

**Independent School District No. 2396  
Atwater/Cosmos/Grove City, Minnesota**

**Communications Letter**

**June 30, 2020**



**Independent School District No. 2396**  
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**Report on Matters Identified as a Result of  
the Audit of the Financial Statements**

To the School Board and Management  
Independent School District No. 2396  
Atwater/Cosmos/Grove City, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2396, Atwater/Cosmos/Grove City, Minnesota, as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, 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 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.

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

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 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 weaknesses identified are 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 December 8, 2020, 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 and is not intended to be, and should not be, used by anyone other than these specified parties.

*BerganKDV, Ltd.*

Minneapolis, Minnesota

December 8, 2020

## **Independent School District No. 2396 Material Weaknesses**

### **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.

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

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

- The Business Manager has access to all areas of the accounting system.
- The Business Manager prepares the bank reconciliations, reviews receipts, and also has the ability to write checks.
- The Business Manager records and maintains capital asset records.
- The Business Manager reconciles state and federal receivables and revenues and posts entries to the general ledger to adjust them.
- The Business Manager reconciles cash monthly, which is not reviewed by another employee, and has access to the general ledger.
- The Accounts Payable Clerk enters invoices into the system, prepares coding, verifies totals, signs off on invoices, has access to the digital signatures, and also prepares the checks. There were also instances of purchases made without evidence of prior approval.
- The Payroll Clerk verifies pay rates, prepares, and prints all payroll checks.
- Employees who collect money also reconcile the receipts, prepare the deposits, and take the deposits to the bank.
- The Business Manager occasionally prepares journal entries, related documentation, and posts those entries.

The Business Manager is responsible for most year-end closing activities with limited review by other employees. As a result of this condition, a material audit adjustment was required for state aids related to the capital project construction activity.

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

### **Preparation of Revenue Reconciliations and Timely Deposits**

School districts generally receive payments from students, parents, and members of the community throughout the year. Oftentimes, payment comes in the form of cash, which is highly susceptible to theft. Therefore, it is important the District ensure there are adequate internal control procedures in place to ensure all payments made to the District are deposited into the District's bank account.

## **Independent School District No. 2396 Material Weaknesses**

### **Preparation of Revenue Reconciliations and Timely Deposits (Continued)**

During our audit, we noted many of the receipts selected for testing did not have adequate back up documentation to allow for reconciling the total money received and deposited to the amount that should have been deposited. The District attaches receipts for cash payments, but while those receipts are pre-numbered, the receipts turned into the District Office had missing receipts in the sequence for the deposit. It was also noted there were instances where there was not enough information available to determine if collected funds were deposited on a timely basis.

We recommend the District implement an internal control procedure to help ensure all money collected by District personnel is deposited into the District's account. An internal control procedure that could be implemented is to require reconciliations be completed by employees who are responsible for collecting money. This reconciliation should then be verified by another employee who would be responsible for completing the deposit and reviewed by a third employee to ensure there is adequate documentation to back up the reconciliation and that the amount deposited matches the reconciliation. This reconciling procedure could be implemented by requiring sequentially numbered receipts be given to students, parents, or community members turning in the payment. If a teacher/coach collects payments, the teacher/coach should be provided with a receipt when the funds are turned into the main office for deposit. The teacher/coach should provide the main office with a list of the individual payments received, including whether the payments were cash or checks. At the end of the day, the employee responsible for collecting payments can then reconcile the carbon copies of the sequentially numbered receipts to the amount of money to be deposited. The reconciliation should be in writing and include the receipt numbers used that day, the total cash according to the receipts in that sequence, the total checks according to the receipts in that sequence, the total actual amount of cash, the total actual amount of checks and the difference. If there is a difference, an explanation should be documented as to why there is a difference. In instances such as a la carte and concessions, a cash register could be used. The cash register tape could then be used to reconcile the amount in sales to the amount turned in to be deposited.

During our testing of certain programs within the community education revenues, it was noted students or parents did not receive a carbon copy receipt showing they paid for their activity. Without the receipt, reconciling deposits cannot be completed.

We recommend for every payment received by the District, a carbon copy receipt be filled out and the receipts reconciled with the deposit. We also recommend receipts collected be locked in a safe or secure location and be deposited daily or, at a minimum, weekly. Receipts should not be kept in the schools over the weekend.

## **Independent School District No. 2396 Required Communication**

We have audited the 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, 2020. Professional standards require that we advise you of the following matters related to our audit.

### **Our Responsibility in Relation to the 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 basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audited 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 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 financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Planned Scope and Timing of the Audit**

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

## **Independent School District No. 2396 Required Communication**

### **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 financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2020. 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 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 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 financial statements were:

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 functions based on an estimate of the benefit to that particular function. Examples include salaries, benefits, insurance, 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 also dependent upon ADM value; however, in addition to those, this Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.

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

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

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

**Independent School District No. 2396  
Required Communication**

**Qualitative Aspects of Significant Accounting Practices (Continued)**

*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 financial statements as a whole.

We identified the following uncorrected misstatements of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

General Fund state receivables and revenue and property taxes levied for subsequent years expenditures are overstated.

The following material misstatement detected as a result of audit procedures was corrected by management.

State state receivable and revenue in the Capital Projects Fund was understated and corrected by management.

**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 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. 2396  
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, operating 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 Financial Statements**

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

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

**Independent School District No. 2396  
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
2011	\$ 5,124	0.0%
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%

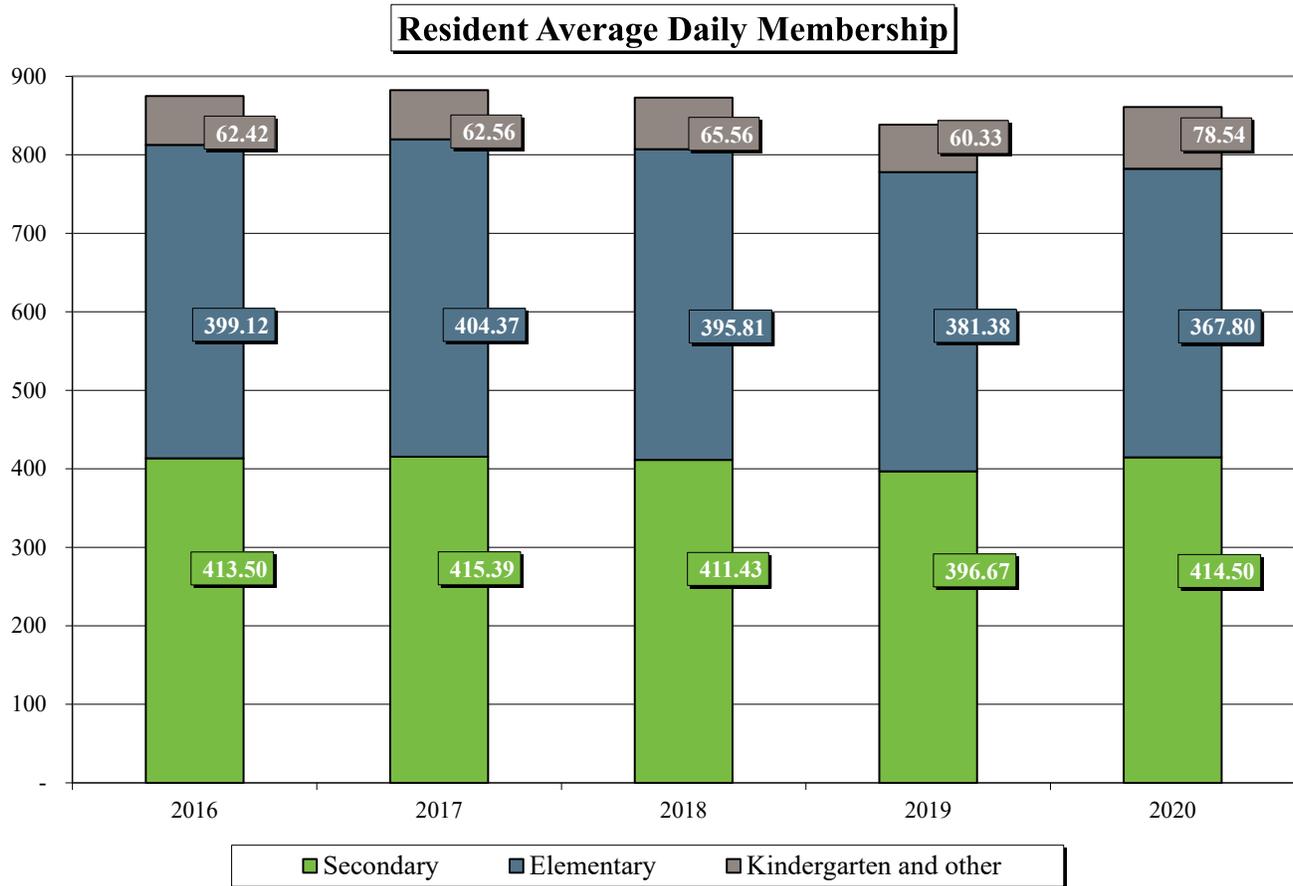
\* General Education Aid - Of the \$529 increase over 2014, \$105 is for inflation at 1.9%; the remaining \$424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

