

**Independent School District No. 14
Fridley, Minnesota**

Communications Letter

June 30, 2021

Independent School District No. 14
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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. 14
Fridley, 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. 14, Fridley, Minnesota, as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a 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 December 6, 2021, on such statements.

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

BergankDV, Ltd.

Minneapolis, Minnesota
December 6, 2021

Independent School District No. 14

Significant Deficiency

Lack of Segregation of Accounting Duties

The District has a lack of segregation of accounting duties due to a limited number of office employees. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Accounts Payable Clerk enters invoices into the system and prepares the checks.
- The Accounting Supervisor has access to all areas of the accounting system.
- The Accounting Supervisor and Payroll Specialist have overlapping duties within the payroll process

This lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements.

Management is aware of this condition and will take certain steps to compensate for the lack of segregation but due to the number of accounting staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

Independent School District No. 14 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, 2021. 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 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 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 financial statements are free of material misstatement. An audit of 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 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 financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the 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. 14 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.

Qualitative Aspects of 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 basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

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

Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

**Independent School District No. 14
Required Communication**

Qualitative Aspects of Significant Accounting Practices (Continued)

Significant Accounting Estimates (Continued)

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 dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

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

Net Pension Liability, Deferred Outflows of Resources Related to Pension Activity, and Deferred Inflows of Resources Related to Pension Activity – 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 financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The 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 effect is immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole and each opinion unit.

- In-kind State Contribution related to pensions

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.

Independent School District No. 14 Required Communication

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, operating and regulatory conditions affecting the District, and operating 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 in Documents Containing Audited Basic Financial Statements

We applied certain limited procedures to the RSI that supplements the 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 financial statements, and other knowledge we obtained during our audit of the 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 financial statements or to the financial statements themselves.

Independent School District No. 14 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
2012	\$ 5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%
2022	6,728	2.5%

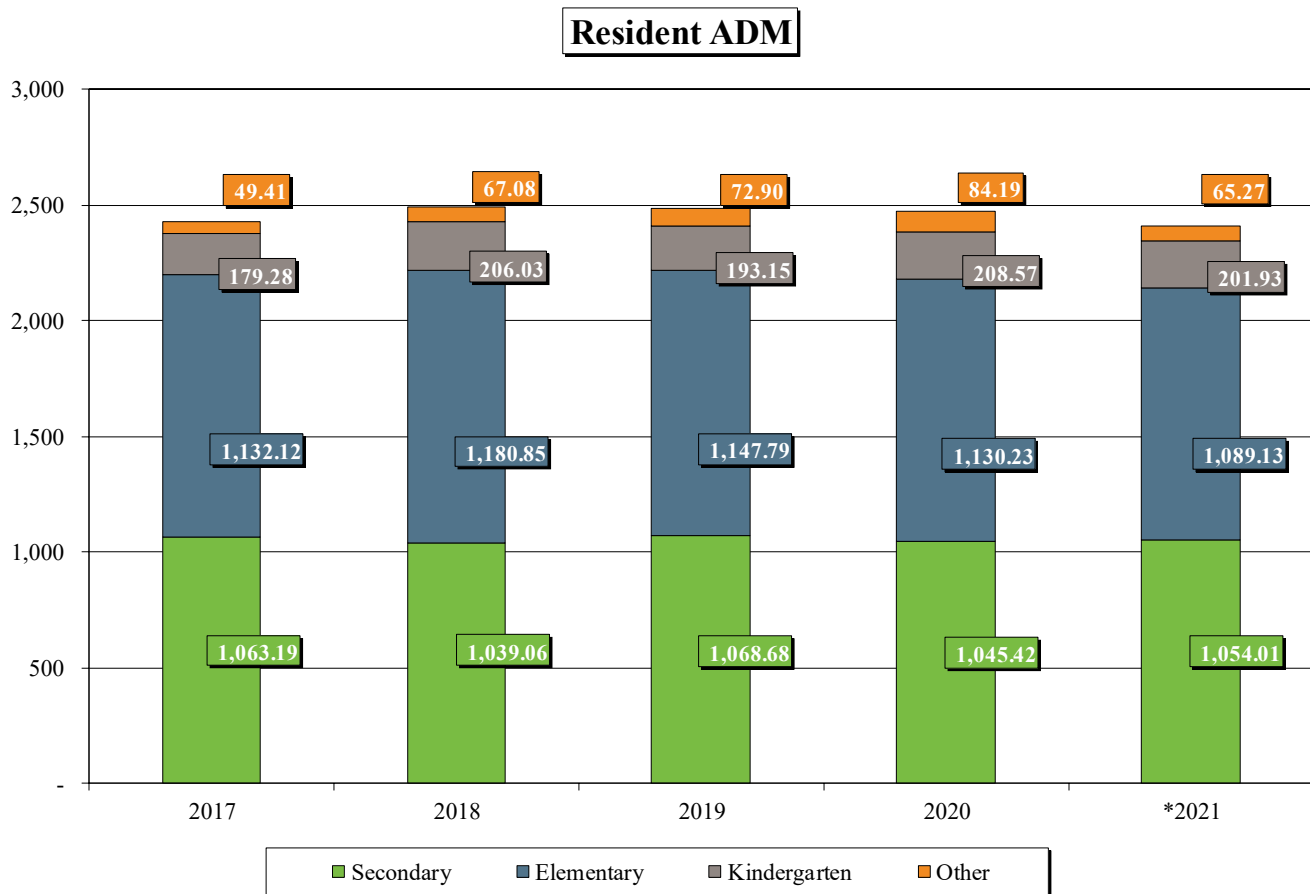
* General Education Aid - Of the \$529 increase over 2014, \$105 is for inflation at 1.9%; the remaining \$424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

