
>
> General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting 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 funding at the state and complex formulas that are finalized after reporting deadlines.
>
> Total Other Post Employment Benefits (OPEB) Liability, Deferred Outflows of Resources Related to OPEB, and Deferred Inflows of Resources Related to OPEB – These balances are based on an actuarial study using the estimates of future obligations of the District for post employment benefits.
>
> Net Pension Liability, Deferred Outflows of Resources Relating to Pension Activity, and Deferred Inflows of Resources relating to Pension Activity – These balances are based on an allocation by the pension plans using estimates based on contributions.
>
> Lease Liability and Right-to-Use Lease Assets – These balances are based on estimates and judgments determined by the District related to the discount rate, lease term, and lease payments.

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

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

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

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

We identified the following uncorrected misstatement of the basic financial statements. Management has determined its effects immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole and each opinion unit.

- A subscription asset was not recorded due to the small dollar amount of each agreement qualifying under GASB Statement No. 96

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.

Other Information Included in Annual Reports (Continued)
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. 742
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. A subsequent discussion of this information should be useful for planning purposes.

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

Average Daily Membership and Pupil Units

The largest single funding source for Minnesota school districts is basic General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated by 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.

Average Daily Membership and Pupil Units (Continued)

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

Resident ADM	2019	2020	2021	2022	2023*
Kindergarten and other	1,356.58	1,286.19	1,261.92	1,354.81	1,347.55
Elementary	5,950.11	5,937.01	5,817.03	5,785.84	5,900.40
Secondary	6,003.93	6,009.30	5,953.42	5,966.97	5,874.11
Total Resident ADM	**13,310.62**	**13,232.50**	**13,032.37**	**13,107.62**	**13,122.06**

ADM Served	2019	2020	2021	2022	2023*
Residents served	9,582.32	9,355.22	8,986.01	8,880.27	8,858.44
Joint powers district					
Residents	27.08	19.41	8.64	-	-
Nonresidents	56.64	63.87	49.45	-	-
Extended time	248.81	190.12	79.58	177.73	176.08
Nonresident options	222.32	245.53	236.33	264.72	243.74
Ineligible for funding	20.63	16.43	11.28	20.43	17.66
Tuition					
Residents	52.49	43.52	28.14	35.12	27.68
Nonresidents	51.51	37.39	29.53	33.00	31.26
Shared time	4.22	5.28	5.72	3.93	3.50
ADM Served	**10,266.02**	**9,976.77**	**9,434.68**	**9,415.20**	**9,358.36**

* Estimate

ADM served takes into consideration open enrollment and other student agreements that resident ADM does not. ADM served also considers both tuition residents and nonresidents as the District incurs costs for both.

Average Daily Membership and Pupil Units (Continued)

* Estimate

As the chart on the previous page and the graph above indicate, resident ADM increased by an estimated 14 ADM from 2022 to 2023. Over the same period, ADM served decreased approximately 57 ADM.

To calculate the majority of the District's education aids, the ADM amounts are weighted based on the student's grade level. The following table displays the weighting for the past five years.

