

**Independent School District No. 108
Norwood Young America, Minnesota**

Communications Letter

June 30, 2023

Independent School District No. 108
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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. 108
Norwood Young America, 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. 108, Norwood Young America, Minnesota as of and for the year ended June 30, 2023, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 material weakness.

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.

The material weakness identified is stated within this letter.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated November 1, 2023, on such statements.

The purpose of this communication, which is an integral part of our audit, is to describe for the School Board and management and others within the 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.

Bergan KDV, Ltd.

Minneapolis, Minnesota
November 1, 2023

Independent School District No. 108

Material Weakness

Lack of Segregation of Accounting Duties

The District has a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. As a result of this condition, material audit adjustments were required for contracts payable and construction in progress.

Management and the School Board are aware of this condition and have taken certain steps to compensate for the lack of segregation but due to the number of staff needed to properly segregate all of the accounting duties, the costs of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. However, management and the School Board must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

Segregation of accounting duties relates to four key areas: initiation/authorization, processing/recording, reconciling/reporting of financial data, and custody of assets. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Finance Coordinator has access to various areas of the accounting system and can initiate, record, process, and report financial information. The Finance Coordinator also has access to District bank accounts.
- The Payroll Coordinator enters payroll information and processes payroll.
- The Finance Coordinator records and maintains all capital asset records.
- Cash payments can be received at various locations and there are instances where the individual collecting payment can also record and process receipts in the accounting system.

We recommend segregation or independent review be implemented whenever practical and cost effective.

Independent School District No. 108 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 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 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 taken 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. 108 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:

- **Management Override of Controls** – Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.
- **Misappropriation of Assets** – If duties cannot be appropriately segregated, there is a risk of unauthorized transactions being made by the District. In addition, generally this results in less review taking place as transactions are recorded in the financial statements.
- **Improper Revenue Recognition** – Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.

Independent School District No. 108 Required Communication

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 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.

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.

Expense Allocation – Certain expenses are allocated to programs based on an estimate of the benefit to that particular program. Examples are salaries, benefits, and supplies.

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 monies and complex formulas that are finalized after reporting deadlines.

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

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

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.

Compensated Absences Payable – This liability is determined for vacation leave that is earned but unpaid. This liability also includes termination benefits that uses a vesting method based historical data. The liability is recorded for vested benefits and unvested benefits which are expected to vest in future periods.

**Independent School District No. 108
Required Communication**

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

Significant Accounting Estimates (Continued)

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.

Financial Statement Disclosures

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

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

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

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that were identified as a result of our audit procedures were brought to the attention of and corrected by management.

- Contracts payable and construction in progress balances were understated.

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.

Independent School District No. 108
Required Communication

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.

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.

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. 108 Financial Analysis

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

Average Daily Membership and Pupil Units

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

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.

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

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

Independent School District No. 108 Financial Analysis

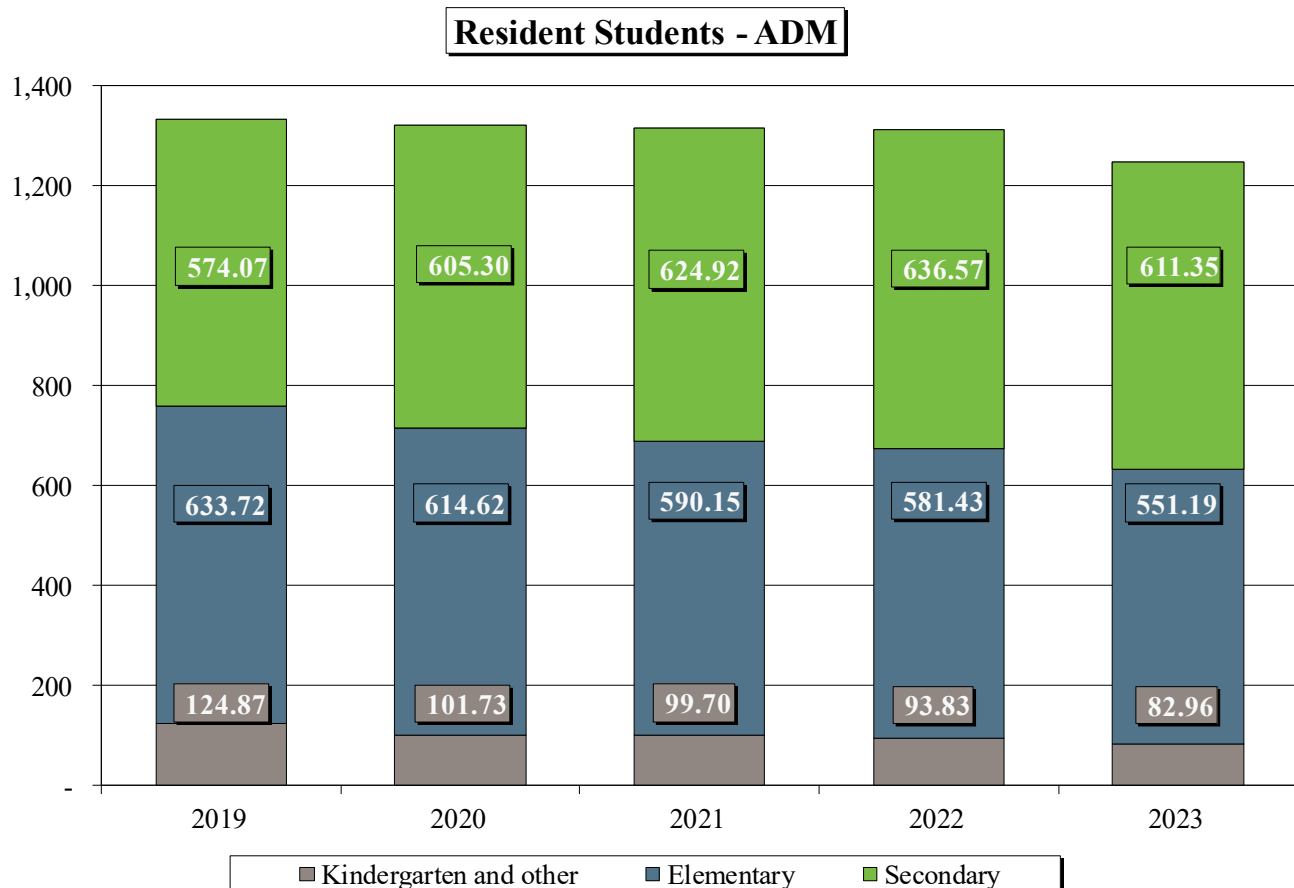
Average Daily Membership and Pupil Units (Continued)