## Independent School District No. 2396 Financial Analysis

### Average Daily Membership and Pupil Units (Continued)

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

ADM	2016	2017	2018	2019	2020
Kindergarten and other	62.42	62.56	65.56	60.33	78.54
Elementary	399.12	404.37	395.81	381.38	367.80
Secondary	413.50	415.39	411.43	396.67	414.50
<b>Total Resident ADM</b>	<b>875.04</b>	<b>882.32</b>	<b>872.80</b>	<b>838.38</b>	<b>860.84</b>
<b>ADM Served</b>	<b>802.01</b>	<b>818.47</b>	<b>841.49</b>	<b>827.83</b>	<b>870.12</b>

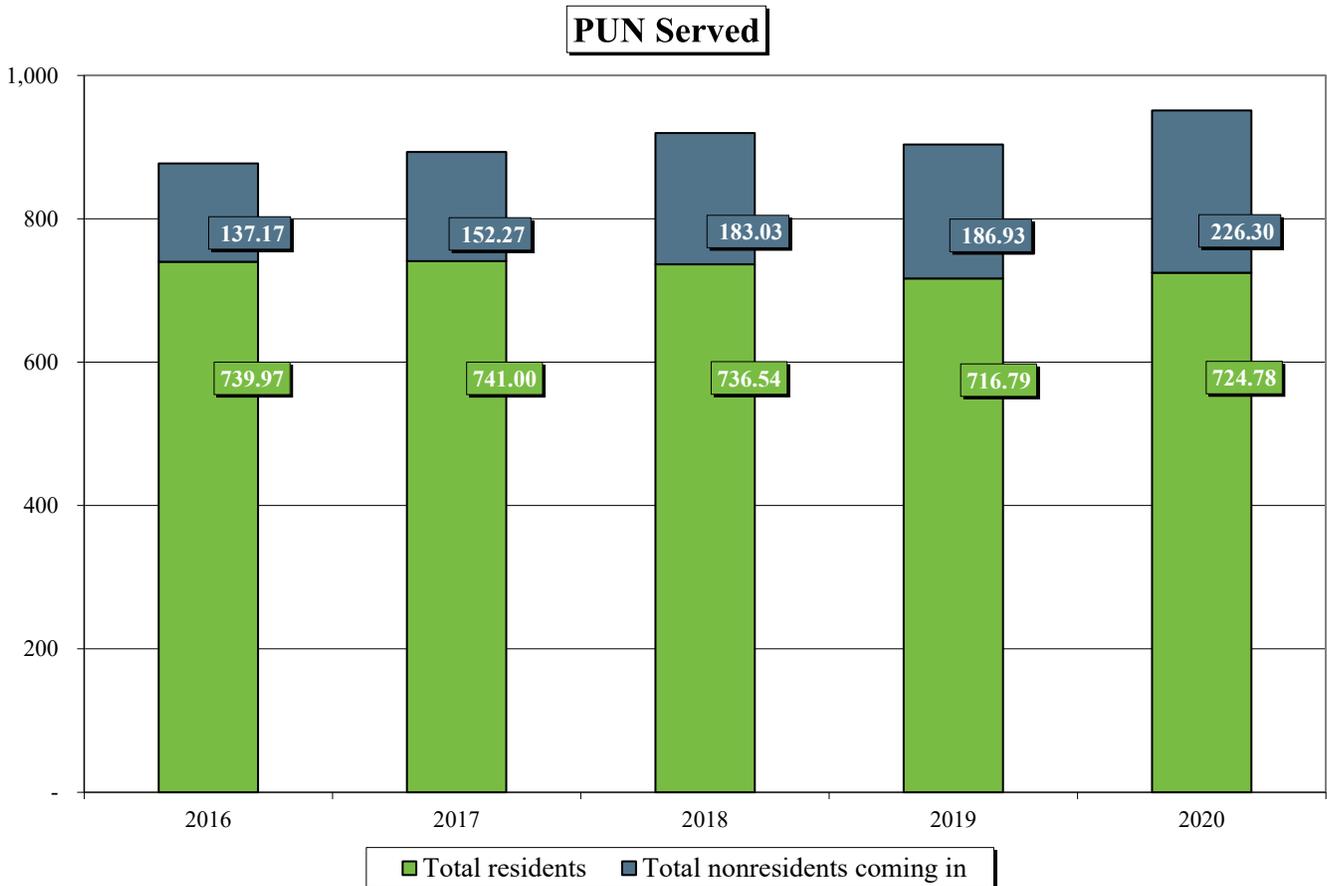


The graph above illustrates that over the last five years, the District has experienced a slight decrease in ADM. The change in resident ADM for 2020 compared to 2019 totaled an increase of 22.46. Since 2016, the District has had an increase of 68.11 in ADM served. The chart and graph on the following page converts the ADM into pupil unit number (PUN) for the same five years, including the effects of open enrollment.

## Independent School District No. 2396 Financial Analysis

### Average Daily Membership and Pupil Units (Continued)

PUN	2016	2017	2018	2019	2020
Residents	957.73	965.42	955.08	917.73	943.74
Resident PUN going elsewhere	(217.76)	(224.42)	(218.54)	(200.94)	(218.96)
Total residents	739.97	741.00	736.54	716.79	724.78
Total nonresidents coming in	137.17	152.27	183.03	186.93	226.30
<b>Total PUN Served</b>	<b>877.14</b>	<b>893.27</b>	<b>919.57</b>	<b>903.72</b>	<b>951.08</b>



When reviewing this information, the reader should consider the pupil weighting. Pupil units are computed by weighting ADM using the factors in the table on the following page.