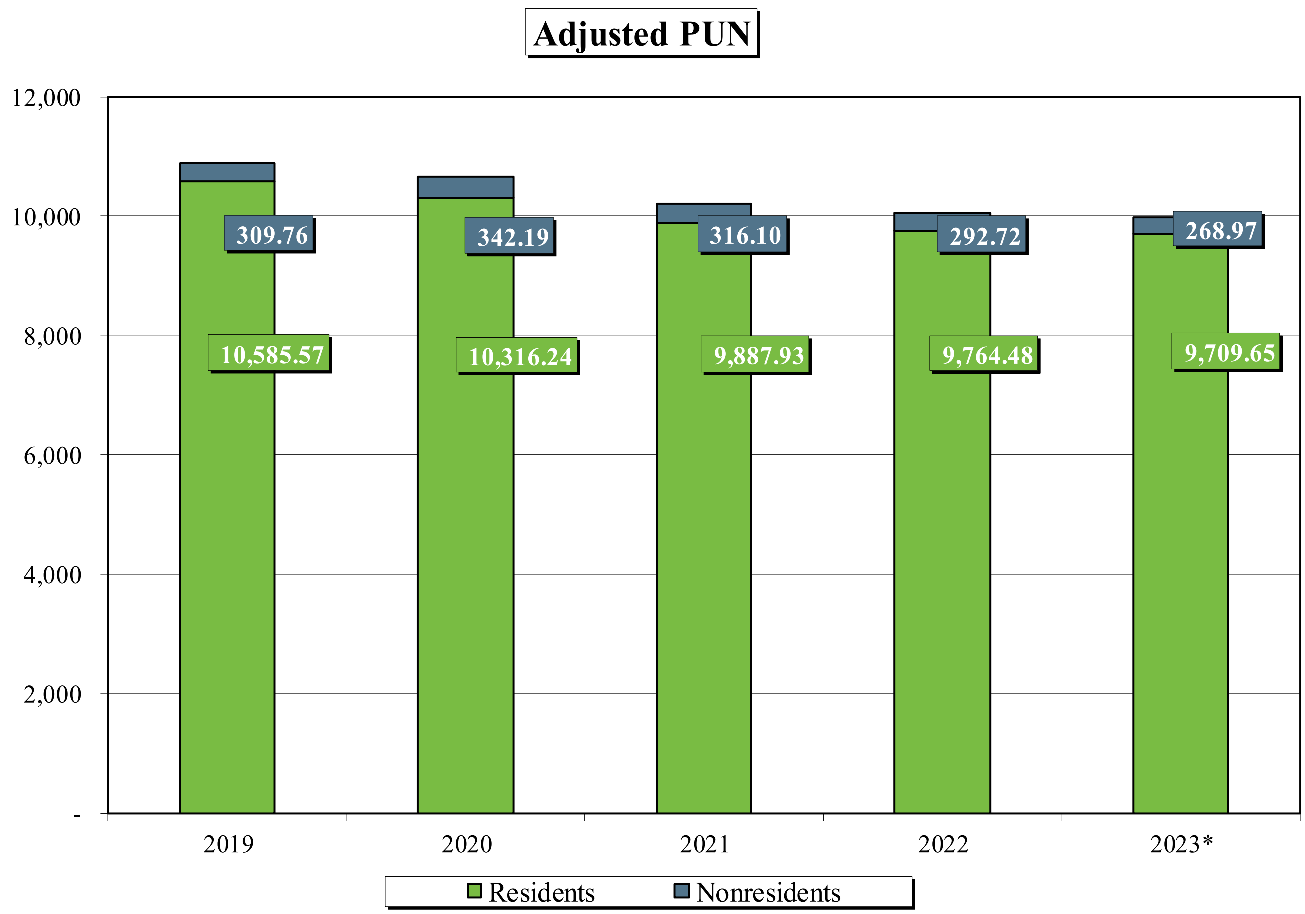
	Prekindergarten	Disabled Kindergarten	Kindergarten	Elementary	Secondary
2019-2023	1.000	1.000	1.000	1.000	1.200

Independent School District No. 742
Financial Analysis

Average Daily Membership and Pupil Units (Continued)

Adjusted PUN	2019	2020	2021	2022	2023*
Residents	14,511.26	14,434.39	14,223.02	14,300.59	14,296.40
Resident PUN going out	(3,925.69)	(4,118.15)	(4,335.09)	(4,536.11)	(4,586.75)
Nonresident PUN coming in	309.76	342.19	316.10	292.72	268.97
Total Adjusted PUN	**10,895.33**	**10,658.43**	**10,204.03**	**10,057.20**	**9,978.62**

Breakdown of Adjusted PUN	2019	2020	2021	2022	2023*
Regular	10,521.58	10,352.85	10,040.02	9,860.29	9,778.06
Joint powers district	99.88	99.22	69.94	-	-
Extended time	273.87	206.36	94.07	196.91	200.56
Total Adjusted PUN	**10,895.33**	**10,658.43**	**10,204.03**	**10,057.20**	**9,978.62**



