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

Communications Letter

June 30, 2022

Independent School District No. 2396
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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. 2396
Atwater/Cosmos/Grove City, 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. 2396, Atwater/Cosmos/Grove City, Minnesota, as of and for the year ended June 30, 2022, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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.

During our audit, we also became aware of deficiencies in internal control other than significant deficiencies or material weaknesses, and other matters that are opportunities for strengthening internal controls and operating efficiency. They are described in the accompanying letter under Other Deficiency.

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 29, 2022, on such statements.

This communication, which is an integral part of our audit, 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 29, 2022

Independent School District No. 2396
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.

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.

As a result of this condition, material audit adjustments were required to adjust property taxes and long-term debt.

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.

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

Independent School District No. 2396
Other Deficiency

Ensure Bank Reconciliations are Prepared Accurately and Timely

During the year ended June 30, 2022, instances were noted where the monthly bank reconciliations were not completed accurately or timely.

We recommend the District ensure cash is reconciled accurately and timely every month.

Independent School District No. 2396
Required Communication

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2022. 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 basic financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the basic financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the basic financial statements are free of material misstatement. An audit of the basic financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgement, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic 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 basic financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the basic financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Our Responsibility in Relation to *Government Auditing Standards*

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

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

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

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

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

Significant Risks Identified

We have identified the following significant risks of material misstatement:

- Improper Revenue Recognition – Revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impacts on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.
- Risk of Misappropriation of Assets – If duties cannot be appropriately segregated within the accounting department there is a risk of unauthorized disbursements being made from the District. This is tested through review of bank reconciliations.
- Management Override of Controls – Overall Financial Statements – Management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results. This is tested through the review of journal entries.

Independent School District No. 2396
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 2022. 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 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 basic financial statements taken as a whole and in relation to the applicable opinion units.

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

Independent School District No. 2396
Required Communication

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

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

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

- State revenue and receivables are understated

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 misstatement that we identified as a result of our audit procedures were brought to the attention of and corrected by management.

- Property tax revenues and related balances
- Interest payable related to long-term debt

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.