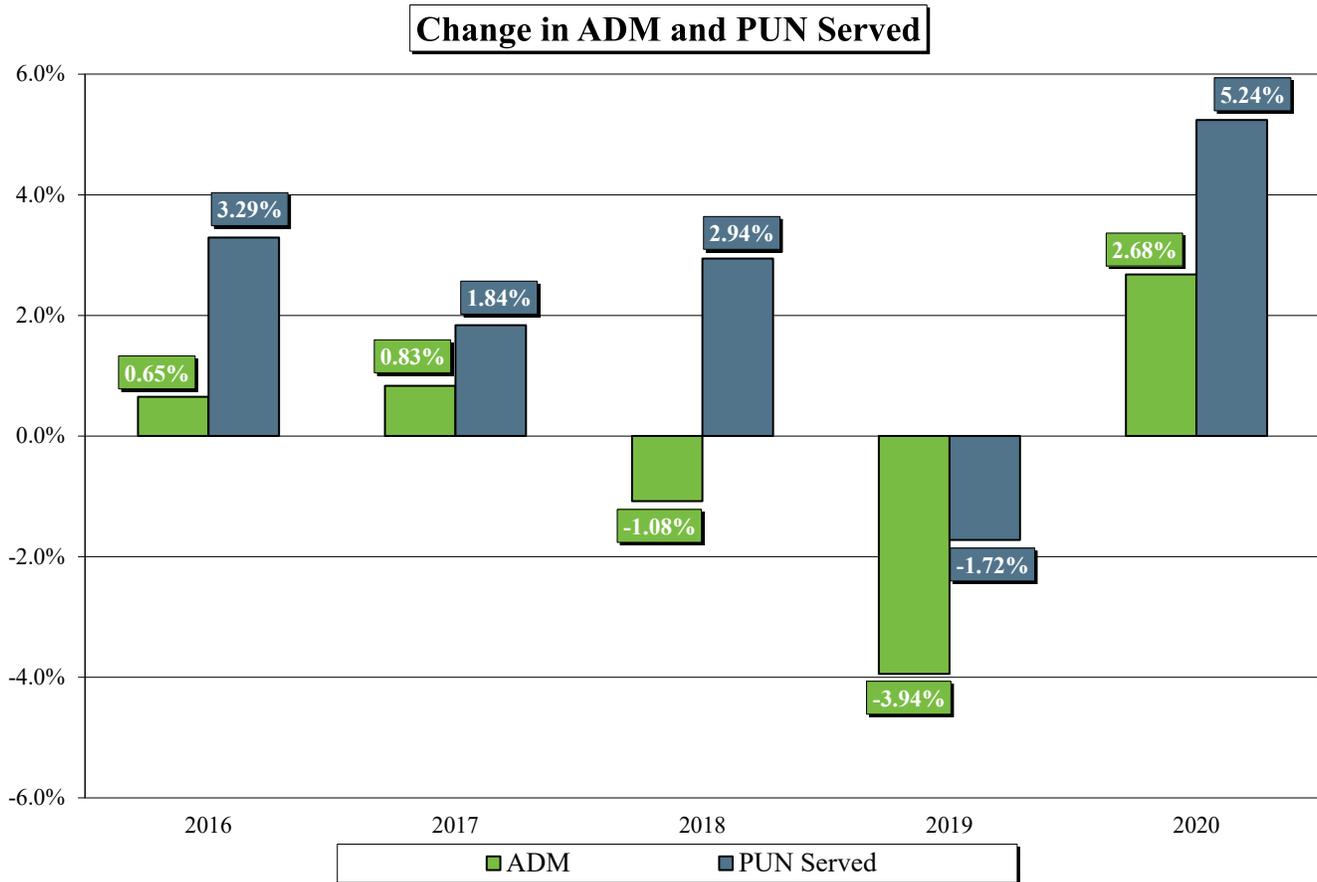
The District should be aware that PUN numbers directly affect the amount of funding the District receives from the federal and state government when reviewing the five year history. The total change in PUN from 2019 to 2020 was an increase of 47.36. Resident students increased in 2020, increasing 26.01 from 2019. The net loss from open enrollment has decreased from 80.59 PUN in 2016 to a gain of 7.34 PUN in 2020, the first year in the five years presented there is a net gain. The District should continue to monitor this number to assist in budgeting state revenues.

**Independent School District No. 2396  
Financial Analysis**

**Average Daily Membership and Pupil Units (Continued)**

***Pupil Units Weighting***

	Prekindergarten and Handicapped Kindergarten	Half Kindergarten and Full Kindergarten	Elementary	Secondary
Fiscal years 2016-2020	1.000/1.000	0.550/1.000	1.000/1.000	1.200



As discussed earlier, each year, the State Legislature establishes a formula allowance used to calculate General Education Aid entitlement. For 2020, each district received \$6,438 in General Education Aid for each PUN served.

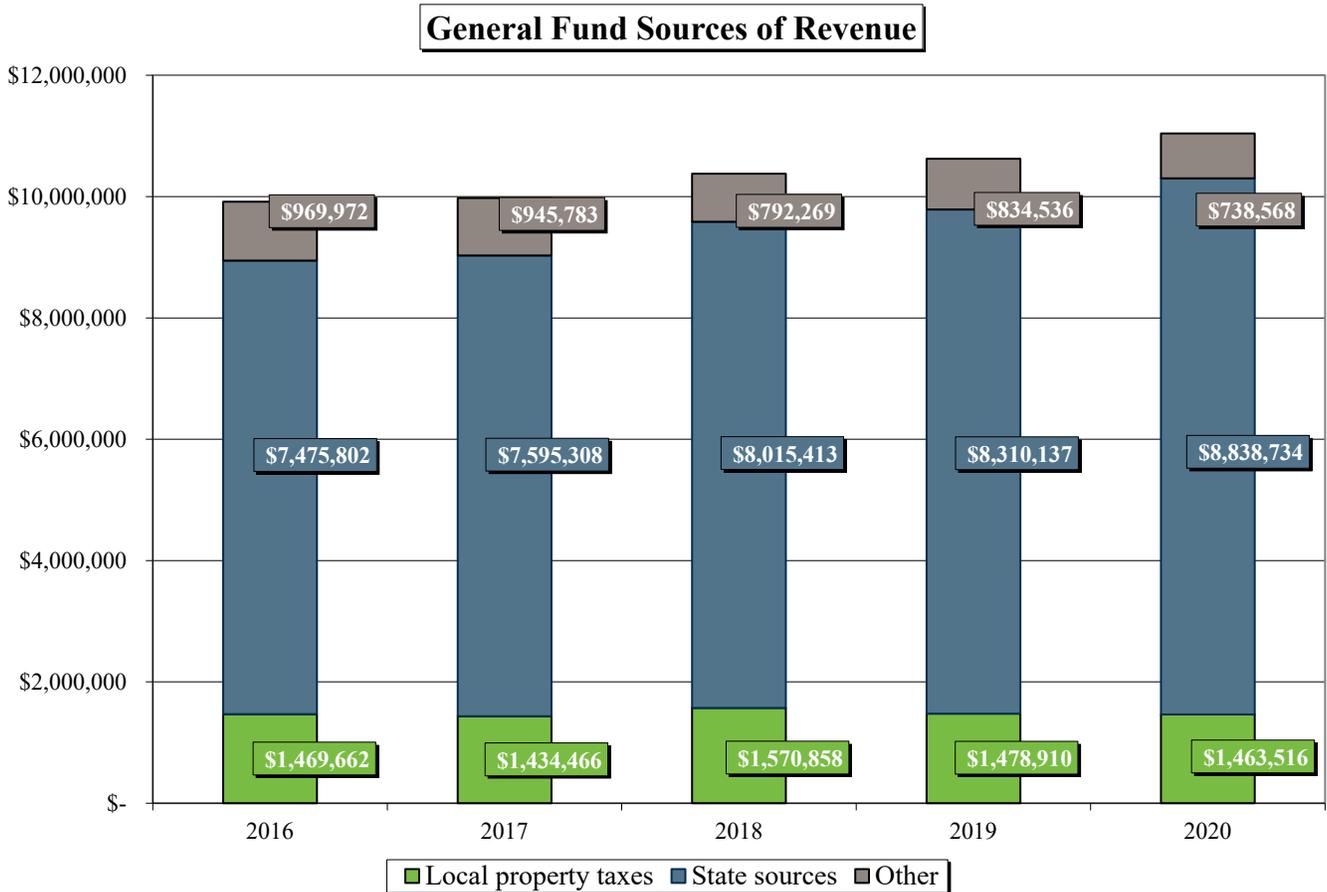
## Independent School District No. 2396 Financial Analysis

### General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

	2016	2017	2018	2019	2020
Local property taxes	\$ 1,469,662	\$ 1,434,466	\$ 1,570,858	\$ 1,478,910	\$ 1,463,516
State sources	7,475,802	7,595,308	8,015,413	8,310,137	8,838,734
Other	969,972	945,783	792,269	834,536	738,568
<b>Total</b>	<b>\$ 9,915,436</b>	<b>\$ 9,975,557</b>	<b>\$ 10,378,540</b>	<b>\$ 10,623,583</b>	<b>\$ 11,040,818</b>

State sources represent 80.0% of the General Fund's total revenue, with local taxpayers contributing 13.3% of the funding and federal and other sources making up the remaining 6.7%. Overall, revenue increased \$417,235 or 3.9% from 2019. Local property taxes remained consistent, decreasing \$15,394 from the prior year. State revenue sources increased \$528,597. This increase is attributed to an increase of 2% in the general education aid formula allowance and an increase in PUN. Other revenue sources, which include local, county, and federal revenues, decreased \$95,968 from 2019. This is primarily a result of a decrease in federal funding due to the District carrying forward funds from fiscal year 2018 and used in fiscal year 2019.



**Independent School District No. 2396**  
**Financial Analysis**

**General Fund Revenue Per Student (ADM) Served**

The table below shows a comparison of total revenue per ADM received by Minnesota school districts and for districts hosting 625-874 ADM in the district.