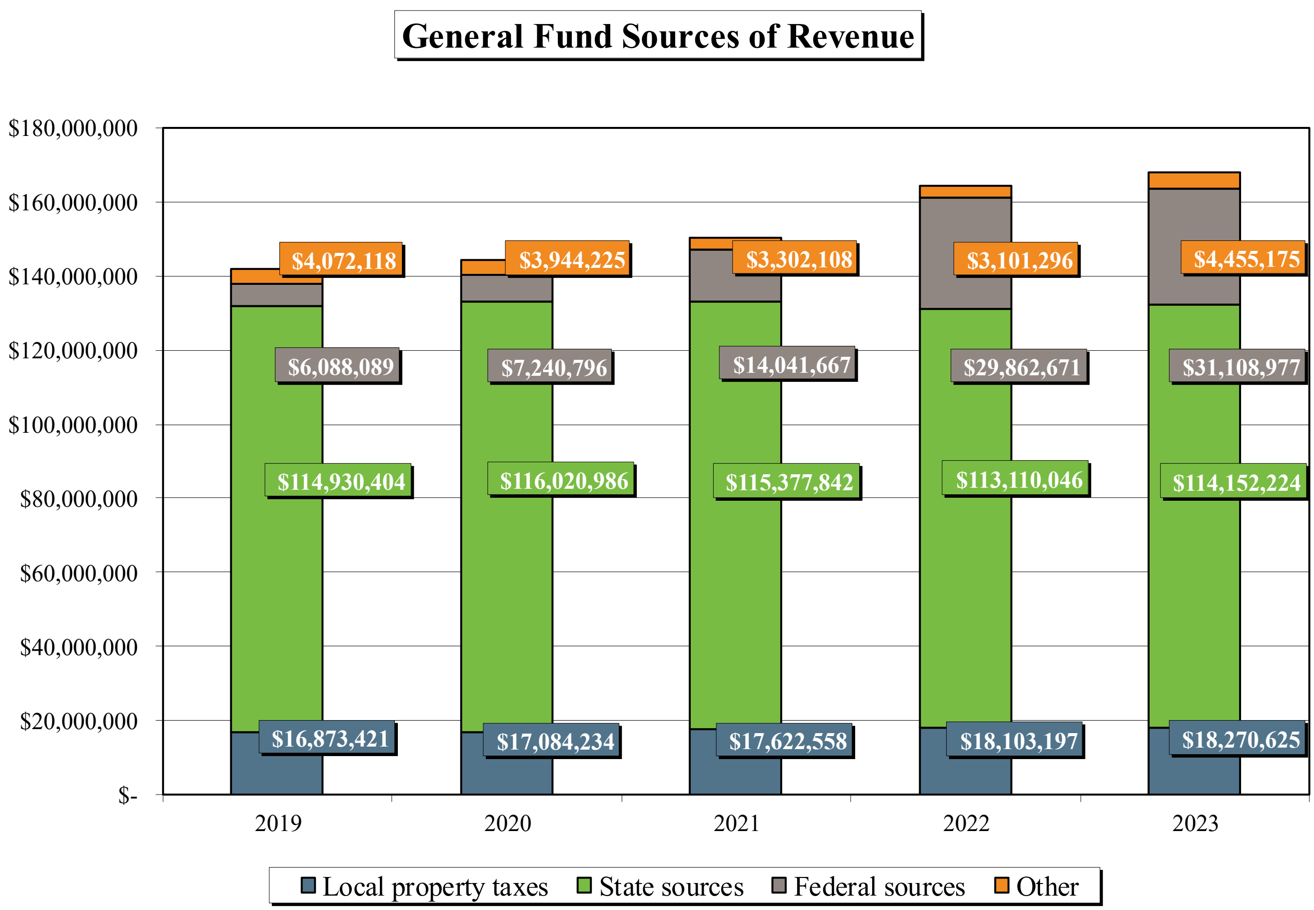
* Estimate

For 2023, Adjusted PUN decreased 79, or 0.8%.