The following chart and graph summarizes resident ADM of the District over the past five years.

Resident ADM	2019	2020	2021	2022	2023
Kindergarten and other	124.87	101.73	99.70	93.83	82.96
Elementary	633.72	614.62	590.15	581.43	551.19
Secondary	574.07	605.30	624.92	636.57	611.35
Total Resident ADM	1,332.66	1,321.65	1,314.77	1,311.83	1,245.50

* Estimate as of October 16, 2023

The chart and graph above provides resident ADM over the past five years. Total resident ADM has decreased in each of the last four years. Resident ADM ended 2023 with a total of 1,245.50, a decrease of 66.33 ADM compared to 2022.



Independent School District No. 108

Financial Analysis

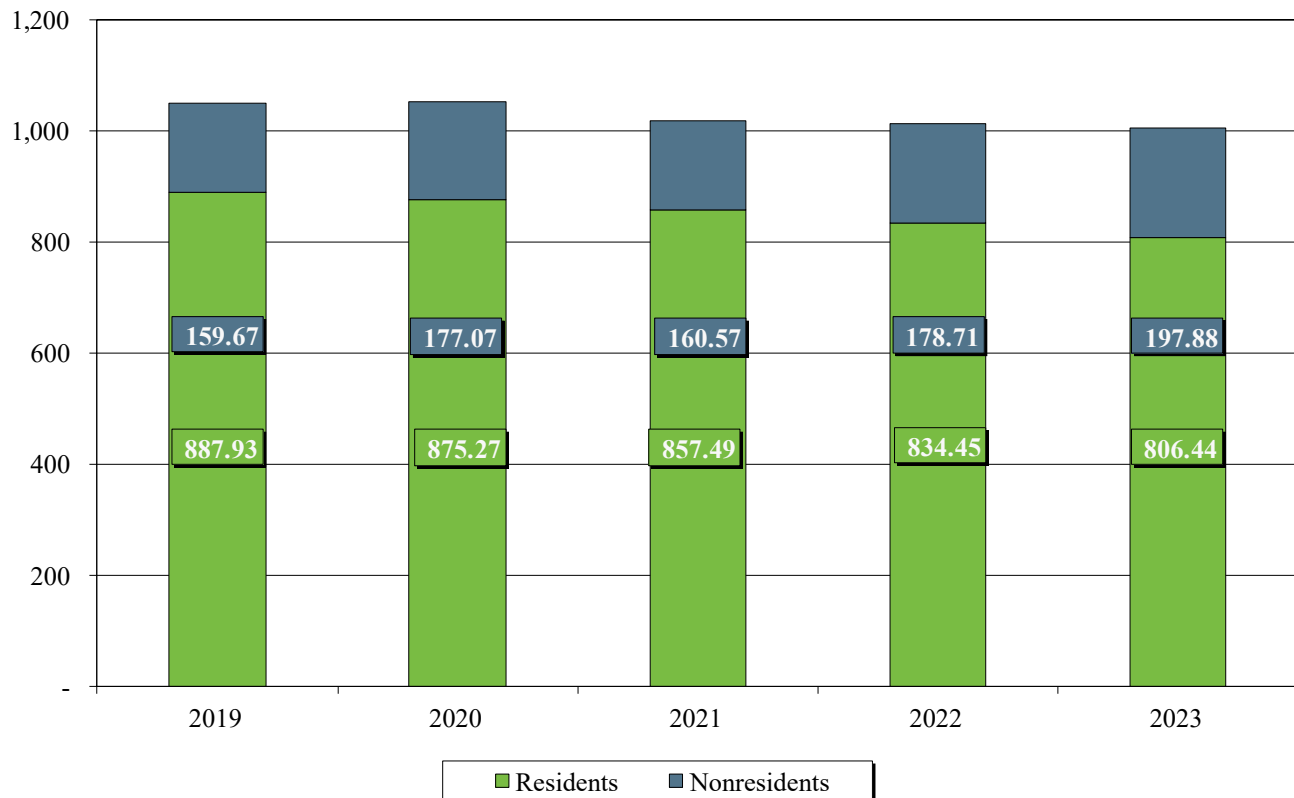
Average Daily Membership and Pupil Units (Continued)