Independent School District No. 14 Financial Analysis

Average Daily Membership and Pupil Units (Continued)

Approximately 75% of the District's General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District's population trends is critical to overall budgeting plans. The following summarizes resident ADM of the District over the past five years ended June 30.

Resident ADM	2017	2018	2019	2020	*2021
Other	49.41	67.08	72.90	84.19	65.27
Kindergarten	179.28	206.03	193.15	208.57	201.93
Elementary	1,132.12	1,180.85	1,147.79	1,130.23	1,089.13
Secondary	1,063.19	1,039.06	1,068.68	1,045.42	1,054.01
Total Resident ADM	2,424.00	2,493.02	2,482.52	2,468.41	2,410.34



* Estimate

The chart and graph above show a decrease in resident ADM from 2020 to 2021 of 58.07 ADM, or 2.35%.

Independent School District No. 14 Financial Analysis

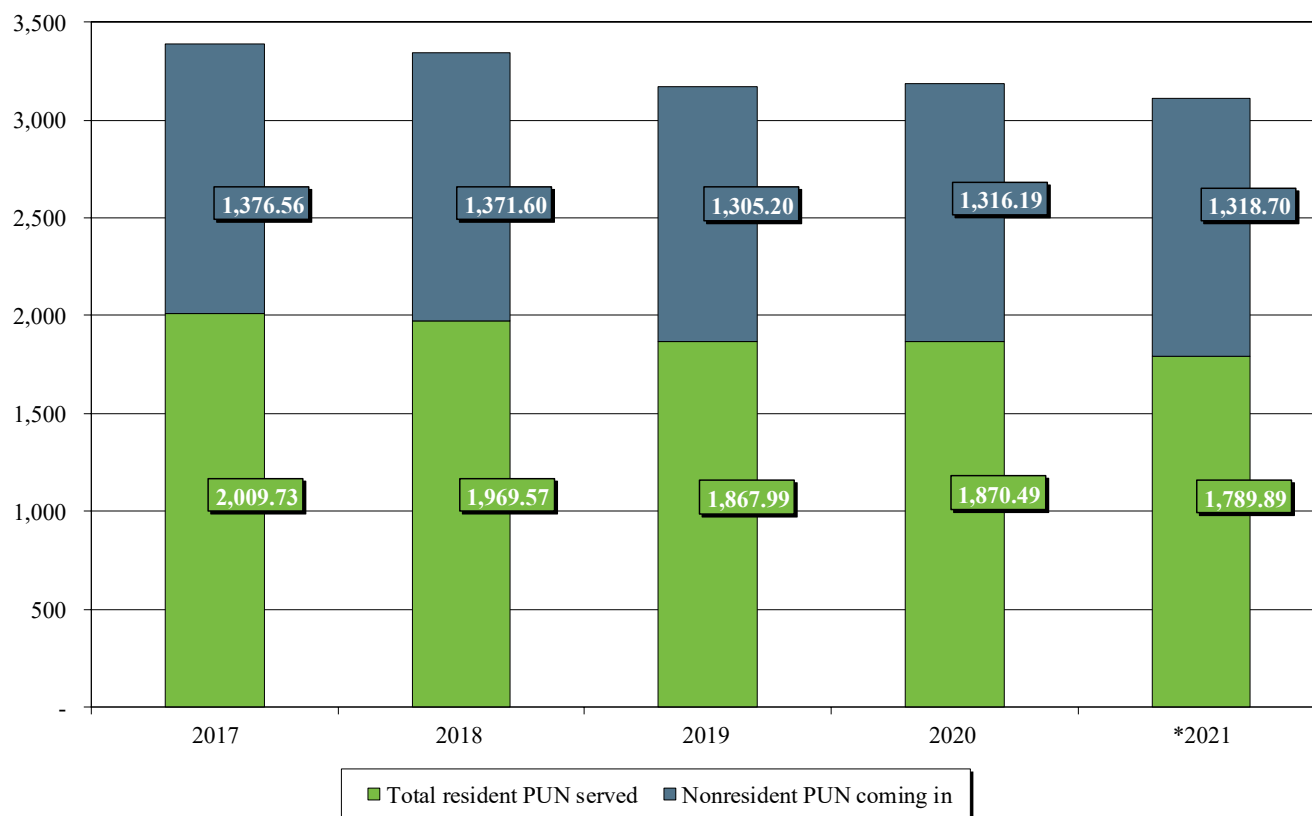
Average Daily Membership and Pupil Units (Continued)