Other Significant Matters, Findings, or Issues

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

Other Information Included in Annual Reports

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

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

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

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

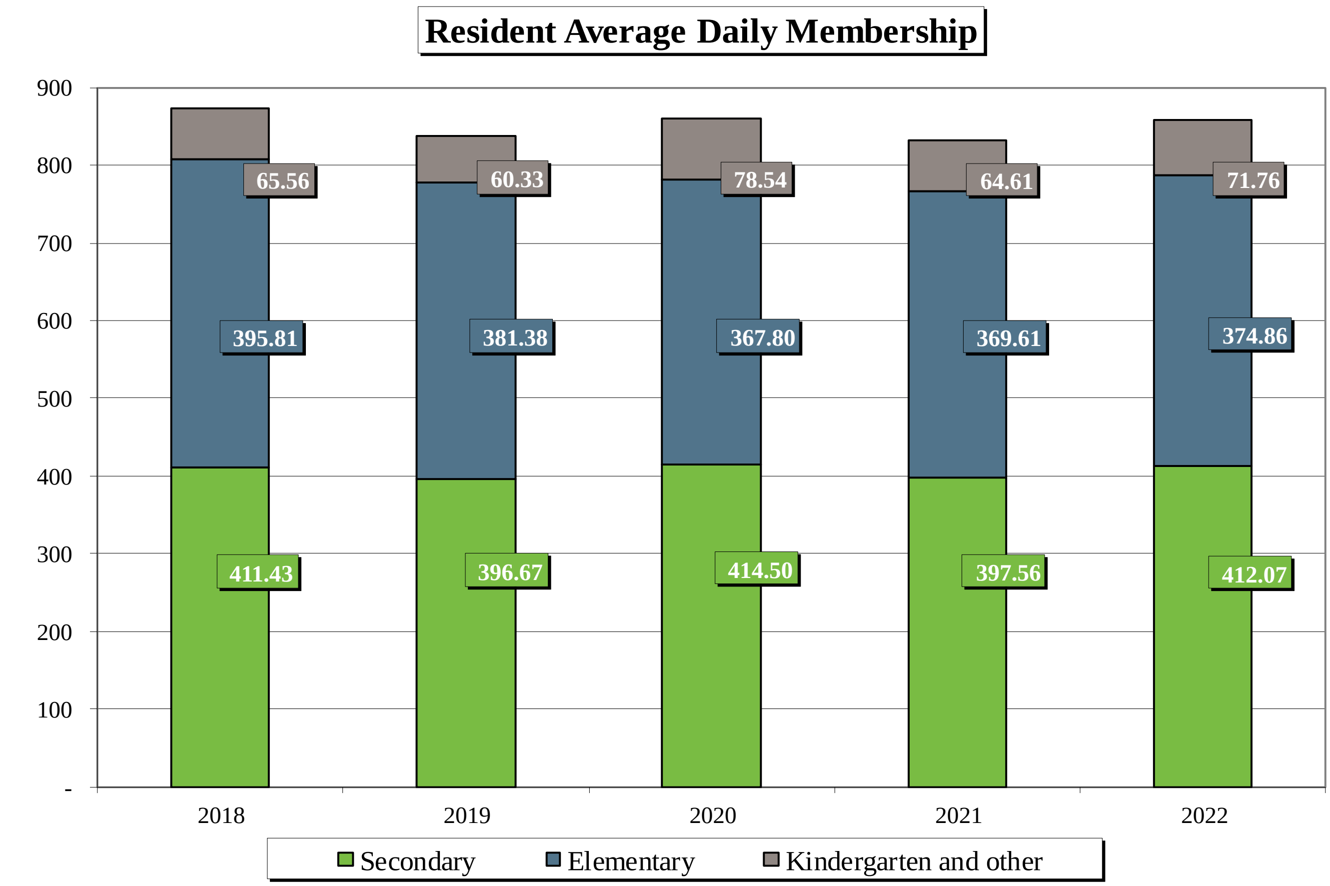
The largest single funding source for Minnesota school districts is basic General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district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

	General Education Aid Formula Allowance	
Year	Amount	Percent Increase
2013	$ 5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%
2022	6,728	2.5%
2023	6,863	2.0%

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

Average Daily Membership and Pupil Units (Continued)
The chart below summarizes resident ADM of the District over the past five years ended June 30:

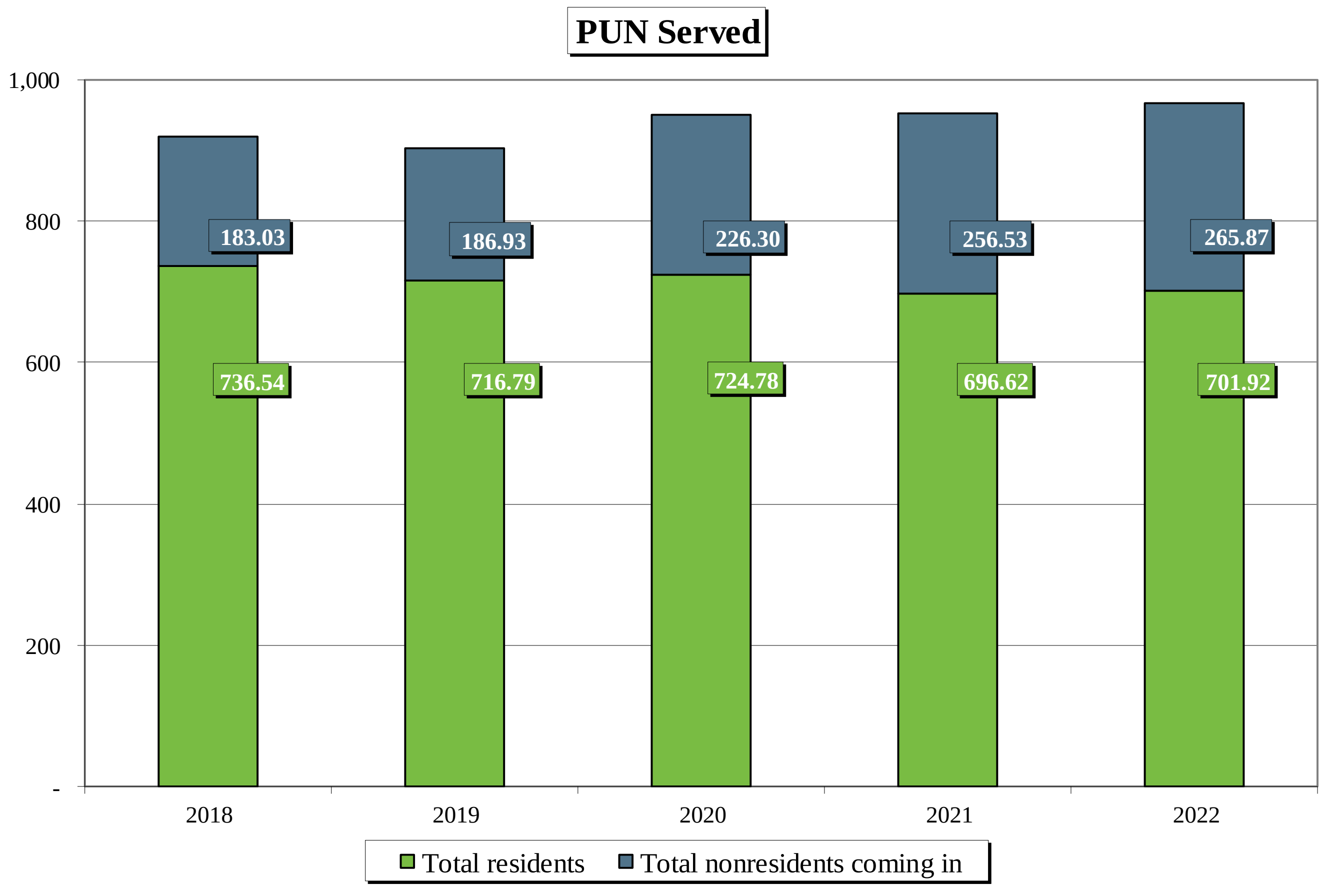
ADM	2018	2019	2020	2021	2022
Kindergarten and other	65.56	60.33	78.54	64.61	71.76
Elementary	395.81	381.38	367.80	369.61	374.86
Secondary	411.43	396.67	414.50	397.56	412.07
Total Resident ADM	**872.80**	**838.38**	**860.84**	**831.78**	**858.69**
ADM Served	**841.49**	**827.83**	**870.12**	**861.49**	**880.54**



The graph above illustrates that over the last five years, the District has experienced a decrease in resident ADM of 14.11 and an increase in ADM served of 39.05 since 2018. The change in resident ADM for 2022 compared to 2021 totaled an increase of 26.91. The change in ADM served for 2022 compared to 2021 totaled an increase of 19.05. 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.

Average Daily Membership and Pupil Units (Continued)

PUN	2018	2019	2020	2021	2022
Residents	955.08	917.73	943.74	911.30	941.11
Resident PUN going elsewhere	(218.54)	(200.94)	(218.96)	(214.68)	(239.19)
Total residents	736.54	716.79	724.78	696.62	701.92
Total nonresidents coming in	183.03	186.93	226.30	256.53	265.87
Total PUN Served	**919.57**	**903.72**	**951.08**	**953.15**	**967.79**