	State-Wide*			Districts Serving 625-874 ADM*		
	2017	2018	2019	2017	2018	2019
General Fund						
Property taxes	\$ 1,814	\$ 1,894	\$ 1,996	\$ 1,038	\$ 1,098	\$ 1,059
Other local sources	512	515	547	550	598	626
State aid	9,576	9,821	10,118	9,863	9,915	10,439
Federal aid	462	461	486	462	458	488
<b>Total General Fund</b>	<b>\$ 12,364</b>	<b>\$ 12,691</b>	<b>\$ 13,147</b>	<b>\$ 11,913</b>	<b>\$ 12,069</b>	<b>\$ 12,612</b>
	Atwater-Cosmos-Grove City					
	2017	2018	2019	2020		
General Fund						
Property taxes	\$ 1,704	\$ 1,823	\$ 1,727	\$ 1,682		
Other local sources	688	902	674	571		
State aid	9,240	9,497	9,994	10,158		
Federal aid	517	337	394	278		
<b>Total General Fund</b>	<b>\$ 12,149</b>	<b>\$ 12,559</b>	<b>\$ 12,789</b>	<b>\$ 12,689</b>		

\* Source: State-wide average and districts serving 625-874 ADM amounts for 2017-2019 were taken from the Minnesota Department of Education (MDE) publication, *School District Profiles*. Data for 2020 was not yet available.

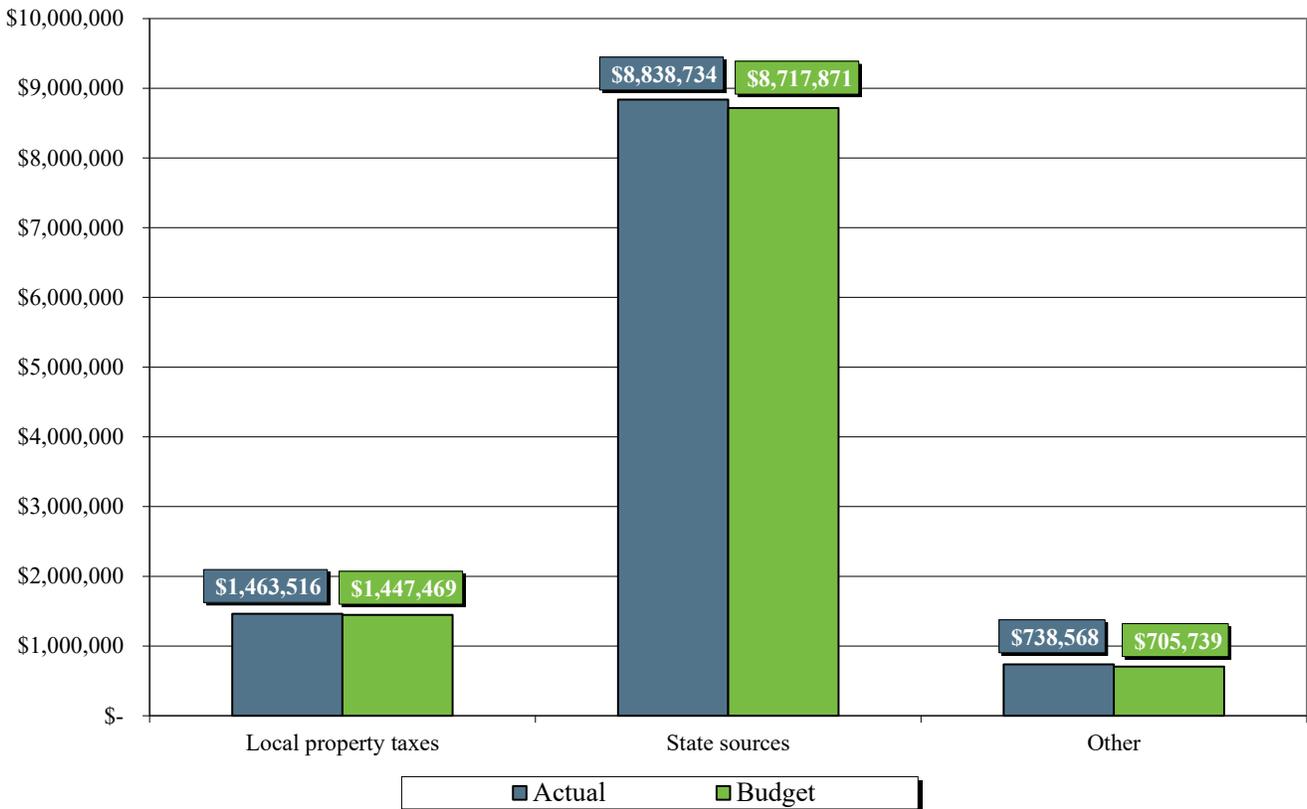
The mix of local and state revenues vary from year-to-year primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered, and countless other criteria.

## Independent School District No. 2396 Financial Analysis

### General Fund Sources of Revenue

The following graph outlines the budget and actual results of General Fund revenue. Overall, actual revenue was \$169,739, or 1.6%, over budget. All sources of revenue were relatively consistent with budgeted amounts, with the exception of revenue from state sources. Revenue from state sources came in \$120,863 over budget primarily as a result of PUN coming in higher than expected.

**2020 General Fund Revenues Budget and Actual**

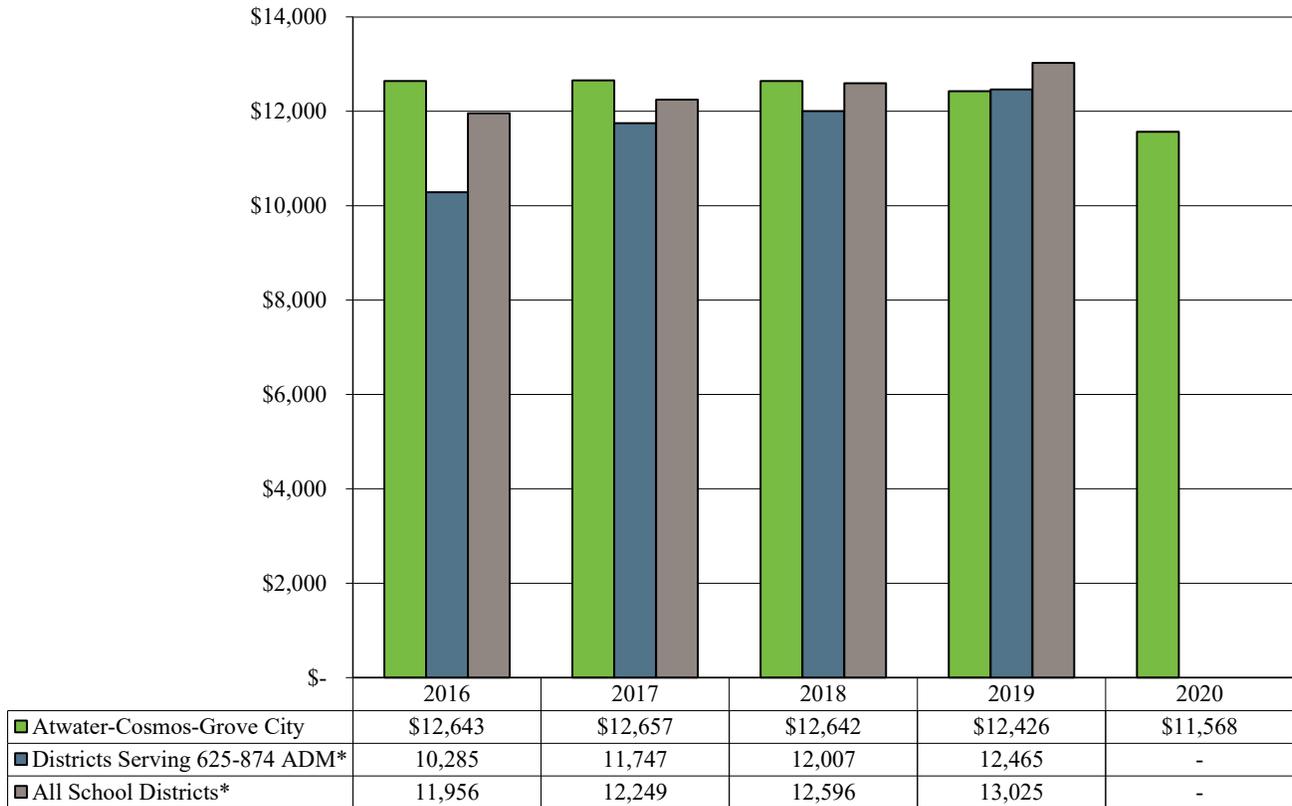


**Independent School District No. 2396  
Financial Analysis**

**Expenditures Per Student**

Expenditures per student for all General Fund programs are summarized in the graph below.