Pupil Units Weighting	Pre- Kindergarten	Handicapped Kindergarten	Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
Fiscal Years 2019-2023	1.000	1.000	1.000	1.000	1.000	1.200

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

	2019	2020	2021	2022	2023
Residents	1,447.46	1,442.73	1,439.77	1,439.14	1,367.77
Residents going elsewhere	(559.53)	(567.46)	(582.28)	(604.69)	(561.33)
Nonresidents coming in	159.67	177.07	160.57	178.71	197.88
Total Adjusted PUN	1,047.60	1,052.34	1,018.06	1,013.16	1,004.32

Students Served - PUN



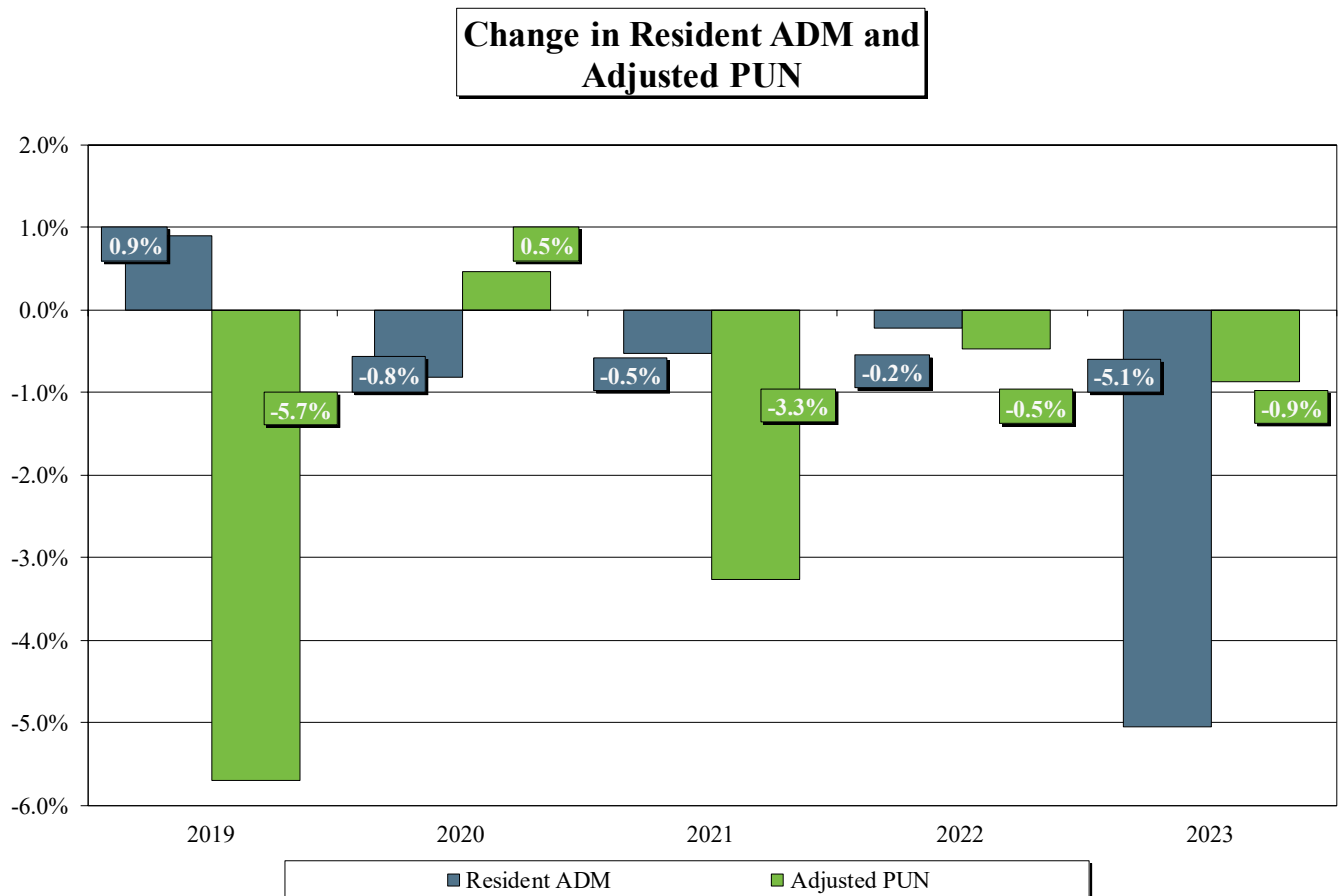
* Estimate as of October 16, 2023

Independent School District No. 108 Financial Analysis

Average Daily Membership and Pupil Units (Continued)