General Fund Sources of Revenue

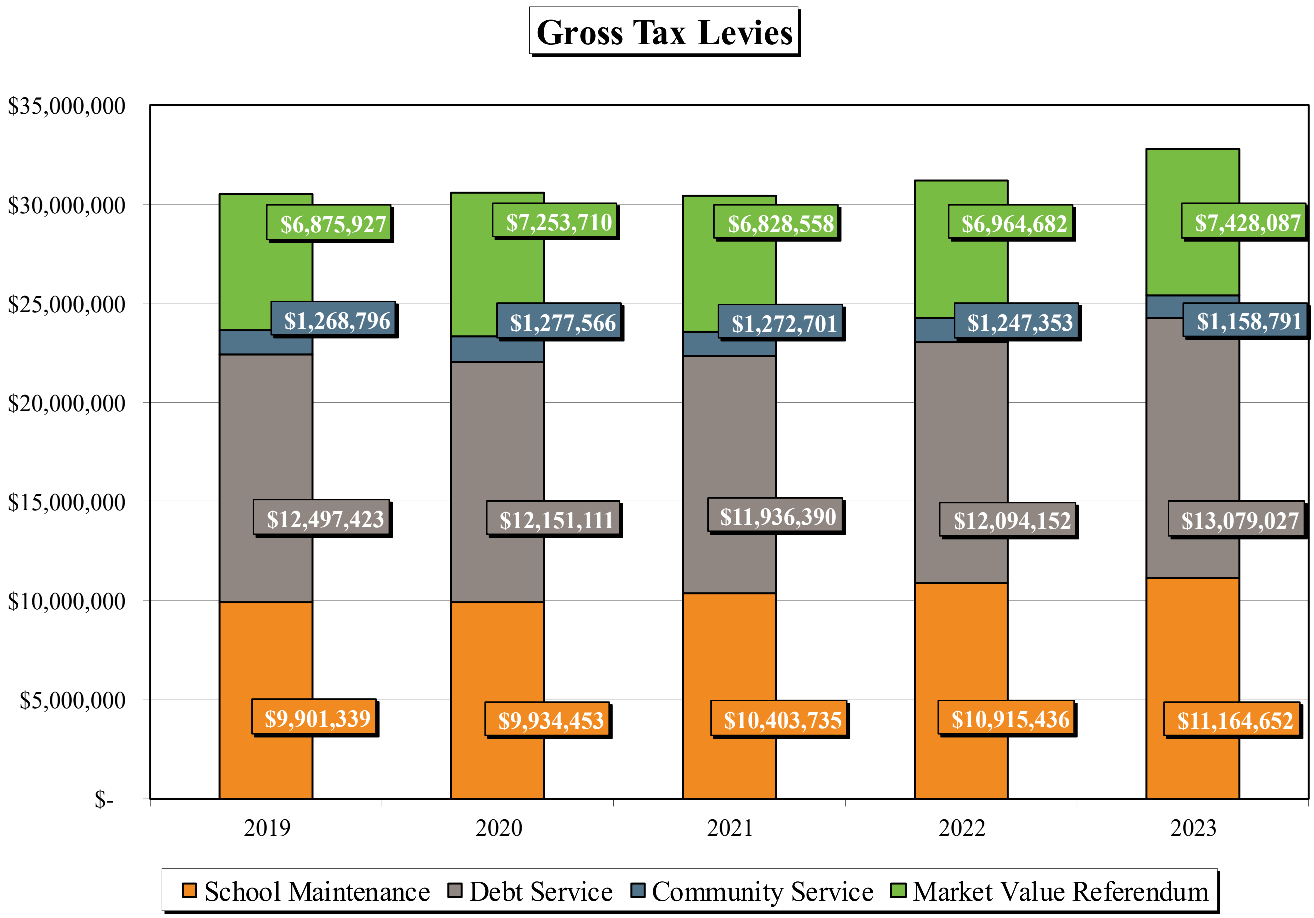
General Fund sources of revenue are summarized as follows:

	2019	2020	2021	2022	2023
Local property taxes	$ 16,873,421	$ 17,084,234	$ 17,622,558	$ 18,103,197	$ 18,270,625
State sources	114,930,404	116,020,986	115,377,842	113,110,046	114,152,224
Federal sources	6,088,089	7,240,796	14,041,667	29,862,671	31,108,977
Other	4,072,118	3,944,225	3,302,108	3,101,296	4,455,175
Total Revenues	**$ 141,964,032**	**$ 144,290,241**	**$ 150,344,175**	**$ 164,177,210**	**$ 167,987,001**



As indicated by the chart and graph above, General Fund revenues increased $3,809,791, or 2.3%, from 2022 to 2023. Other revenues increased $1,353,879 due to increased e-rate revenue received for a switch replacement project, increased third party billing revenue, and increased interest revenue. Federal revenues increased $1,246,306 due to increased spending of federal Education Stabilization Funds, primarily related to the Talahi HVAC project. Revenue from state sources increased $1,042,178 due to increased general education aid entitlement due to an increase in the basic formula allowance and in compensatory aid. Revenues from local property taxes were similar from 2022 compared to 2023.