**Expenditures Per ADM Served - General Fund**



\* Source of all school districts and districts serving 625-874 ADM: *School District Profiles* Report published by the MDE. Data for 2020 was not yet available.

Expenditures per student decreased \$858 from 2019 to 2020 as a result of PUN increasing at a higher percentage than expenditures in 2020. Expenditures per student have decreased from 2016 to 2020 by \$1,075, or 8.5%. This is due to expenditures decreasing by approximately 0.9%, while PUN served increased 8.4%.

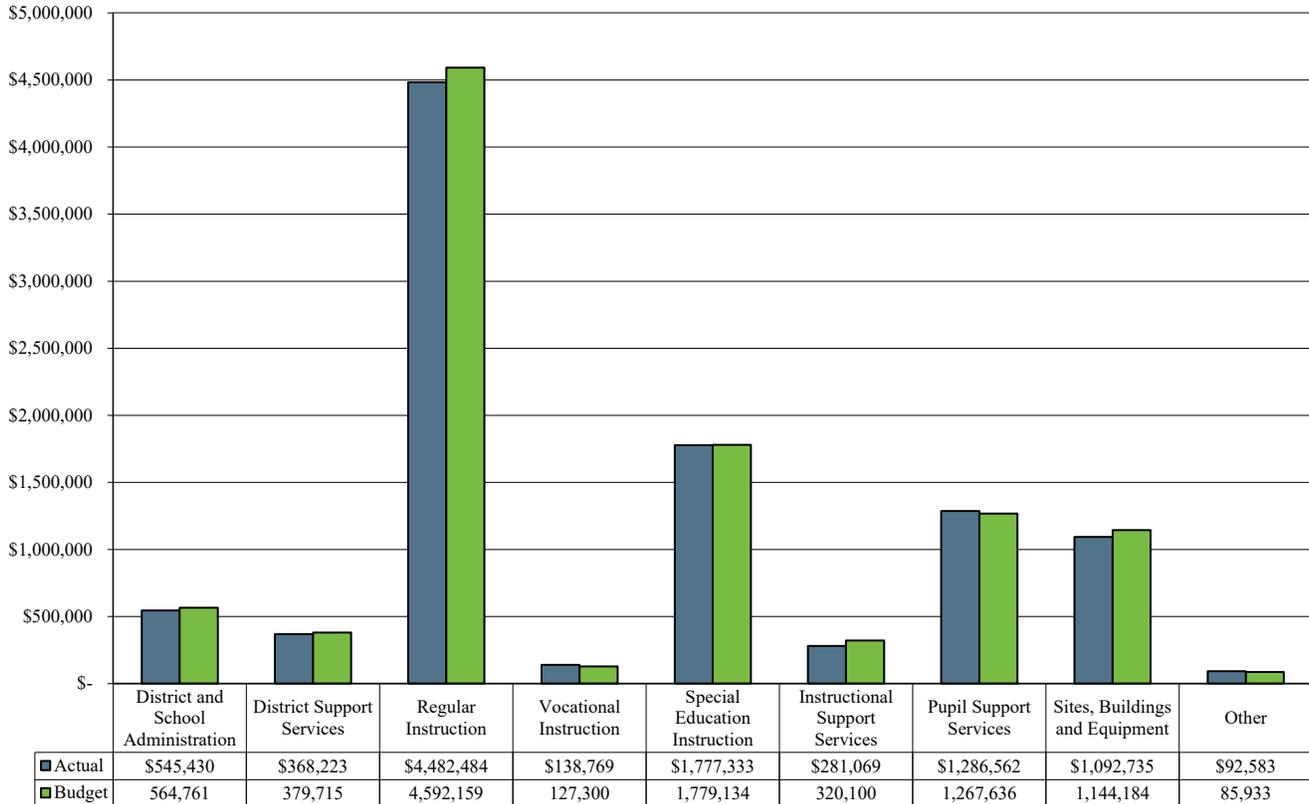
ADM served represents residents served in the District, residents attending elsewhere on tuition, and nonresidents served in the District both through open enrollment and tuition programs.

## Independent School District No. 2396 Financial Analysis

### General Fund Expenditures

The following graph outlines the budget and actual results of General Fund expenditures. Overall, actual expenditures were \$195,734, or 1.9%, under budget. All programs were relatively similar to budgeted amounts.

**2020 General Fund Expenditures Budget and Actual**



**Independent School District No. 2396**  
**Financial Analysis**

**General Fund Operations**

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

For the Year Ended June 30,	2016	2017	2018	2019	2020
Revenues	\$ 9,915,436	\$ 9,975,557	\$ 10,378,540	\$ 10,623,583	\$ 11,040,818
Expenditures	10,159,681	10,502,389	10,659,297	10,322,818	10,065,188
Excess of revenues over (under) expenditures	(244,245)	(526,832)	(280,757)	300,765	975,630
Other financing sources	2,501	111,585	211,058	1,034	30,452
Fund balance, July 1	2,614,091	2,372,347	1,957,100	1,887,401	2,189,200
Change in accounting principle	-	-	-	-	51,536
<b>Fund Balance, June 30</b>	<b>\$ 2,372,347</b>	<b>\$ 1,957,100</b>	<b>\$ 1,887,401</b>	<b>\$ 2,189,200</b>	<b>\$ 3,246,818</b>

Components of Fund Balance	2016	2017	2018	2019	2020
Nonspendable	\$ 14,217	\$ 15,267	\$ 48,751	\$ 71,435	\$ 31,118
Restricted for					
Student activities	-	-	-	-	155,933
Scholarships	-	-	-	-	55,199
Staff development	-	-	68,983	113,780	164,318
Achievement and integration	4,364	-	3,272	7,971	32,688
Basic skills programs	295,480	158,475	154,144	-	-
Basic skills extended time	-	-	7,826	9,749	4,811
Operating capital	45,172	-	56,208	122,784	281,760
Health and safety	(114,094)	(46,190)	127,671	-	-
Gifted and talented	20,151	22,968	27,142	33,204	40,290
Learning and development	240,405	368,538	124,959	-	-
Teacher development and evaluation	20,249	20,249	20,249	20,249	20,249
Safe schools levy	57,455	71,391	39,798	29,198	18,981
LTFM	-	(120,012)	(144,496)	(63,199)	89,856
Unfunded severance and retirement levy	18,284	-	-	-	-
Medical assistance	-	-	-	-	11,151
Committed for retirement benefits	249,986	227,320	191,498	83,817	15,243
Assigned for student activities	124,519	131,057	134,968	147,865	-
Unassigned fund balance	1,396,159	1,108,037	1,026,428	1,612,347	2,325,221
<b>Total Fund Balance</b>	<b>\$ 2,372,347</b>	<b>\$ 1,957,100</b>	<b>\$ 1,887,401</b>	<b>\$ 2,189,200</b>	<b>\$ 3,246,818</b>