Resident ADM and Adjusted PUN both decreased from 2022 to 2023, although the decrease in Adjusted PUN was less than 1%. Open enrollment is a factor in the District's student count fluctuation. For each of the five years shown, the District has experienced a net loss due to open enrollment. In 2019, the net loss was 399.86 and in 2023 the net loss dropped to 363.45. These losses are due to resident students leaving the District through open enrollment and the growing number of students attending charter schools. The number of residents going elsewhere decreased by 43.36 adjusted PUN. The number of nonresidents coming into the District increased by 19.17.

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



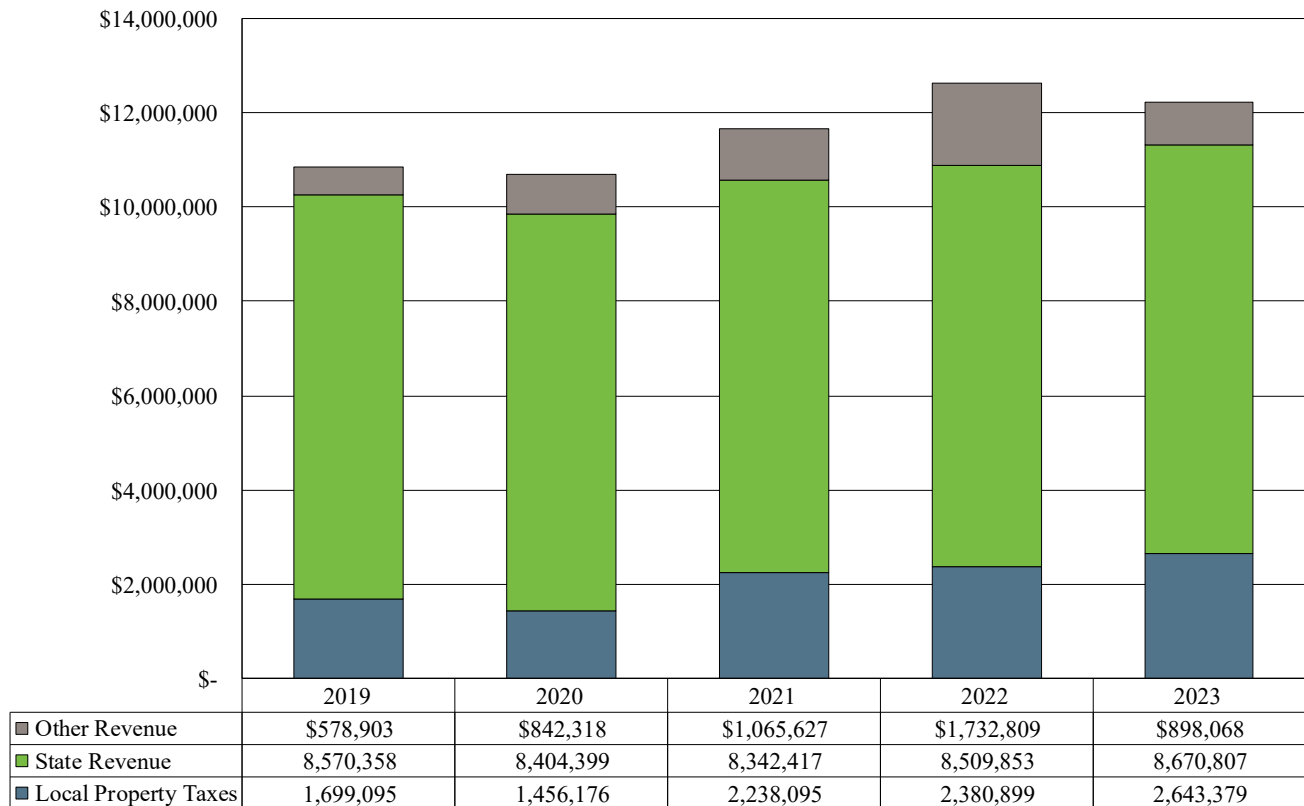
* Estimate as of October 16, 2023

Independent School District No. 108 Financial Analysis

General Fund Sources of Revenue

The following table displays the sources of revenue for the General Fund.

General Fund Sources of Revenue



Total General Fund revenues of \$12,212,254 was a decrease of \$411,307, or 3.3%, from 2022 to 2023 and increased \$1,363,898, or 12.6% over the course of the five years presented.