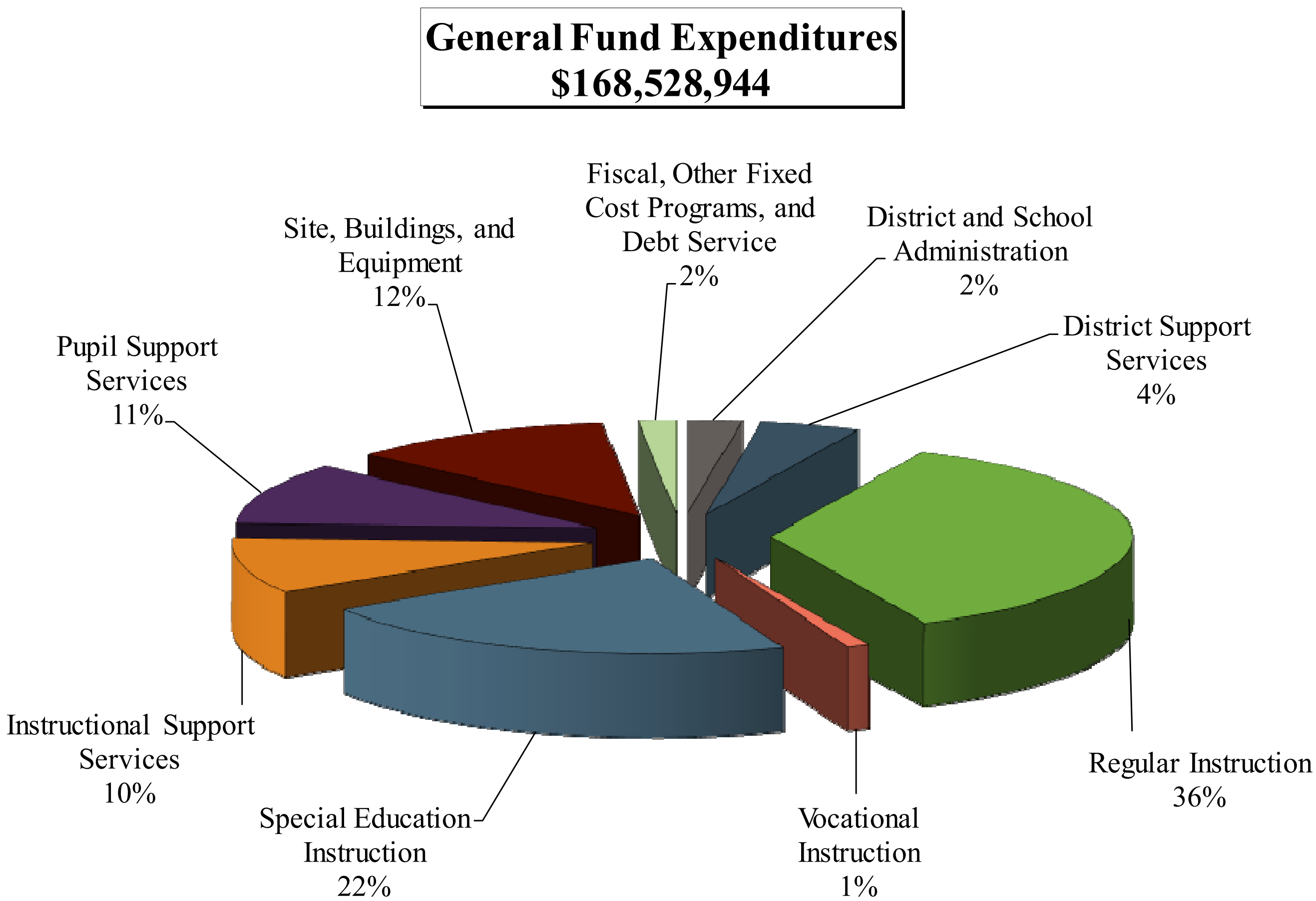
Gross Tax Levies



Pay 2023 gross tax levies increased $1,608,934 in total from the Pay 2022 levies. The most significant increase was in the debt service levy for fiscal year 2024 long-term debt payments.