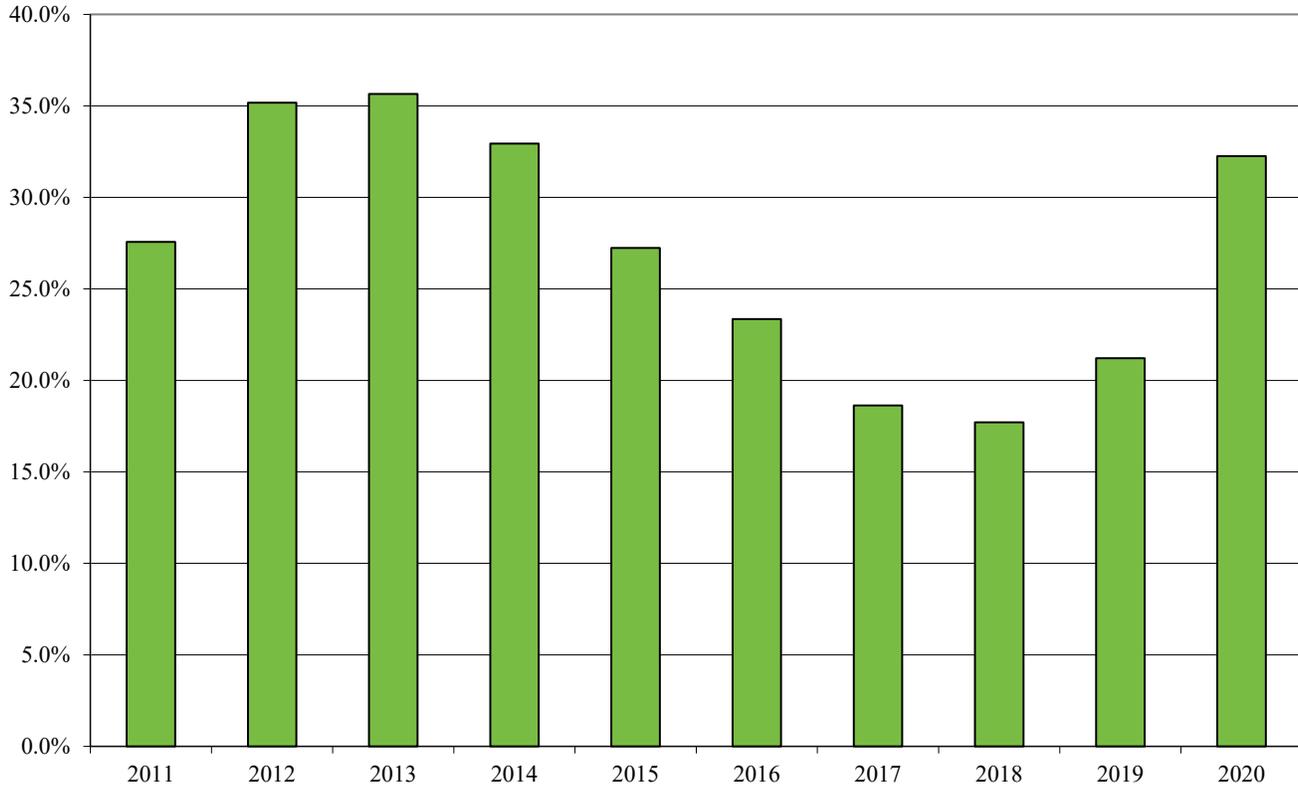
General Fund revenues have increased 11.3%, while expenditures have decreased 0.9% since 2016. Total fund balance increased to a balance of \$3,246,818 in 2020, compared to a balance of \$2,372,347 in 2016. From 2019 to 2020, fund balance increased \$1,057,618, which includes a change in accounting principle in 2020 to add scholarship activity to the General Fund with the implementation of GASB 84.

## Independent School District No. 2396 Financial Analysis

### General Fund Operations (Continued)

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

**Fund Balance as a Percent of Expenditures**

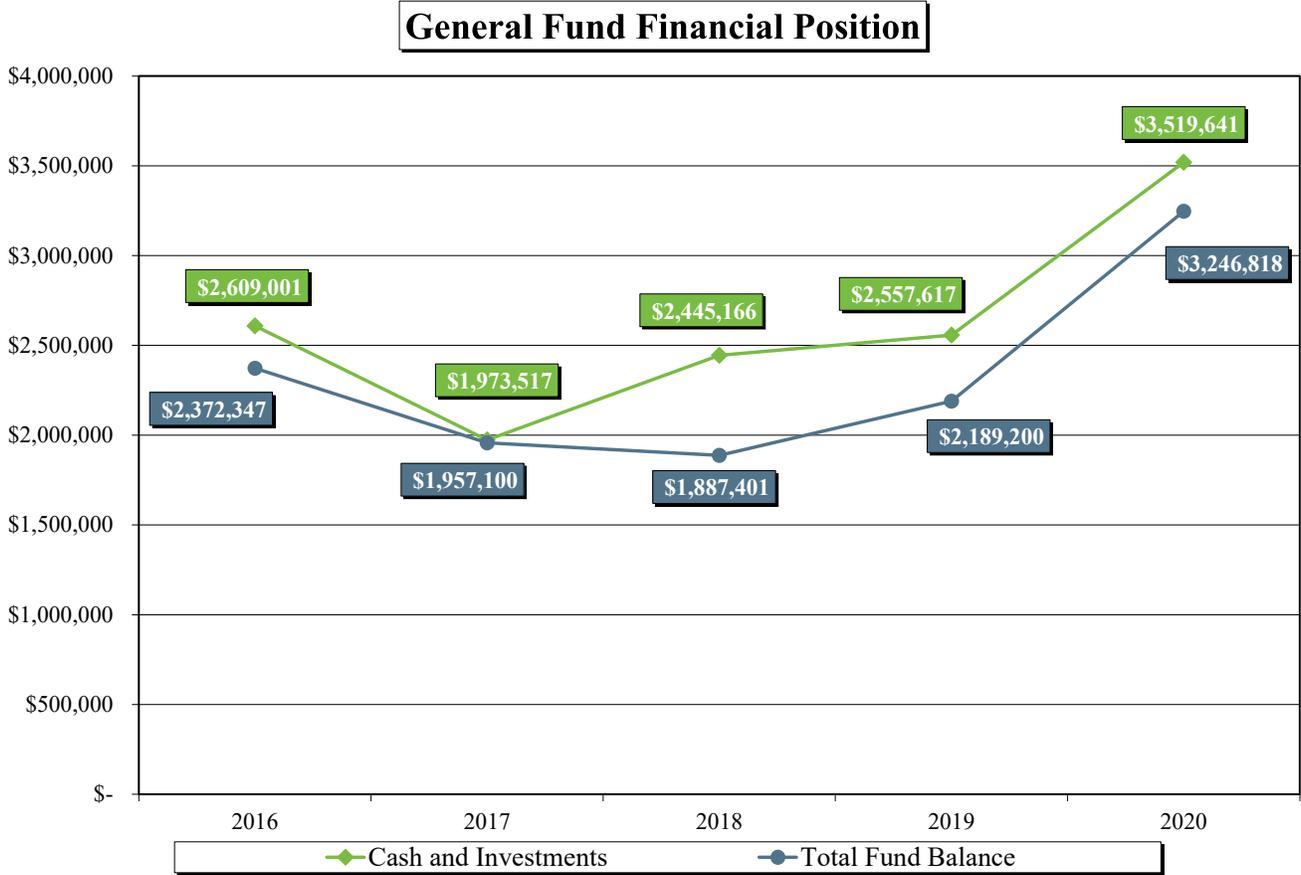


The above graph details the total fund balance as a percentage of expenditures. Based on 2020 expenditures, the District's General Fund balance would be sufficient to cover approximately four months of expenditures. The District's overall General Fund balance as a percentage of total expenditures increased from 21.2% in 2019 to 32.3% in 2020, while the unassigned fund balance as a percentage of total expenditures increased from 15.6% in 2019 to 23.1% in 2020. The District's fund balance policy states they will strive to maintain a minimum General Fund balance of 20% of the annual budget.

The chart on the following page illustrates the change in the District's financial position over the last five years.