State revenue, which makes up the largest percentage of the District's revenue at 71.0%, increased by \$160,954 in 2023 due to an increase in general education aid and special education funding. Local property tax revenue increased \$262,480 due primarily to an increase in the tax levy for the General Fund. Other revenue sources decreased \$834,741 compared to 2023 primarily due to receiving less federal funding through the Elementary and Secondary School Emergency Relief (ESSER) Grant Program along with other additional funding related to the COVID-19 pandemic.

Independent School District No. 108 Financial Analysis

General Fund Budget and Actual

The chart on the following page highlights 2023 General Fund budget and actual results. Originally, in June 2022, the District budgeted for a surplus of \$183,182 for 2023. Budget revisions decreased the projected surplus to \$32,669. The District ended 2023 with an actual deficit of \$532,817 for the General Fund.

Overall, General Fund revenues were under budget by \$214,488, or 1.7%. Revenues from state sources were under budget by \$326,382 due to fewer students than anticipated resulting in less General Education Aid than budgeted. Other local and county revenues were \$177,864 over budget with better investment performance and greater medical assistance revenue than anticipated.

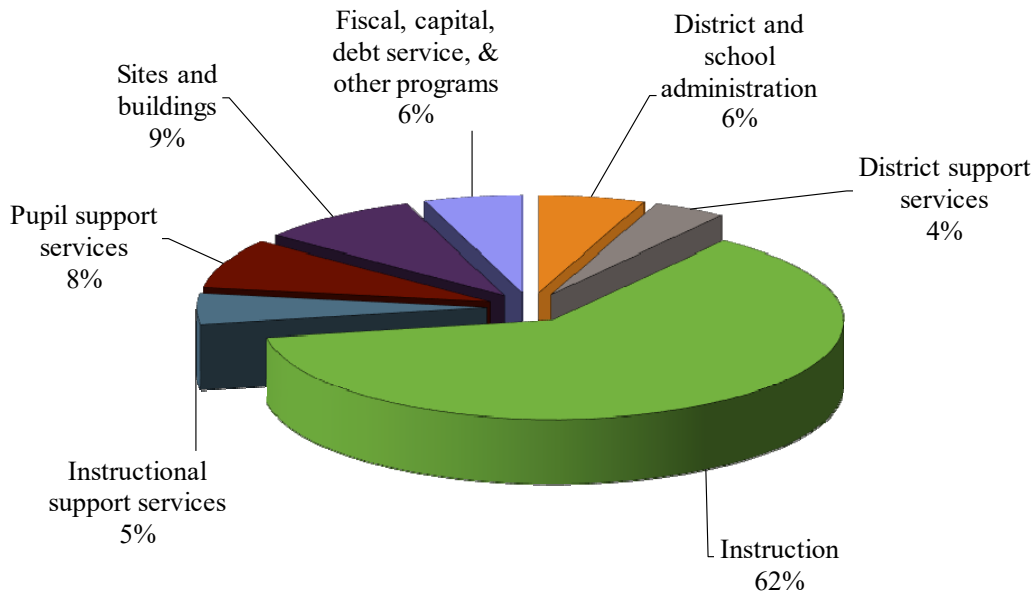
General Fund expenditures were over budget by \$350,998 in total. Instructional support services expenditures came in over budgeted amounts by \$121,755 due in part to higher salaries and benefits than budgeted. Pupil support services expenditures were \$94,222 over budget as a result of special education transportation costs being higher than anticipated. Sites and buildings costs were \$90,946 over budget with building fuel costs exceeding budgeted amounts.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 2,614,845	\$ 2,650,974	\$ 2,643,379	\$ (7,595)
Other local and county revenues	189,300	191,926	369,790	177,864
Revenue from state sources	8,617,069	8,997,189	8,670,807	(326,382)
Revenue from federal sources	454,487	586,653	528,278	(58,375)
Total revenues	11,875,701	12,426,742	12,212,254	(214,488)
Expenditures				
Administration	761,090	762,018	757,214	(4,804)
District support services	504,680	549,022	519,517	(29,505)
Regular instruction	5,468,688	5,524,973	5,498,032	(26,941)
Vocational education instruction	168,808	180,810	220,362	39,552
Special education instruction	1,956,049	2,218,325	2,212,941	(5,384)
Instructional support services	525,388	527,228	648,983	121,755
Pupil support services	930,529	950,410	1,044,632	94,222
Sites and buildings	1,046,189	1,050,189	1,141,135	90,946
Fiscal and other fixed cost programs	69,000	69,000	79,507	10,507
Capital outlay	92,407	392,407	440,344	47,937
Debt service	169,691	169,691	182,404	12,713
Total expenditures	11,692,519	12,394,073	12,745,071	350,998
Net Change in Fund Balances	\$ 183,182	\$ 32,669	\$ (532,817)	\$ (565,486)