General Fund Operations

The following chart outlines the General Fund expenditures as a percentage by program type for 2023. Regular instruction continues to make up the largest portion of District expenditures at 36% in 2023. The instruction categories made up 59% of expenditures in 2023 compared to 60% of expenditures in 2022.



Independent School District No. 742
Financial Analysis

Expenditures Per Student

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

	2019	2020	2021	2022	2023*
General Fund	$ 14,042	$ 13,971	$ 15,724	$ 17,396	$ 18,008
State-wide average by size**	13,278	13,586	14,552	15,351	N/A

The following is the expenditures per student (ADM) served by program:

	District 2022	State Average by Size 2022**	District 2023*	State Average 2023
District and school administration	$ 1,406	$ 1,241	$ 1,241	N/A
Regular instruction	6,429	6,619	6,515	N/A
Vocational instruction	159	198	185	N/A
Special education instruction	3,573	2,936	3,979	N/A
Instructional support services	1,349	921	1,727	N/A
Pupil support services	1,754	1,494	1,929	N/A
Site, buildings, equipment and other	2,726	1,942	2,432	N/A
Total Expenditures per Student	**$ 17,396**	**$ 15,351**	**$ 18,008**	**N/A**

* Estimate based on most current ADM numbers

** Includes all schools with enrollment of 4,000 students or more for 2019-2022

Amounts listed for 2019-2022 are taken from the Minnesota Department of Education (MDE) publication, *School District Profiles*. State averages for 2023 are not currently available.

Expenditures per student served for the General Fund increased from 2022 to 2023 by $612, or 3.5%. Expenditures increased $4,538,817, or 2.8%, while ADM served decreased 0.6% since 2022. Expenditures increased in 2023 primarily due increases in salaries and benefits related to cost of living increases, and step and lane movement. There were also positions added within special education. Higher transportation costs and inflationary increases further contributed to the expenditure increase.