	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten Half	Kindergarten Full	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
2017-2021	1.000	1.000	0.550	1.000	1.000	1.000	1.200

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

PUN	2017	2018	2019	2020	*2021
Residents	2,636.65	2,700.85	2,695.88	2,677.49	2,621.05
Resident PUN going elsewhere	(626.92)	(731.28)	(827.89)	(807.00)	(831.16)
Total resident PUN served	2,009.73	1,969.57	1,867.99	1,870.49	1,789.89
Nonresident PUN coming in	1,376.56	1,371.60	1,305.20	1,316.19	1,318.70
Total Adjusted PUN	3,386.29	3,341.17	3,173.19	3,186.68	3,108.59

Adjusted PUN



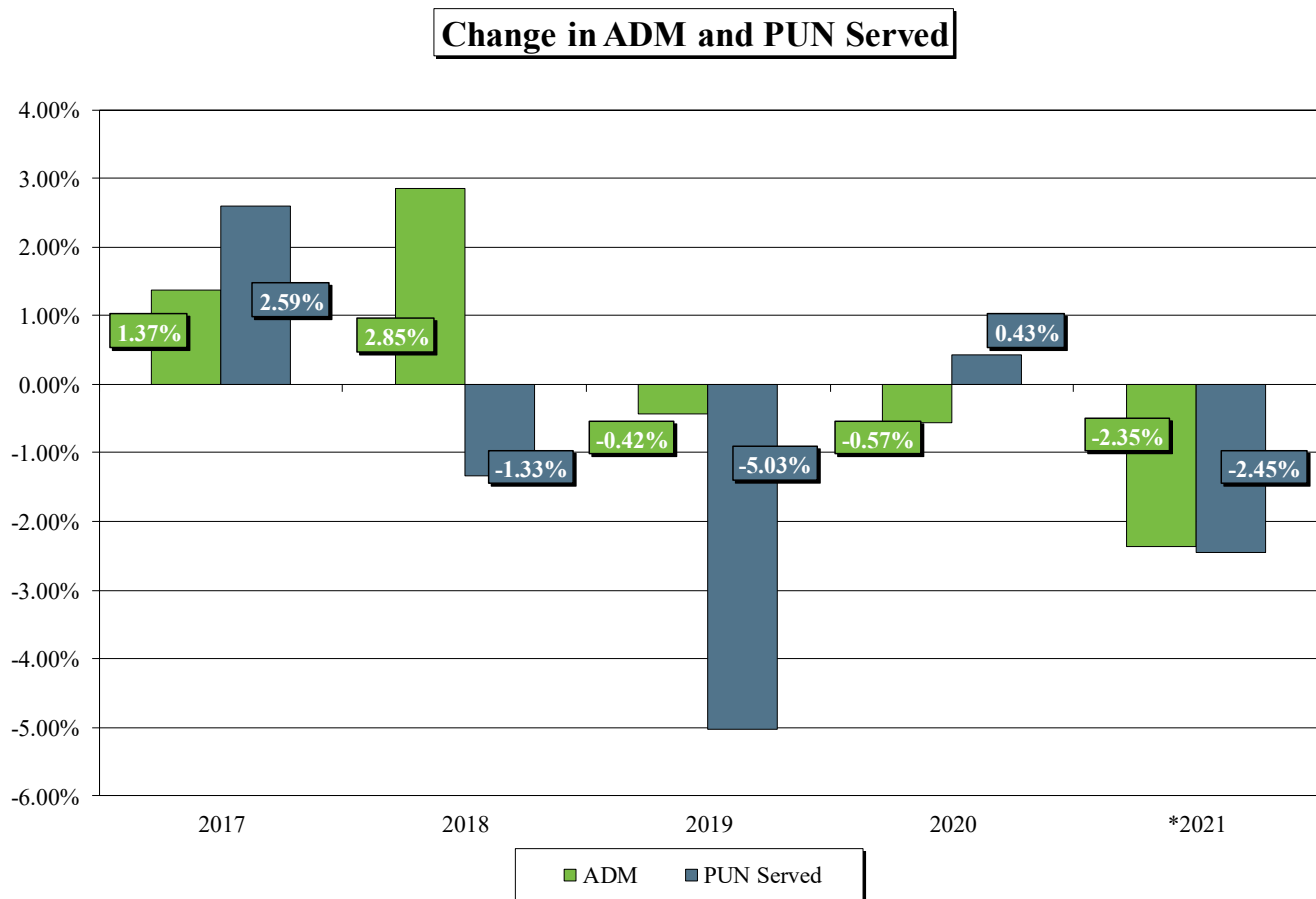
* Estimate

Independent School District No. 14 Financial Analysis