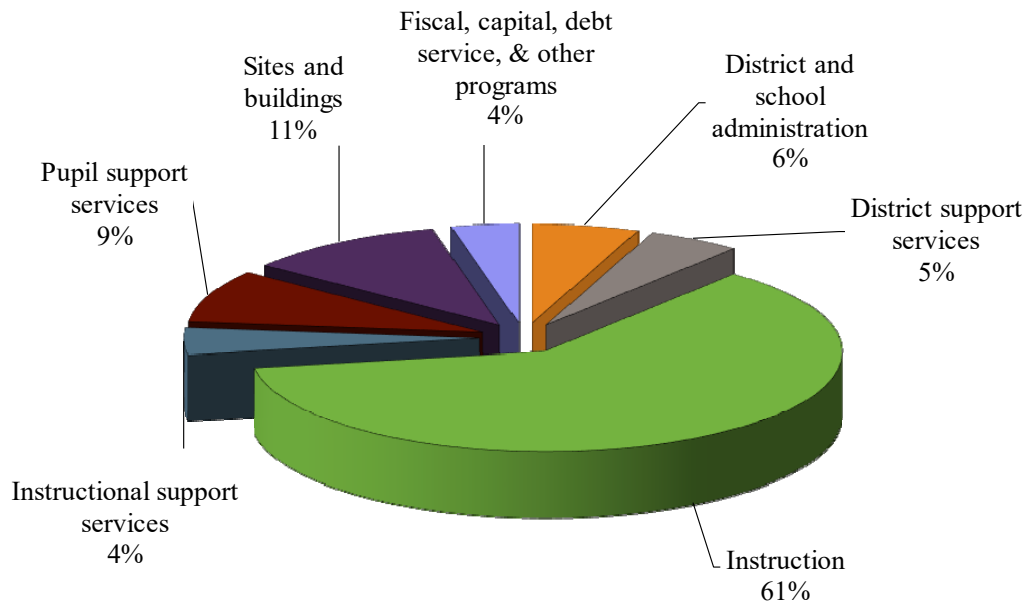
Independent School District No. 108 Financial Analysis

General Fund Expenditure Allocation

2023 General Fund Expenditure Allocation



2022 General Fund Expenditure Allocation



Total instruction expenditures (regular, special education and vocational) represents approximately 62% of total General Fund expenditures for 2023 and approximately 61% for 2022. Expenditures related to instruction programs increased \$332,534, instructional support services increased \$116,343, while sites and buildings decreased \$211,799 and District support service costs decreased \$112,587 during 2023.

Independent School District No. 108

Financial Analysis

General Fund Operations

The chart below illustrates the General Fund revenue, expenditures, and fund balances for the past five years.

Year Ended June 30,	2019	2020	2021	2022	2023
Revenues	\$ 10,848,356	\$ 10,702,893	\$ 11,646,139	\$ 12,623,561	\$ 12,212,254
Expenditures	10,999,546	10,710,634	11,270,964	12,366,777	12,745,071
Excess of revenues over (under) expenditures	(151,190)	(7,741)	375,175	256,784	(532,817)
Add other sources	12,138	173,988	-	-	-
Add transfers in	-	536,455	-	-	-
Less transfers out	-	(290,455)	-	-	-
Fund balance, July 1	1,729,285	1,590,233	2,139,331	2,514,506	2,771,290
Change in accounting principle	-	136,851	-	-	-
Fund Balance, June 30	\$ 1,590,233	\$ 2,139,331	\$ 2,514,506	\$ 2,771,290	\$ 2,238,473
Nonspendable for					
Prepays	\$ 9,942	\$ 4,431	\$ 65,776	\$ 55,979	\$ 14,007
Restricted/reserved for					
Student Activities	-	109,199	109,590	103,059	81,865
Scholarships	-	34,705	33,584	31,777	31,492
Capital Projects Levy	-	-	77,282	95,954	221,264
Health and Safety	-	-	-	-	-
Projects Funded by Certificates of Participation	-	-	-	-	-
Operating Capital	-	-	113,666	61,353	2,027
Basic Skills Extended Time	-	-	-	43,341	77,220
Disabled Accessibility	1,078	-	-	-	-
Gifted and Talented	-	-	-	-	-
Safe Schools Levy	-	-	-	-	-
Long Term Facilities Maintenance	191,693	100,000	220,739	295,600	301,495
Medical Assistance	102,804	70,832	63,891	109,326	135,225
Committed for					
Assigned	-	-	607,182	624,624	417,589
Unassigned	1,284,716	1,820,164	1,222,796	1,350,277	956,289
Fund Balance, June 30	\$ 1,590,233	\$ 2,139,331	\$ 2,514,506	\$ 2,771,290	\$ 2,238,473

At June 30, 2023, the District has 7.5% of actual expenditures (based on 2023 levels) in the unassigned fund balance. The District has a fund balance policy to maintain an unassigned fund balance of no less than 7% of budgeted general fund expenditures.