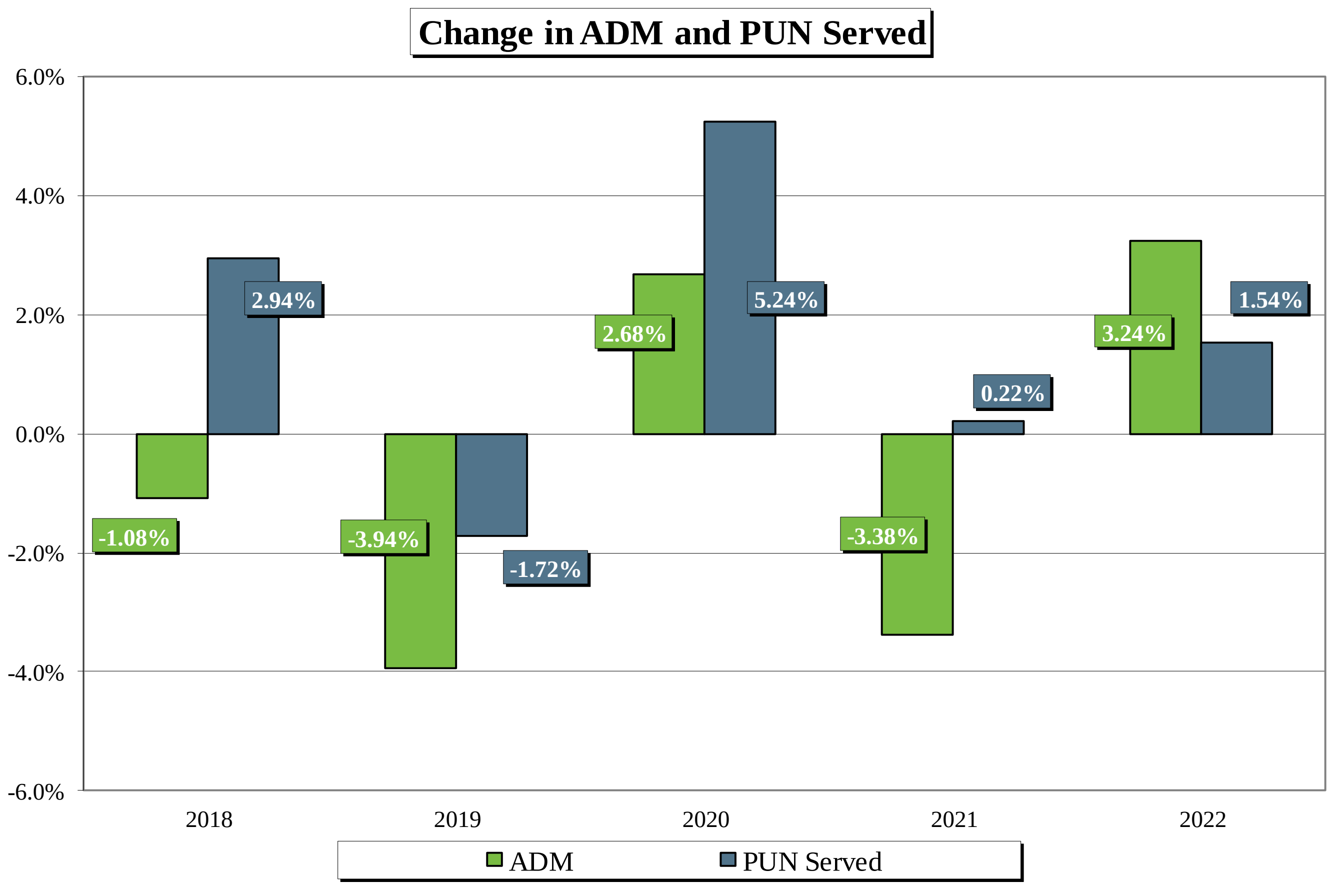
When reviewing this information, the reader should consider the pupil weighting. Pupil units are computed by weighting ADM using the factors in the table on the following page.

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 2021 to 2022 was an increase of 14.64. Resident students increased in 2022, increasing 29.81 from 2021. The net loss from open enrollment has decreased from 35.51 PUN in 2018 to a gain of 26.68 PUN in 2022, the third 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.

Average Daily Membership and Pupil Units (Continued)

Pupil Units Weighting

	Prekindergarten and Handicapped Kindergarten	Half Kindergarten and Full Kindergarten	Elementary	Secondary
Fiscal years 2018-2022	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 2022, each district received $6,728 in General Education Aid for each PUN served.