**Independent School District No. 2396  
Financial Analysis**

**General Fund Operations (Continued)**

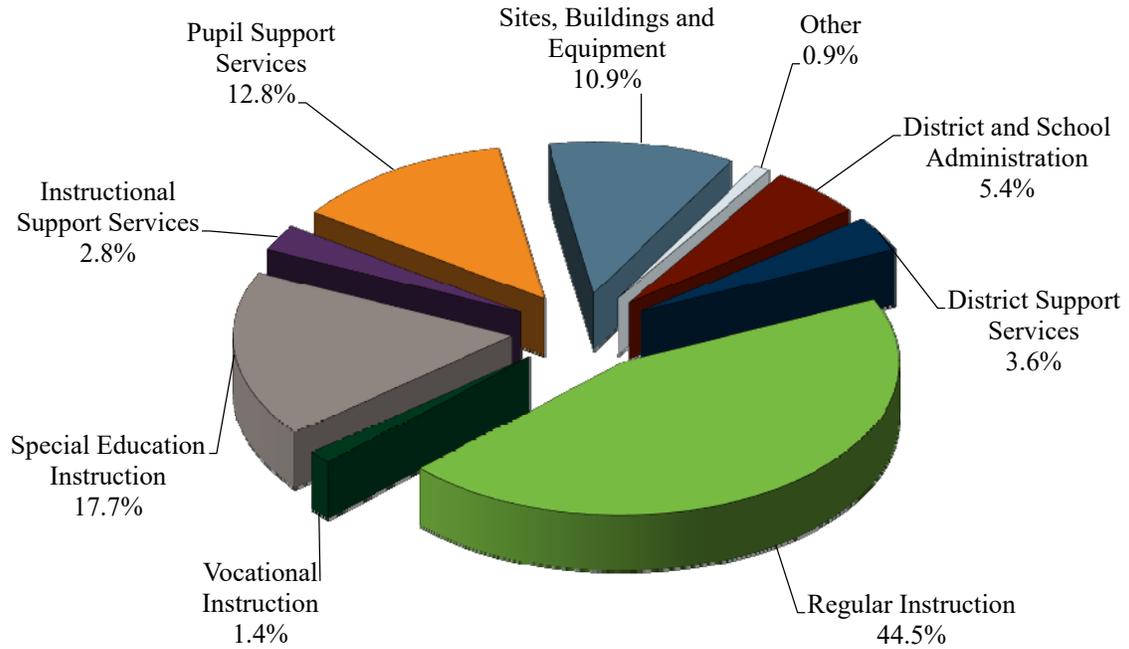


For the five years presented, fund balance has increased by \$874,471 from 2016 to 2020. Cash has increased in that same time period by \$910,640.

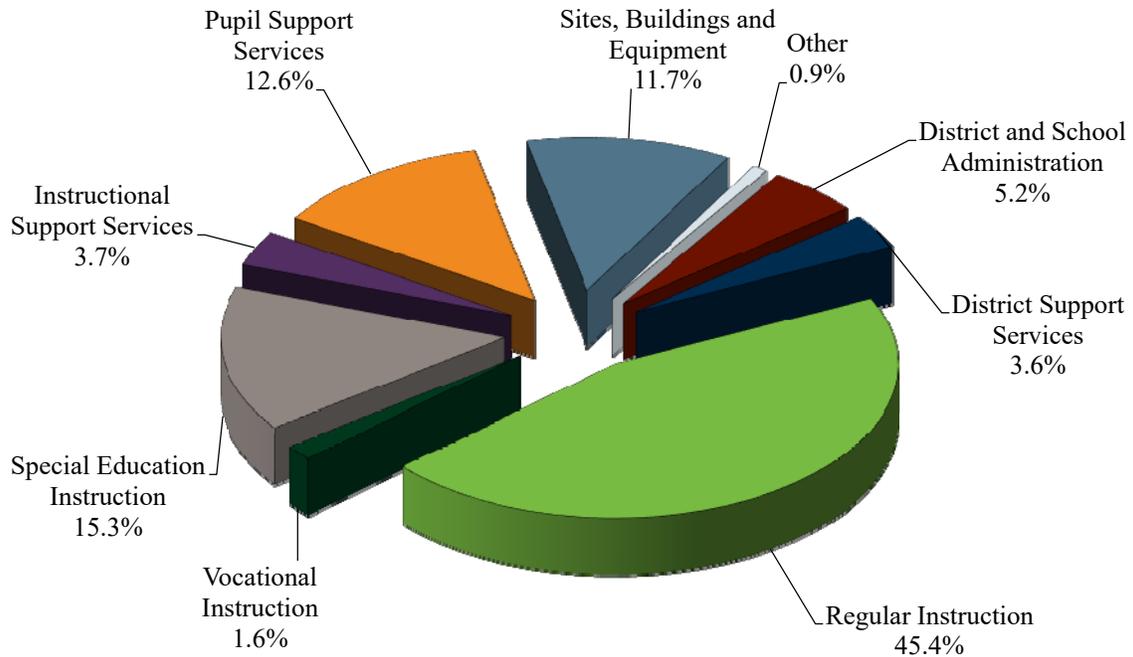
**Independent School District No. 2396  
Financial Analysis**

**General Fund Operations (Continued)**

**2020 District Expenditures**



**2019 District Expenditures**



**Independent School District No. 2396  
Financial Analysis**

**Food Service Fund**

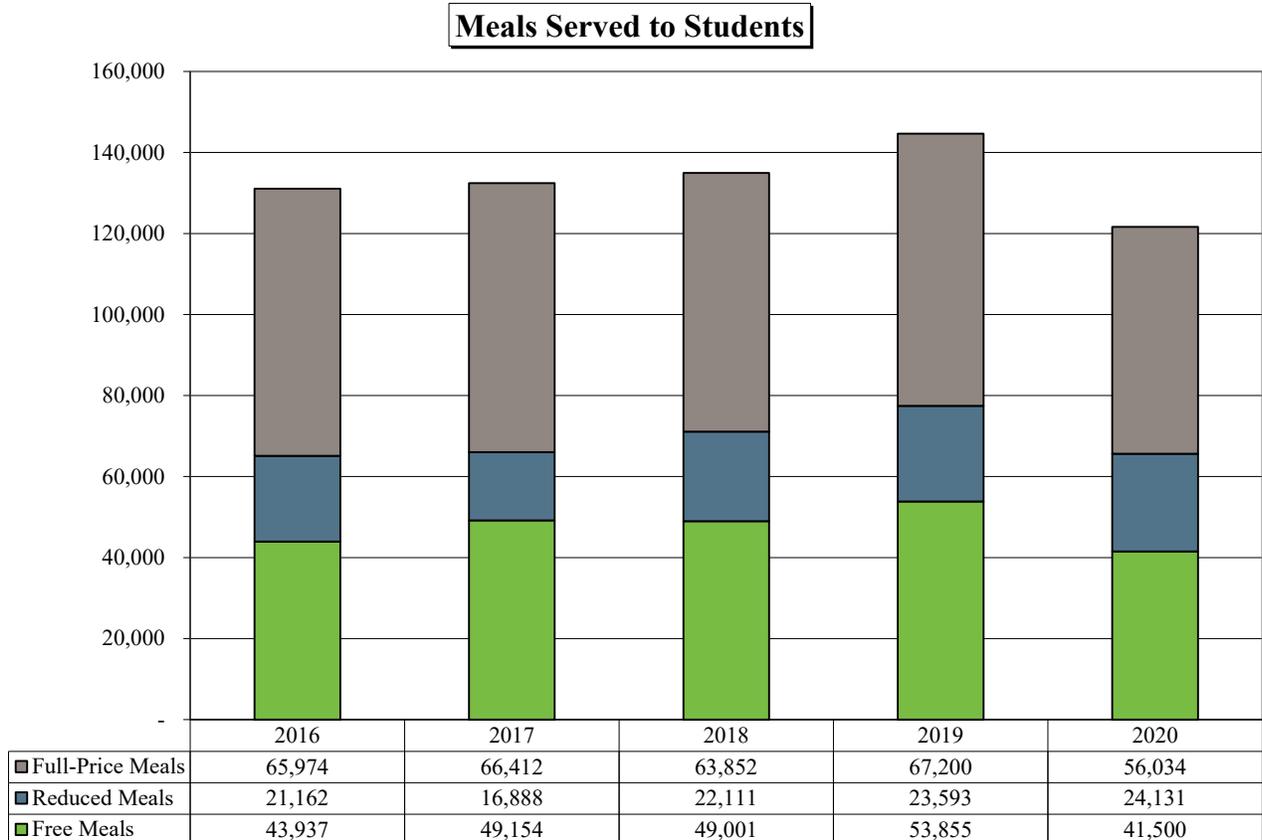
The following table presents comparative operating results for the District's Food Service Fund:

For the Year Ended June 30,	2016	2017	2018	2019	2020
Revenues	\$ 418,697	\$ 438,339	\$ 447,261	\$ 508,907	\$ 572,479
Expenditures	420,410	437,376	434,442	451,405	495,833
Excess of revenues over (under) expenditures	(1,713)	963	12,819	57,502	76,646
Fund balance, July 1	43,029	41,316	42,279	55,098	112,600
<b>Fund Balance, June 30</b>	<b>\$ 41,316</b>	<b>\$ 42,279</b>	<b>\$ 55,098</b>	<b>\$ 112,600</b>	<b>\$ 189,246</b>

Food Service Fund revenues have exceeded expenditures in four of the last five years. In 2020, Food Service Fund revenues exceeded expenditures by \$76,646. This increased the total fund balance to \$189,246. Revenues increased \$63,572 while expenditures increased \$44,428, due to increased participation rates as a result of an increase in PUN and the District beginning to serve meals at the Cosmos Learning Center in 2019.