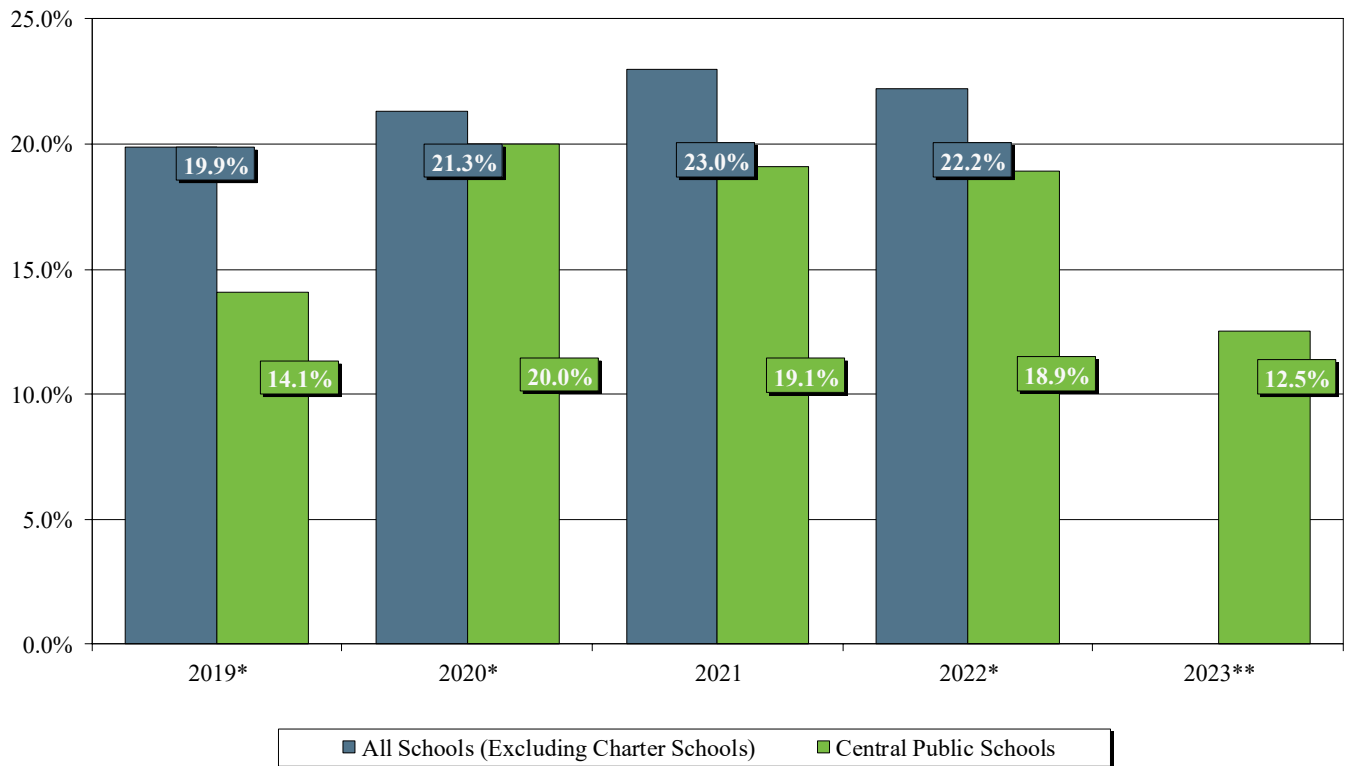
From 2022 to 2023, revenues decreased 3.3% and expenditures increased 3.1%. Included in the illustration above are all the general activities of the District, including all categorical or reserved programs. All of these activities comprise the General Fund, per the Uniform Financial Accounting and Reporting Standards (UFARS) definition. Overall, the General Fund balance decreased \$532,817 while the unassigned portion decreased by \$393,988.

Independent School District No. 108 Financial Analysis

General Fund Financial Health

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.

Unrestricted Fund Balance as a Percentage of Unrestricted Expenditures



* Information was obtained from the Minnesota Department of Education (MDE) web site report *General Fund Unreserved Balance for Fiscal Years 2019-2022*. Fiscal year 2023 information is not available.

** MDE 2023 UFARS Turnaround Compliance Report

Independent School District No. 108 Financial Analysis

Revenues Per Student

Revenues per student (ADM served) are summarized as follows:

Independent School District No. 108*	2019	2020	2021	2022	2023**
General Fund	\$ 10,844	\$ 11,062	\$ 12,565	\$ 13,609	\$ 13,234
Food Service Fund	475	487	466	712	619
Community Service Fund	991	857	837	951	1,076
Building Construction Fund	-	-	-	(390)	1,109
Debt Service Fund	1,028	1,035	1,071	1,053	1,900
Total Revenues Per Student	\$ 13,338	\$ 13,441	\$ 14,939	\$ 15,935	\$ 17,938

State Average*	2019	2020	2021	2022	2023
General Fund	\$ 13,148	\$ 13,628	\$ 14,612	\$ 15,166	N/A
Food Service Fund	553	548	569	791	N/A
Community Service Fund	638	595	571	685	N/A
Building Construction Fund	112	134	82	35	N/A
Debt Service Fund	1,252	1,307	1,466	1,447	N/A
Total Revenues Per Student	\$ 15,703	\$ 16,212	\$ 17,300	\$ 18,124	N/A

Districts with 500 to 999 ADM Served*	2019	2020	2021	2022	2023
General Fund	\$ 12,562	\$ 13,102	\$ 14,113	\$ 14,598	N/A
Food Service Fund	574	576	623	856	N/A
Community Service Fund	380	362	364	428	N/A
Building Construction Fund	44	122	106	106	N/A
Debt Service Fund	894	958	1,189	1,204	N/A
Total Revenues Per Student	\$ 14,454	\$ 15,120	\$ 16,395	\$ 17,192	N/A

* Source: *School District Profiles*; year 2023 is not yet available.