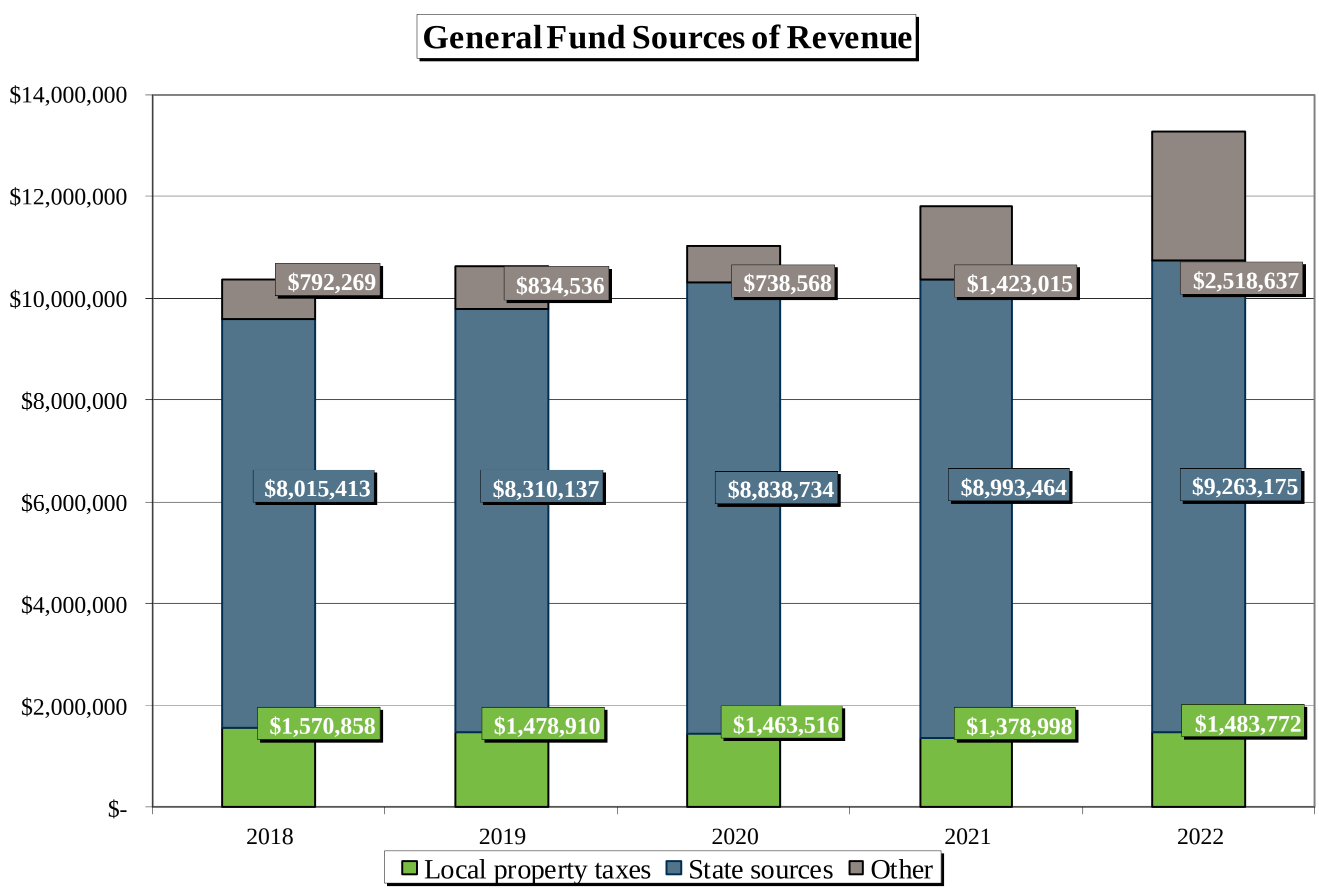
Independent School District No. 2396
Financial Analysis