We recommend the District continue to monitor the Food Service Fund to maintain a positive fund balance.

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



**Independent School District No. 2396  
Financial Analysis**

**Community Service Fund**

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

For the Year Ended June 30,	2016	2017	2018	2019	2020
Revenues	\$ 475,954	\$ 472,093	\$ 462,075	\$ 509,194	\$ 561,248
Expenditures	372,615	477,991	458,805	484,315	527,748
Excess of revenues over (under) expenditures	103,339	(5,898)	3,270	24,879	33,500
Fund balance, July 1	50,951	154,290	148,392	151,662	176,541
<b>Fund Balance, June 30</b>	<b>\$ 154,290</b>	<b>\$ 148,392</b>	<b>\$ 151,662</b>	<b>\$ 176,541</b>	<b>\$ 210,041</b>

Fund Balance Components:	2016	2017	2018	2019	2020
Restricted for Early Childhood and Family Education	\$ 50,844	\$ 46,890	\$ 42,699	\$ 24,153	\$ 25,987
Restricted for Community Education	100,814	111,685	105,400	135,306	118,790
Restricted for School Readiness	(16,440)	(10,183)	-	11,323	10,464
Restricted for Community Service	19,072	-	3,563	5,759	54,800
<b>Total Fund Balance</b>	<b>\$ 154,290</b>	<b>\$ 148,392</b>	<b>\$ 151,662</b>	<b>\$ 176,541</b>	<b>\$ 210,041</b>

Community Service Fund revenues exceeded expenditures in four of the last five years. In 2020, revenues increased \$52,054 while expenditures increased \$43,433. Revenues increased primarily as a result of an increase of approximately \$31,000 in the amount of property taxes levied for the Community Service Fund and an allocation of Title I funds to the Community Service Fund in 2020 to fund a pre-kindergarten teacher, offset by a decrease in programming revenue as a result of the Covid-19 pandemic. Expenditures increased as a result of there being an additional employee, a pre-kindergarten teacher, in 2020. As a result of revenues exceeding expenditures, total fund balance increased \$33,500 from 2019 to 2020 to \$210,041, which is the highest fund balance in the five years presented.

We recommend the District continue to monitor the Community Service Fund to ensure revenues cover expenditures each year.

## **Independent School District No. 2396 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 2020 General Education Aid was increased \$126 (2%) to \$6,438. For 2021, the formula allowance is set at \$6,567, which is an increase of \$129, or 2%.

### **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.

### **Compensatory Revenue**

A percentage of the total compensatory revenue must be used for extended time activities. This percentage was 5.5% for 2020. For 2021 and later, this restriction was eliminated.

### **Special Education**

Beginning for 2020, cross subsidy reduction aid was established as a new component of the special education aid formula. Cross subsidy reduction aid is a percentage of each district's initial cross subsidy for the prior fiscal year – 2.6% for 2020 and 6.43% for 2021 and later. The tuition rate paid by the resident school district for open enrolled special education students served by another district or charter school was reduced from 90% to 85% of unfunded costs for 2020 and will be reduced to 80% for 2021 and later.

For 2020, the special education aid cap was increased to the greater of the current cap or the sum of 56% of current year special education program costs plus 100% of current year special education transportation cost plus the tuition adjustment. For 2021 and later, the cap is eliminated.

Beginning in 2021, the pupil-driven portion of the initial special education aid formula will reflect 2018 data.

The special education hold harmless guarantee was limited to the sum of 90% in 2020, and will be limited to 85% in 2021, 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%.

### **Formula Adjustments in Response to COVID-19**

Special education 2020 expenditures for employees and contracted services that would have been eligible for state aid in the absence of school closures due to COVID-19 must be included as eligible expenditures for the calculation of special education aid and for tuition billing, regardless of whether special education services were actually provided during the closure. State aid savings due to lower meal counts for regular school food service programs are reallocated on a per meal served basis to school providing summer food service meals between March 16, 2020 and June 30, 2020.

## **Independent School District No. 2396 Legislative Summary**

### **Formula Adjustments in Response to COVID-19 (Continued)**

MDE is authorized to adjust reimbursement rate for career and technical expenditures to ensure the full expected amount of funding is distributed to schools. Expenditures for individuals who were essential personnel prior to March 13, 2020, and would have been eligible to generate revenue in the absence of school closures due to COVID-19 may be included as eligible expenditures for the calculation of revenue, regardless of whether services were actually provided during the closure.

MDE may adjust 2020 transportation expenditures used to determine future aid to ensure the full amount of transportation aid, and interdistrict desegregation or integration transportation aid is equitable amount districts.

MDE may recalculate the contact hour reimbursement rate for 2021 or otherwise adjust the formula to fully spend the estimated adult basic education aid.

Tests administered during the 2019-2020 school year are excluded from the three-year averages used in computing literacy incentive aid for fiscal years 2021, 2022, and 2023, and allows the commissions to adjust formula rates for these years to ensure total aid does not fall below the amount estimated in the February 2020 forecast.

School age care revenue for fiscal years 2020 and 2021 only, received for spending on or after March 18, 2020, continues at its approved amounts. Program funds may be reallocated consistent with the process and limitations of the fund transfer provisions in the education bill.

After-school enrichment revenue for fiscal years 2020 and 2021 only, received for spending on or after March 18, 2020, may be reallocated consistent with the process and limitations of the fund transfer provisions in the education bill.

Early childhood screening aid for fiscal years 2020 and 2021 will be calculated using the formula amounts set in statute for each age group and the 2018-2019 school year counts of children screened for each age group.

School districts may carry over any unspent achievement and integration funds from its approved budget for fiscal year 2020 into 2021. If spent for approved purposes in fiscal year 2021, the district would generate additional 2021 revenue over and above the regular formula limitations.

### **Operating Referendum and Local Option Revenue (LOR) Simplification**

For fiscal year 2021, the annual recalculation of referendum allowances approved before 2014 based on the amount of LOR a district opts to receive is eliminated. \$300 per pupil unit of referendum revenue is transferred to LOR and the board approved referendum is eliminated. To ensure there is no change in revenue, aid, or levy for any district, a two-tiered levy for LOR is created; Tier 1 of LOR replaces Tier 1 of the referendum. The referendum cap is reduced by \$300 to neutralize the impact of the \$300 transfer to LOR.

## **Independent School District No. 2396 Legislative Summary**

### **Fund Transfers**

Emergency Executive Order allows a school district, charter school, or cooperative unit to make operating fund and account transfers for fiscal years 2020 and 2021 for certain costs related to care, transportation, technology, and for certain community service and food service salaries and benefits. Amounts transferred must not be already assigned or encumbered by staff salary and benefits, or otherwise encumbered by federal law. Fund or account transfers must be neutral for the district and not affect aid or levy revenues. Board approval is required, and transfers must be made prior to the UFARS reporting deadline for the fiscal year.

### **Debt Service Relief**

For fiscal year 2021, districts unable to make required debt service payments because of an anticipated delay in property tax receipts may apply for modified cash flow payments under Minnesota Statutes, section 127A.45. The Commissioner of Education may adjust the timing of IDEAS state aid payments.

### **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.

Effective for 2021, the equalizing factor for tier 2 of the operating referendum was increased from \$510,000 to \$567,000. For 2021, property tax relief totals \$9.4 million.

### **Safe Schools Supplemental Aid**

Funding is contingent based on the 2019 closing balance and will be up to \$30 million. The aid was allocated among districts and charter schools based on total adjusted ADMs for 2018. The one-time aid was paid out on the October 30, 2019 IDEAS payment. Aid must be used for the same purposes as the safe schools levy.

### **Voluntary Prekindergarten (VPK)/School Readiness Plus**

For 2020 and 2021 only, the 4,000 seats currently expiring after 2019 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

**Independent School District No. 2396**  
**Legislative Summary**

**Pension Bill (Continued)**

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. 2396 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 updates include:

- **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 these issues 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 financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' 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. 2396**  
**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 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 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](http://www.gasb.org).