Average Daily Membership and Pupil Units (Continued)

In 2021, resident PUN decreased 56.44, or 2.11%. PUN served decreased 78.09 PUN or 2.45%, a result of a decrease in resident PUN and an increase in resident PUN going elsewhere. The District continues to have a net gain from open enrollment. Nonresident PUN make up 42.4% of PUN served.

The following graph illustrates the percentage change from year-to-year in resident ADM and PUN served.



* Estimate

Independent School District No. 14 Financial Analysis

General Fund Sources of Revenue

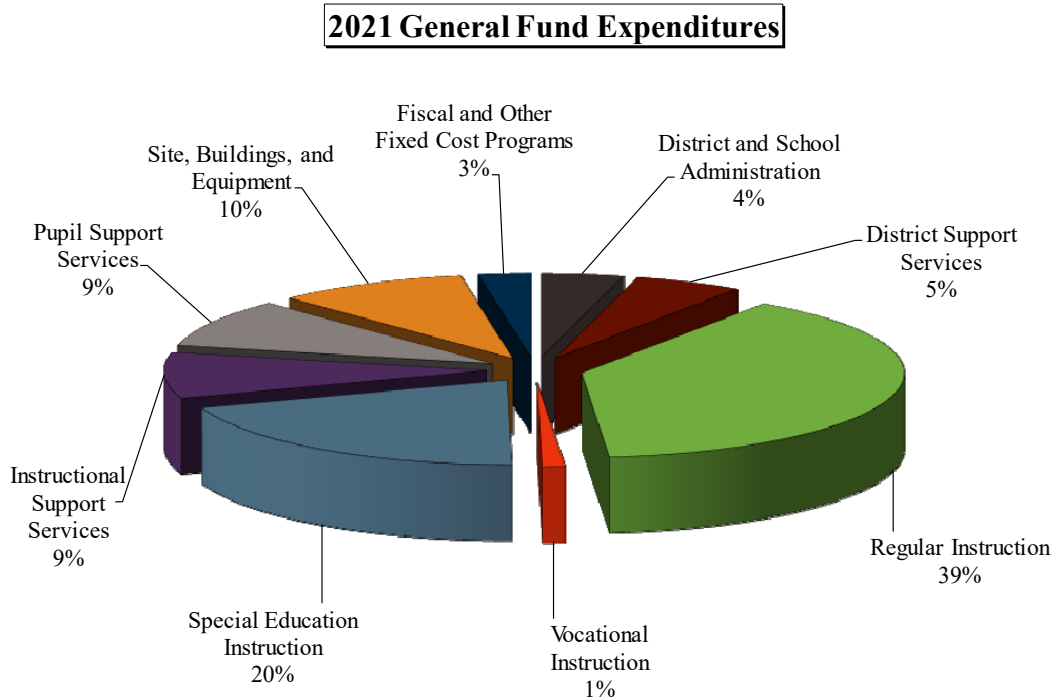
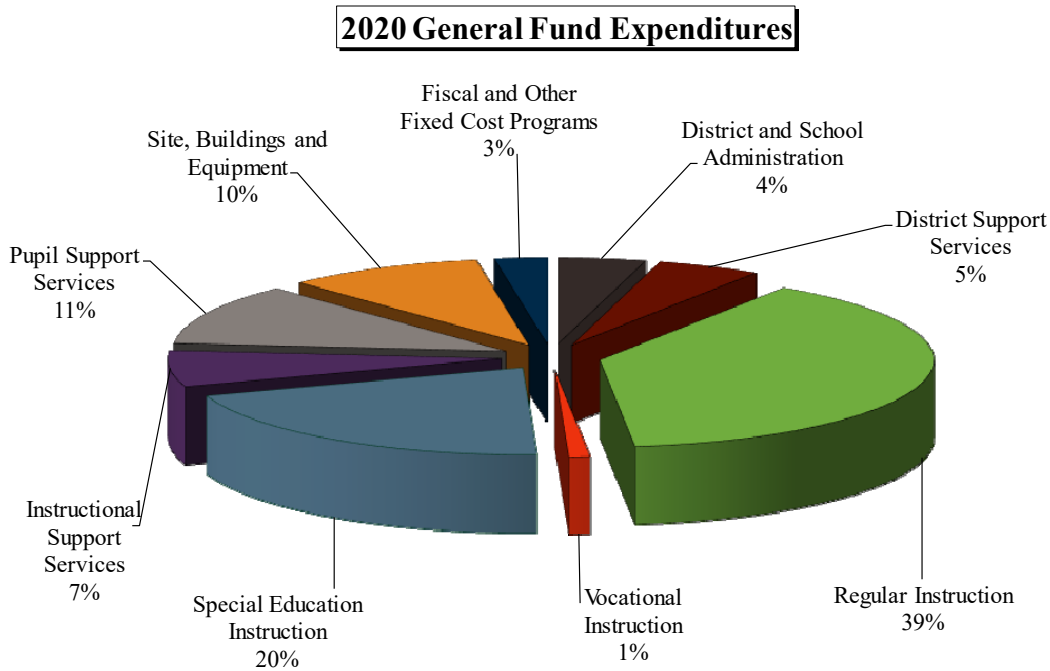
General Fund sources of revenue are summarized as follows:

	2017	2018	2019	2020	2021
Local property taxes	\$ 4,437,638	\$ 5,586,336	\$ 6,303,819	\$ 6,457,443	\$ 7,512,337
State sources	35,182,141	35,959,679	35,747,873	35,171,289	35,274,529
Other	2,372,596	2,453,741	2,732,712	2,765,323	4,308,999
Total	\$ 41,992,375	\$ 43,999,756	\$ 44,784,404	\$ 44,394,055	\$ 47,095,865

State sources are 74.9% of the total General Fund revenue, with local taxpayers contributing 15.9% of the funding and federal and other sources making up the remaining 9.2%. Total revenue for 2021 increased \$2,701,810 from \$44,394,055 in 2020 to \$57,095,865 in 2021. Local property tax revenue increased due to an increase in the levy, a result of increased property values, and the operating referendum. Other sources of revenue increased as a result of additional federal funding sources due to ESSER/GEER and coronavirus relief funding.

Independent School District No. 14 Financial Analysis

General Fund Expenditures



The allocation of expenditures has remained fairly consistent from year-to-year as shown above. The three instruction categories, regular, vocational, and special education comprise 60% of the total expenditures for 2021 and 2020.

Independent School District No. 14 Financial Analysis

General Fund

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

For the Year Ended June 30,	2017	2018	2019	2020	2021
Revenues	\$ 41,992,375	\$ 43,999,756	\$ 44,784,404	\$ 44,394,055	\$ 47,095,865
Expenditures excluding OPEB	41,030,863	43,240,714	43,302,652	42,338,911	44,687,856
Excess of revenues over expenditures	961,512	759,042	1,481,752	2,055,144	2,408,009
Sale of capital assets	5,531	-	-	-	20,279
Proceeds from capital leases	34,265	566,843	-	268,015	410,880
Transfers out	(561,570)	(1,551,781)	(725,740)	(832,061)	(708,586)
Fund balance, July 1	4,913,449	5,353,187	5,127,291	5,883,303	7,460,945
Change in accounting principle	-	-	-	86,544	-
Fund Balance, June 30	\$ 5,353,187	\$ 5,127,291	\$ 5,883,303	\$ 7,460,945	\$ 9,591,527
Components					
Nonspendable	\$ 152,204	\$ 300,318	\$ 144,601	\$ 207,678	\$ 341,966
Restricted for					
Student activities	-	-	-	68,462	79,365
Health and safety	(136,755)	(1,179)	-	-	-
Capital projects levy	4,876	(2)	4,019	279,040	177,408
Safe schools - crime levy	53,251	68,167	87,714	193,069	258,467
Operating capital	266,547	176,644	537,547	425,933	333,849
Long term facilities maintenance	(327,235)	(289,308)	25,658	60,196	1,004,602
Medical assistance	72,125	294,904	294,904	715,356	984,319
Assigned	2,809,964	2,028,808	2,246,081	2,599,775	3,291,873
Unassigned	2,458,210	2,548,939	2,542,779	2,911,436	3,119,678
Total	\$ 5,353,187	\$ 5,127,291	\$ 5,883,303	\$ 7,460,945	\$ 9,591,527