General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

	2018	2019	2020	2021	2022
Local property taxes	$ 1,570,858	$ 1,478,910	$ 1,463,516	$ 1,378,998	$ 1,483,772
State sources	8,015,413	8,310,137	8,838,734	8,993,464	9,263,175
Other	792,269	834,536	738,568	1,423,015	2,518,637
Total	**$ 10,378,540**	**$ 10,623,583**	**$ 11,040,818**	**$ 11,795,477**	**$ 13,265,584**

State sources represent 69.8% of the General Fund's total revenue, with local taxpayers contributing 11.2% of the funding and federal and other sources making up the remaining 19.0%. Overall, revenue increased $1,470,107 or 12.5% from 2021. Local property taxes increased $104,774 from the prior year, which is consistent with the increase in the general fund levy. State revenue sources increased $269,711, or 3.0%. This increase is attributed to an increase of 2.5% in the general education aid formula allowance and the increase in students. Other revenue sources, which include local, county, and federal revenues, increased $1,095,622 from 2021. This is primarily a result of an increase revenue from federal sources as a result of additional funding provided related to the COVID-19 pandemic.



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*		
	2019	2020	2021	2019	2020	2021
General Fund						
Property taxes	$ 1,996	$ 2,180	$ 2,381	$ 1,059	$ 1,111	$ 1,206
Other local sources	547	528	432	626	706	571
State aid	10,118	10,393	10,758	10,439	10,867	11,131
Federal aid	486	527	1,041	488	622	1,324
Total General Fund	$ 13,147	$ 13,628	$ 14,612	$ 12,612	$ 13,306	$ 14,232

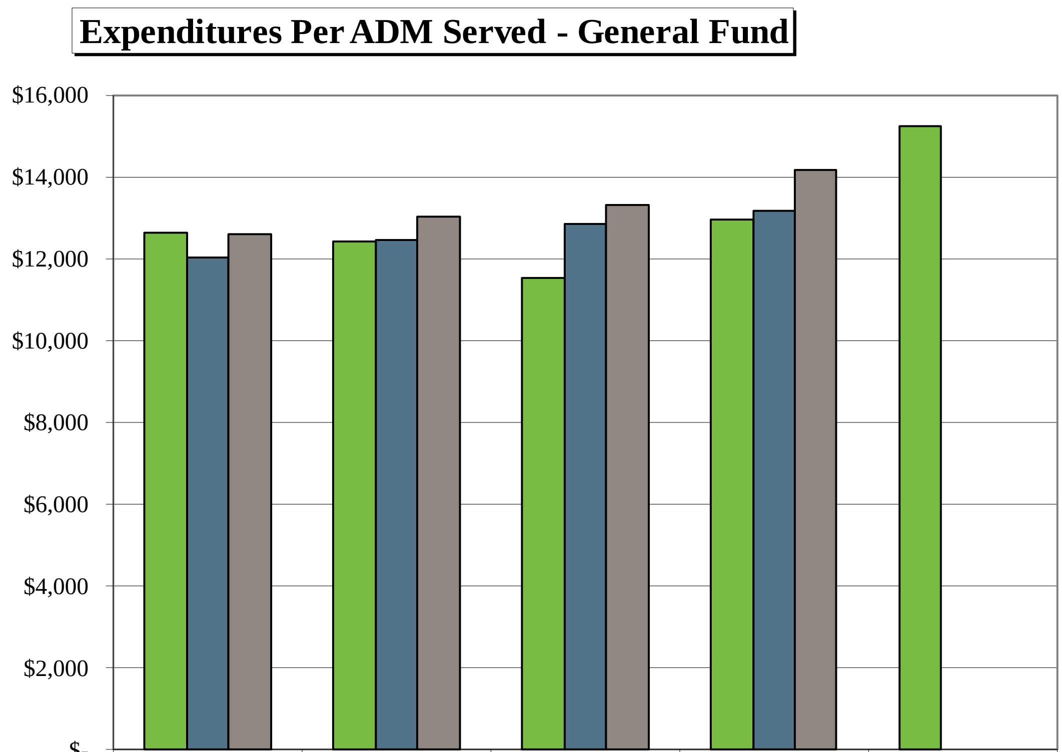
	Atwater-Cosmos-Grove City			
	2019	2020	2021	2022
General Fund				
Property taxes	$ 1,727	$ 1,608	$ 1,522	$ 1,685
Other local sources	674	645	429	585
State aid	9,994	10,117	10,301	10,520
Federal aid	394	278	1,258	2,275
Total General Fund	$ 12,789	$ 12,648	$ 13,510	$ 15,065