Independent School District No. 742
Financial Analysis

General Fund Operations

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

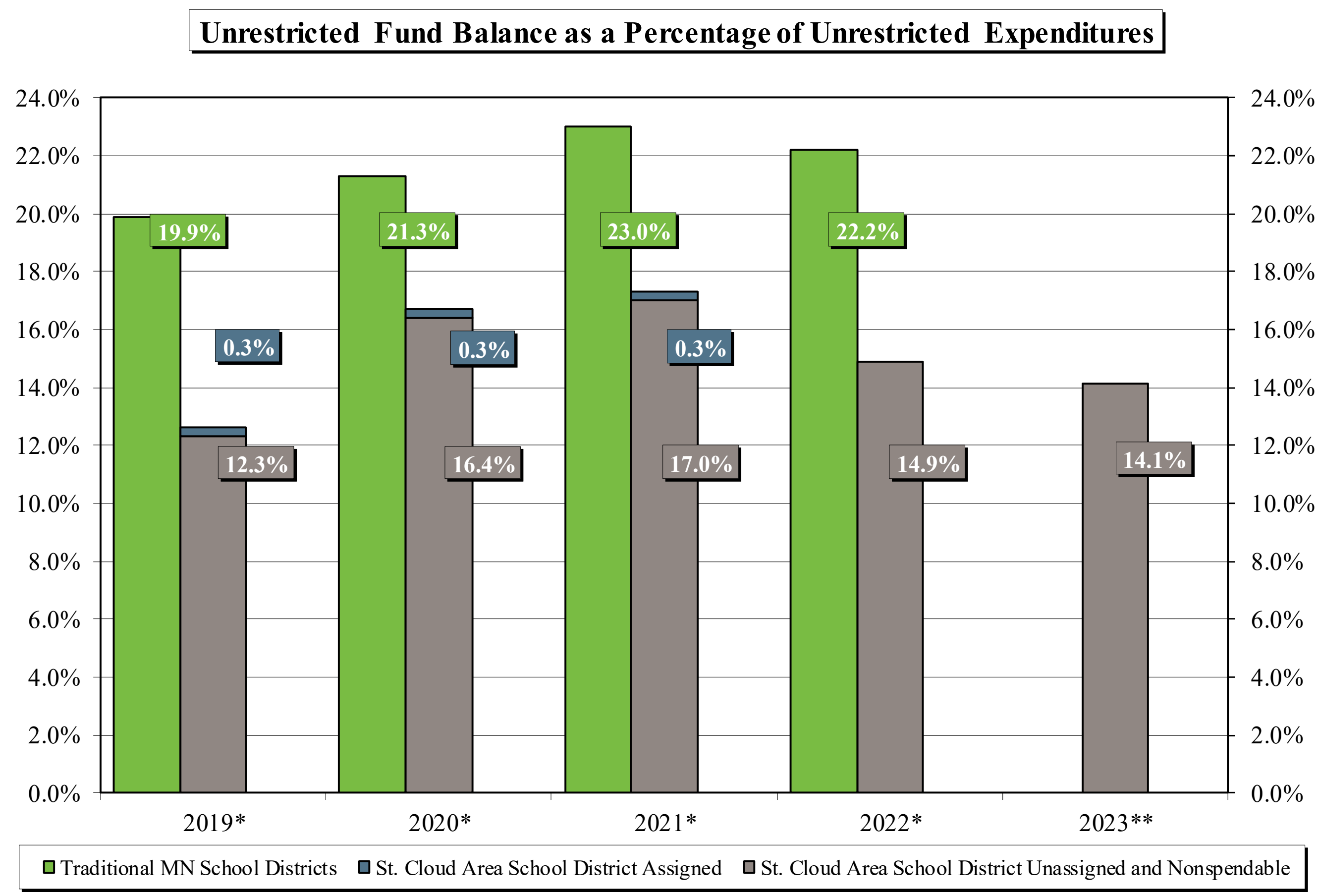
For the Year Ended June 30,	2019	2020	2021	2022	2023
Revenues	$ 141,964,032	$ 144,290,241	$ 150,344,175	$ 164,177,210	$ 167,987,001
Expenditures	144,339,633	139,639,177	150,370,463	163,990,127	168,528,944
Excess of revenues over (under) expenditures	(2,375,601)	4,651,064	(26,288)	187,083	(541,943)
Debt issuance	-	-	-	7,075,000	-
Debt premium	-	-	-	519,855	-
Debt refunding payment	-	-	-	(7,455,000)	-
Transfers out	-	(625,000)	-	-	-
Sale of capital assets	17,135	239,276	-	-	-
Insurance recoveries	5,228,230	346,505	1,737	3,080	-
Proceeds from capital lease	-	-	1,721,015	-	-
Fund balance, July 1	13,998,215	16,867,979	22,103,879	23,800,343	24,130,361
Change in accounting principle	-	624,055	-	-	-
Fund balance, June 30	**$ 16,867,979**	**$ 22,103,879**	**$ 23,800,343**	**$ 24,130,361**	**$ 23,588,418**
Components					
Nonspendable	$ 255,970	$ 263,057	$ 1,409,888	$ 1,229,717	$ 558,511
Restricted for					
Teacher development and evaluation	23,428	-	-	-	-
Operating capital	2,247,048	2,745,415	2,527,247	2,632,642	2,570,040
Area Learning Center	767,509	767,509	779,233	779,233	823,514
Long term facilities maintenance*	61,184	49,741	5,211	(69,781)	(46,326)
Gifted and talented	87,395	90,316	85,450	81,573	78,450
Basic skills extended time	657,053	1,495,624	1,407,220	1,407,220	1,407,220
Scholarships	-	116,941	158,596	136,161	144,848
Student Activities	-	313,212	292,627	334,781	357,577
Assigned for					
Future projects	312,405	312,405	312,405	-	-
Unassigned	12,455,987	15,949,659	16,822,466	17,598,815	17,694,584
Total	**$ 16,867,979**	**$ 22,103,879**	**$ 23,800,343**	**$ 24,130,361**	**$ 23,588,418**

* Negative restrictions are presented as unassigned in the basic financial statements as required by GASB Statement No. 54.

Fund balance in the General Fund decreased $541,943 as a result of 2023 activity. The overall decrease in fund balance was most significant in the unrestricted fund balance categories, which consists of nonspendable and unassigned fund balances.

At June 30, 2023, the District had $17,694,584 in unassigned fund balance, which is approximately one and one-fourth months' or 10.5% of expenditures (based on 2023 levels). The District's fund balance policy outlines a minimum of 10.0% of the annual expenditure budget.