The District's General Fund revenues increased \$2,701,810, or 6.1%, from the prior year, while expenditures increased \$2,348,945, or 5.5%. Regular instruction expenditures increased \$705,291 due to increase in salaries because of Steps, Lanes, and Salary Matrix increases. Instructional Support Services increased \$1,046,389 due to introducing different types of curriculum for students. Pupil Support Services decreased \$738,164 due to bussing not being needed in Distance Learning, with the District paying a portion of the contract versus the full contract.

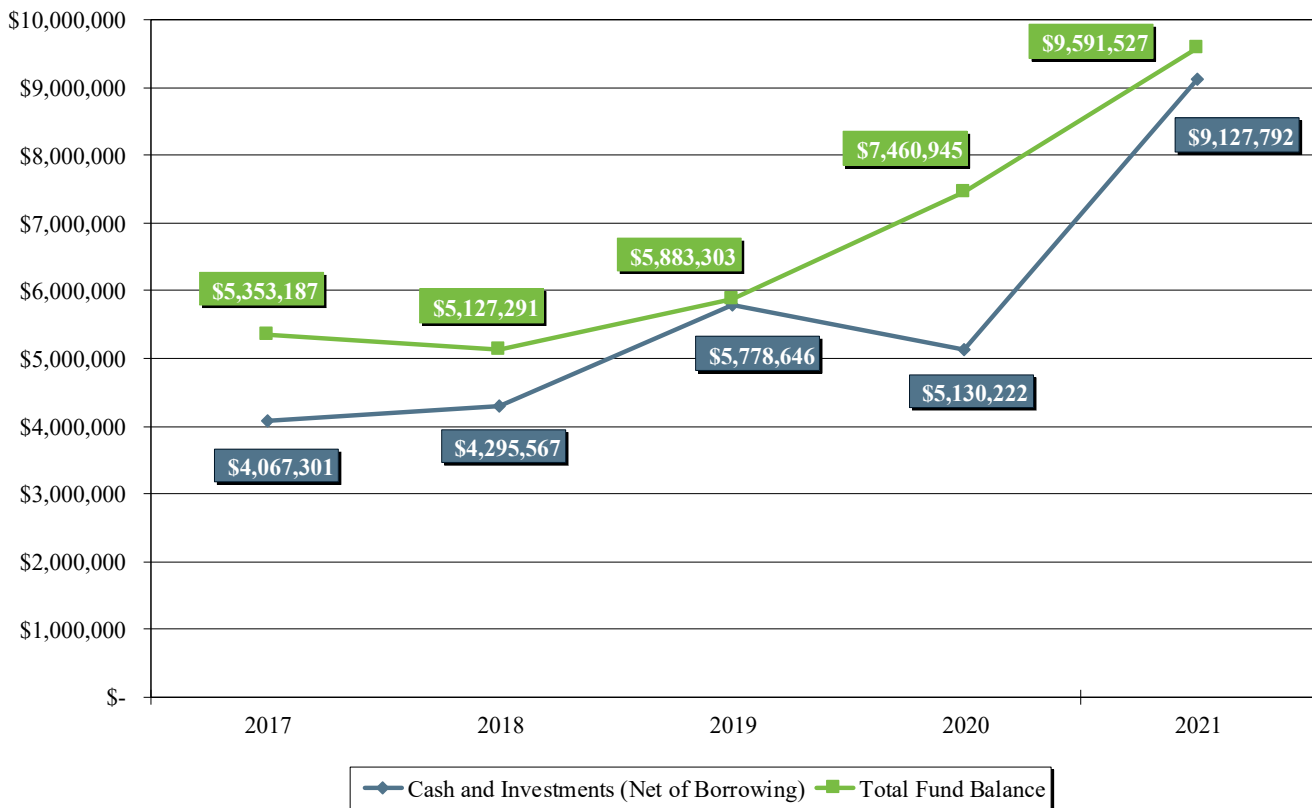
The District's revenues exceeded expenditures by \$2,408,009 for 2021. The District received capital lease proceeds and monies from the sale of capital assets. The District transferred \$708,586 out to other funds for community education and capital project portions of the levy referendum.