* Source: State-wide average and districts serving 625-874 ADM amounts for 2019-2021 were taken from the Minnesota Department of Education (MDE) publication, *School District Profiles*. Data for 2022 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, special education needs, types of programs offered, and countless other criteria.

Expenditures Per Student

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



	2018	2019	2020	2021	2022
Atwater-Cosmos-Grove City	$12,642	$12,426	$11,505	$12,959	$15,240
Districts Serving 625-874 ADM*	12,007	12,465	12,839	13,153	-
All School Districts*	12,596	13,025	13,313	14,167	-

* Source of all school districts and districts serving 625-874 ADM: *School District Profiles* Report published by the MDE. Data for 2022 was not yet available.

Expenditures per student increased $2,281 from 2021 to 2022 as a result of PUN increasing at a lower percentage than expenditures in 2022. Expenditures per student have increased from 2018 to 2022 by $2,598, or 20.6%. This is due to expenditures increasing by approximately 25.9%, while PUN served increased 4.6%.

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 Budget to Actual

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 1,452,615	$ 1,470,508	$ 1,483,772	$ 13,264
Other local and county revenues	375,942	403,766	512,648	108,882
Revenue from state sources	8,772,906	9,155,550	9,263,175	107,625
Revenue from federal sources	262,402	2,239,958	2,003,457	(236,501)
Sales and other conversion of assets	1,000	2,700	2,532	(168)
Total revenues	10,864,865	13,272,482	13,265,584	(6,898)
Expenditures				
Administration	607,500	617,497	645,703	28,206
District support services	318,048	452,985	461,268	8,283
Elementary and secondary regular instruction	5,007,010	6,053,835	5,930,506	(123,329)
Vocational education instruction	182,393	190,645	143,519	(47,126)
Special education instruction	2,406,838	2,507,527	2,229,908	(277,619)
Instructional support services	315,764	480,448	825,061	344,613
Pupil support services	1,080,938	1,337,132	1,520,558	183,426
Sites and buildings	1,218,674	1,942,863	1,530,161	(412,702)
Fiscal and other fixed cost programs	126,447	115,947	125,997	10,050
Debt service	6,700	6,701	6,701	-
Total expenditures	11,270,312	13,705,580	13,419,382	(286,198)
Net change in fund balances	$ (405,447)	$ (433,098)	$ (153,798)	$ 279,300

Overall, revenues were under budget by about $6,898, or 0.1%. Revenue from federal sources accounted for about $236,500 of this variance coming in under budget. This was the result of budgeting for the full allocation of COVID-19 grants when the District ended up carrying some over to 2023. This was offset by other local and county revenues being over budget due to conservatively budgeting for donations and activity revenue. Revenue from state sources were over budget by about $107,600. This was due to budgeting conservatively for student numbers.

Expenditures were under budget by approximately $286,000, or 2.1%. The largest variance came in the sites and buildings expenditures, by about $413,000. This was due to budgeting for projects that were expended elsewhere. Special education expenditures were under budget by about $278,000 due to overestimating staffing needs. This was offset instructional support services expenditures being over budget due to underestimating the increase in staff needed. Pupil support services were over budget by approximately $183,000 due to underestimated transportation services as the District did not anticipate an increase in services provided.

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.