General Fund Operations (Continued)
One of the most common comparable statistics used to evaluate school district financial health is the operating fund balance as a percentage of operating expenditures.



* Information was obtained from MDE web site report *Fiscal Year 2019-2022 General Fund Unreserved Balance*. 2023 information is not available.

** Obtained from MDE Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Report. This amount includes the amounts assigned for various projects as noted on the previous page. Excluding these assignments, this percentage would be less as noted in the table above.

The calculations above reflect only the unrestricted fund balance of the General Fund and the corresponding expenditures, which is the same method which the state uses for the statutory operating debt (SOD) calculation. SOD is when a district's unrestricted fund balance ends the year below (2.5%). The District's unrestricted fund balance in comparison to its expenditures had been significantly lower than the state-wide average.

Since 2019, total fund balance has overall increased $6,720,439. Because fund balance decreased in 2023, as noted earlier, the decrease in fund balance percentage is seen above.

Independent School District No. 742
Financial Analysis

Food Service Fund

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

For the Year Ended June 30,	2019	2020	2021	2022	2023
Revenues	$ 5,823,157	$ 5,494,905	$ 4,363,523	$ 7,513,658	$ 6,811,367
Expenditures	5,799,058	5,538,558	4,426,876	6,073,956	6,968,133
Excess of revenues over (under) expenditures	24,099	(43,653)	(63,353)	1,439,702	(156,766)
Transfers in	-	425,000	-	-	-
Fund balance, July 1	561,705	585,804	967,151	903,798	2,343,500
Fund balance, June 30	**$ 585,804**	**$ 967,151**	**$ 903,798**	**$ 2,343,500**	**$ 2,186,734**

In 2023, fund balance decreased $156,766 to $2,186,734 as of June 30, 2023, which is approximately 31.4% of the 2023 expenditures of this Fund. Revenues decreased $702,291 due to a decrease in the number of meals served. Not all meals served were federally reimbursed in 2023 and free to students; the federal reimbursement rate also decreased. Expenditures increased $894,177 since 2022 primarily due to increased food and milk costs, as well as contractual salary and benefit increases, and equipment purchases.

Community Service Fund

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

For the Year Ended June 30,	2019	2020	2021	2022	2023
Revenues	$ 6,509,017	$ 6,304,694	$ 6,420,092	$ 6,937,193	$ 6,885,427
Expenditures	5,887,832	6,195,884	5,772,692	6,777,374	7,227,327
Excess of revenues over (under) expenditures	621,185	108,810	647,400	159,819	(341,900)
Transfers in	-	200,000	-	-	-
Fund balance, July 1	1,778,128	2,399,313	2,708,123	3,355,523	3,515,342
Fund Balance, June 30	**$ 2,399,313**	**$ 2,708,123**	**$ 3,355,523**	**$ 3,515,342**	**$ 3,173,442**

Components	2019	2020	2021	2022	2023
Nonspendable	$ 736	$ -	$ 9,024	$ 8,873	$ 7,601
Restricted for					
Community education	893,545	1,039,501	1,250,320	1,509,947	1,303,552
ECFE	480,995	583,031	366,818	355,920	345,777
Adult basic education	272,141	284,572	466,993	448,418	431,145
School readiness	636,724	675,643	1,127,448	1,061,218	967,217
Community service	115,172	125,376	134,920	130,966	118,150
Total	**$ 2,399,313**	**$ 2,708,123**	**$ 3,355,523**	**$ 3,515,342**	**$ 3,173,442**

In 2023, fund balance decreased $341,900 to $3,173,442 as of June 30, 2023. Revenues decreased $51,766 from the prior year. Federal revenue decreased significantly due to the end of federal pandemic funding for adult basic education and school age care, while state aid and interest revenue increased. Expenditures increased by $449,953 due to contractual salary and benefit increases, additional staffing for the Preschool 4 Success program, and increased preschool transportation costs.

Independent School District No. 742
Legislative Summary

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

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

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

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

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

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

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

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

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

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

Independent School District No. 742
Legislative Summary

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

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

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

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

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

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

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

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

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

Independent School District No. 742
Legislative Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent School District No. 742
Emerging Issues

Executive Summary

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

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

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

Implementation Guide No. 2021-1 – Amending Capitalization Requirements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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