** Estimate as of October 16, 2023

Independent School District No. 108 Financial Analysis

Expenditures Per Student

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

Independent School District No. 108*	2019	2020	2021	2022	2023**
General Fund	\$ 11,001	\$ 10,889	\$ 12,159	\$ 13,331	\$ 13,812
Food Service Fund	487	488	441	583	718
Community Service Fund	887	1,138	813	1,028	1,172
Building Construction Fund	-	-	-	3,987	19,498
Debt Service Funds	1,022	1,023	1,073	1,068	2,335
Total Expenditures Per Student	\$ 13,397	\$ 13,538	\$ 14,486	\$ 19,997	\$ 37,535

State Average*	2019	2020	2021	2022	2023
General Fund	\$ 13,025	\$ 13,313	\$ 14,167	\$ 15,010	N/A
Food Service Fund	559	554	529	666	N/A
Community Service Fund	638	622	571	646	N/A
Building Construction Fund	1,642	2,085	2,008	1,773	N/A
Debt Service Funds	1,354	1,345	1,522	1,531	N/A
Total Expenditures Per Student	\$ 17,218	\$ 17,919	\$ 18,797	\$ 19,626	N/A

Districts with 500 to 999 ADM Served*	2019	2020	2021	2022	2023
General Fund	\$ 12,265	\$ 12,440	\$ 13,295	\$ 14,015	N/A
Food Service Fund	610	608	615	769	N/A
Community Service Fund	449	465	477	539	N/A
Building Construction Fund	1,404	2,745	3,602	2,787	N/A
Debt Service Funds	1,331	1,289	1,737	2,097	N/A
Total Expenditures Per Student	\$ 16,059	\$ 17,547	\$ 19,726	\$ 20,207	N/A

* Source: *School District Profiles*; year 2023 is not yet available.

** Estimate as of October 16, 2023

Independent School District No. 108 Financial Analysis

Food Service Fund

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

Year Ended June 30,	2019	2020	2021	2022	2023
Revenues	\$ 458,829	\$ 469,034	\$ 429,806	\$ 658,692	\$ 570,845
Expenditures	470,218	470,784	407,380	538,953	662,448
Excess of revenues over (under) expenditures	(11,389)	(1,750)	\$22,426	119,739	(91,603)
Fund balance, July 1	118,880	107,491	105,741	128,167	247,906
Fund Balance, June 30	\$ 107,491	\$ 105,741	\$ 128,167	\$ 247,906	\$ 156,303

Overall, food service revenues decreased \$87,847 from 2022 to 2023, while expenditures increased \$123,495. The decrease in revenue was the result of less federal funding related to meal reimbursements. The increase in expenditures primarily was related to the purchase of equipment. The Fund finished the year with a 24% fund balance based on 2023 spending levels.

Community Service Fund

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

Year Ended June 30,	2019	2020	2021	2022	2023
Revenues	\$ 957,272	\$ 826,130	\$ 772,202	\$ 879,859	\$ 992,485
Expenditures	857,136	850,599	750,670	950,826	1,081,440
Excess of revenues over (under) expenditures	100,136	(24,469)	21,532	(70,967)	(88,955)
Other financing sources (uses)	-	(246,000)	-	-	-
Fund balance, July 1	481,641	581,777	311,308	332,840	261,873
Fund Balance, June 30	\$ 581,777	\$ 311,308	\$ 332,840	\$ 261,873	\$ 172,918

As the table indicates, Community Service Fund expenditures exceeded revenues in 2023 by \$88,955 dropping fund balance to \$172,918 at the end of the year. Revenues increased by 12.8% while expenditures increased by 13.7% based on increased community service programming fees and costs.

Due to MDE regulations, the total Community Service Fund is segregated, or restricted, as follows: restricted for community education \$67,880, restricted for early childhood and family education \$57,100, and restricted for school readiness \$47,340. There is also nonspendable fund balance of \$598.

Independent School District No. 108

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.

Compensatory Education Revenue

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

Independent School District No. 108 Legislative Summary

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.

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.

Independent School District No. 108 Legislative Summary

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. 108

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 includes:

- **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 assets 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.

Independent School District No. 108

Emerging Issues

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.

Independent School District No. 108

Emerging Issues

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

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

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

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

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

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

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

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

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