Independent School District No. 14 Financial Analysis

General Fund Financial Position

Overall, the District's General Fund total fund balance increased \$2,130,582 in 2021. The District's unassigned portion of fund balance increased \$208,242 from 2020, ending the year with a balance of \$3,119,678.

General Fund Financial Position



Independent School District No. 14 Financial Analysis

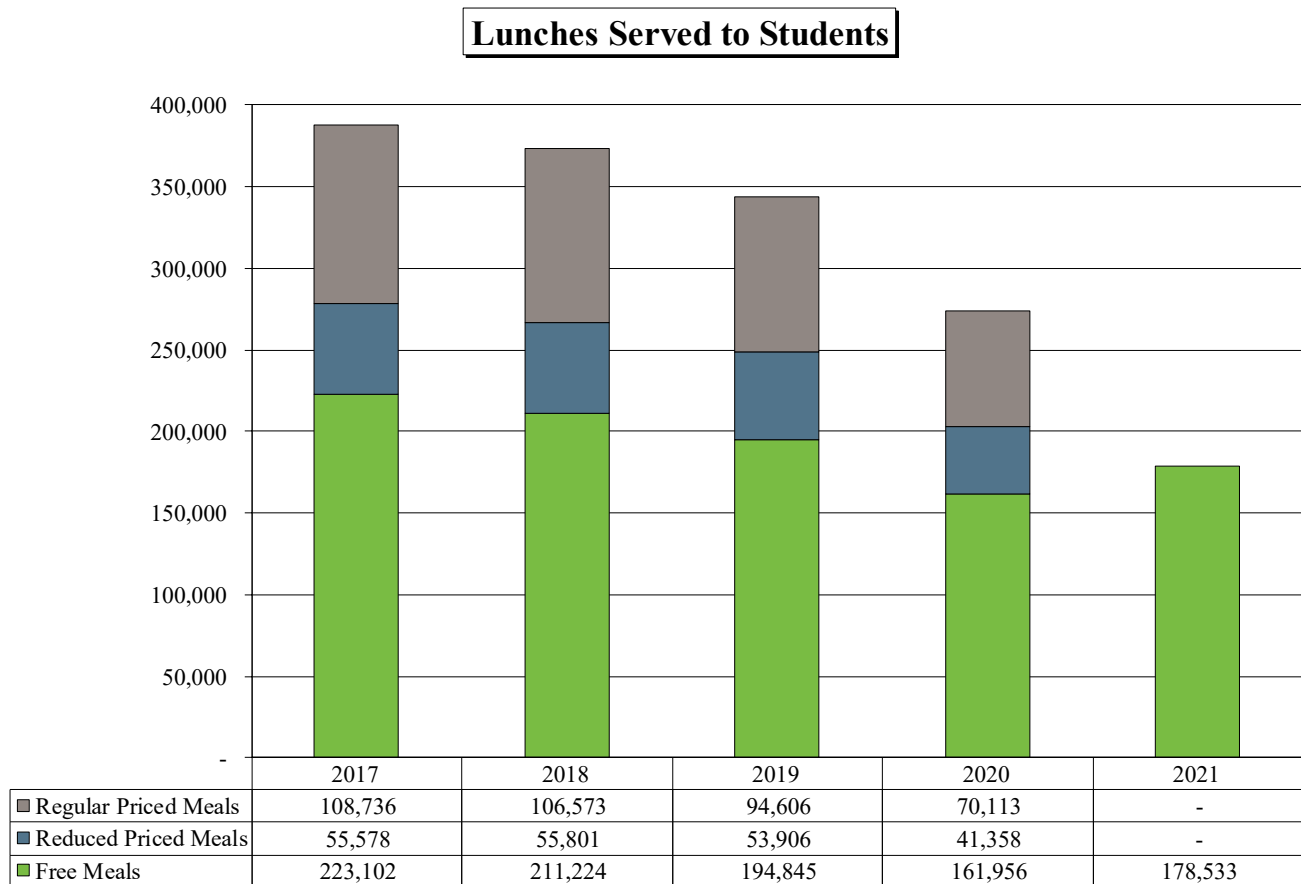
Food Service Fund

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

For the Year Ended June 30,	2017	2018	2019	2020	2021
Revenues	\$ 2,130,199	\$ 2,045,007	\$ 2,200,263	\$ 1,799,299	\$ 1,609,953
Expenditures	2,125,132	2,141,389	2,092,615	1,749,648	1,596,883
Excess of revenues over (under) expenditures	5,067	(96,382)	107,648	49,651	13,070
Other financing sources	-	-	-	-	-
Fund balance, July 1	558,014	563,081	466,699	574,347	623,998
Fund Balance, June 30	\$ 563,081	\$ 466,699	\$ 574,347	\$ 623,998	\$ 637,068

For the current year, there was an increase in fund balance of \$13,070. Revenues decreased by \$189,364, or 10.5%, and expenditures decreased by \$152,765, or 8.7%. The fund balance represents over three month's expenditures based on 2021 levels. The decrease in revenues was due a decrease in meals served. Decrease in expenditures was also due to a decrease in meals served.

The following chart reflects the number and type of lunches served to students over the past five years:



Independent School District No. 14 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,	2017	2018	2019	2020	2021
Revenues	\$ 2,854,383	\$ 2,888,088	\$ 2,913,111	\$ 2,377,623	\$ 1,762,074
Expenditures	2,749,225	2,953,535	3,128,632	2,712,966	2,328,968
Excess of revenues over (under) expenditures	105,158	(65,447)	(215,521)	(335,343)	(566,894)
Other financing sources	101,587	103,616	216,343	284,989	110,297
Fund balance, July 1	208,174	414,919	453,088	453,910	403,556
Fund Balance, June 30	\$ 414,919	\$ 453,088	\$ 453,910	\$ 403,556	\$ (53,041)

For the year ended June 30,	2017	2018	2019	2020	2021
Components					
Nonspendable	\$ 4,275	\$ -	\$ 6,765	\$ 5,040	\$ 6,051
Restricted for					
Community education	254,936	260,914	264,584	274,056	(260,873)
ECFE	69,774	78,187	65,849	4,906	29,373
School readiness	47,766	47,235	45,455	24,579	76,494
Community service	38,168	66,752	71,257	94,975	95,914
Total	\$ 414,919	\$ 453,088	\$ 453,910	\$ 403,556	\$ (53,041)

Expenditures exceeded revenues by \$566,894 in 2021. Revenues decreased \$615,549, or 25.9%, from 2020 to 2021, while expenditures decreased \$383,998, or 14.2%. Revenues decreased due to fee-based programming not starting until Feb/March, and were slow to have families return. Expenditures also decreased due to furloughed staff in May of 2020, many didn't return when offered in September, so hiring was slow as well as some programs not restarting until February/March. The District transferred a total of \$107,893 from the General Fund to the Community Service Fund to allocate operating referendum dollars, to allocate a portion of lease levy for adult basic education and had a sale of equipment of \$2,404.

Independent School District No. 14 Legislative Summary

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

State Aid Appropriations

The formula allowance for 2021 General Education Aid was increased \$129 (2%) to \$6,567. For 2022, the formula allowance is set at \$6,728, and for 2023, the formula allowance is set at \$6,863.

Special Education

One-time additional special education cross subsidy aid of \$10.425 million was approved for 2022 to be allocated based on district's 2021 cross subsidy.

The special education hold harmless guarantee was limited to the sum of 85% in 2021, and will be limited to 80% in 2022, and 75% in 2023 and later, of current year special education program costs plus 100% of special transportation costs plus the tuition adjustment. The annual inflation adjustment used in the calculation of the hold harmless will be reduced by 0.2% per year from 4.4% in 2021 until the inflation adjustment reaches 2.0%.

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

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

Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act

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

American Rescue Plan (ARP) Act

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

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

Property Tax Bill

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

Independent School District No. 14 Legislative Summary

Voluntary Prekindergarten (VPK)/School Readiness Plus

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

Pension Bill

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

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

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

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

Independent School District No. 14 Emerging Issue

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 update includes:

- **Accounting Standard Update – GASB Statement No. 87 – Leases** – GASB has issued GASB Statement No. 87 relating to accounting and financial reporting for leases. This new statement establishes a single model for lease accounting based on the principle that leases are financing of the right to use an underlying asset.

The following is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss this issue with you further and their applicability to your District.

Accounting Standard Update – GASB Statement No. 87 – Leases

The objective of this Statement is to better meet the information needs of basic financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' basic financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

A lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this Statement.

A short-term lease is defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract.

Independent School District No. 14
Emerging Issue

Accounting Standard Update – GASB Statement No. 87 – *Leases (Continued)*

A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to basic financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

A lessor should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions for leases of assets held as investments, certain regulated leases, short-term leases, and leases that transfer ownership of the underlying asset. A lessor should not derecognize the asset underlying the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources should be measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. A lessor should recognize interest revenue on the lease receivable and an inflow of resources (for example, revenue) from the deferred inflows of resources in a systematic and rational manner over the term of the lease. The notes to basic financial statements should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

GASB Statement No. 87 is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

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