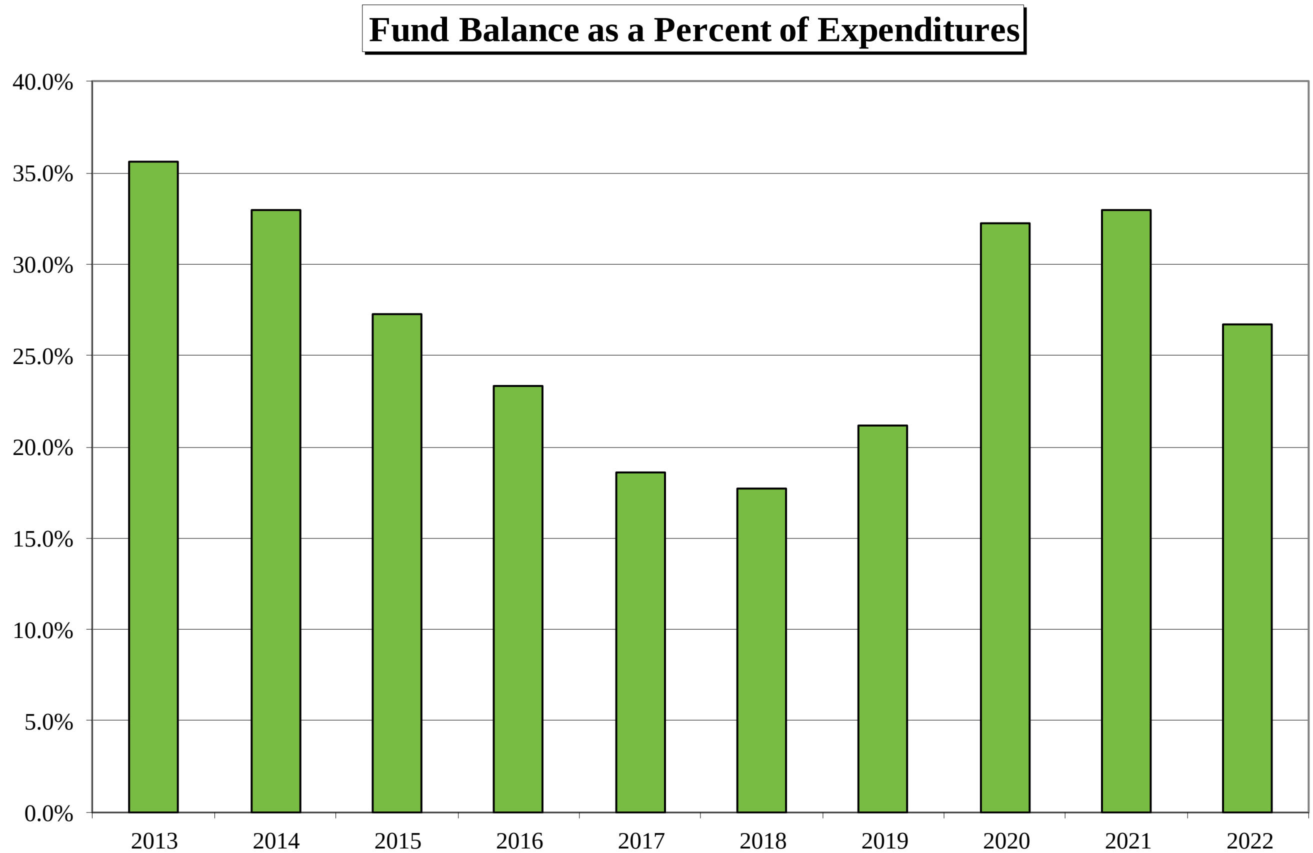
For the Year Ended June 30,	2018	2019	2020	2021	2022
Revenues	$ 10,378,540	$ 10,623,583	$ 11,040,818	$ 11,795,477	$ 13,265,584
Expenditures	10,659,297	10,322,818	10,065,188	11,314,094	13,419,382
Excess of revenues over (under) expenditures	(280,757)	300,765	975,630	481,383	(153,798)
Other financing sources	211,058	1,034	30,452	5,497	
Fund balance, July 1	1,957,100	1,887,401	2,189,200	3,246,818	3,733,698
Change in accounting principle	-	-	51,536	-	-
Fund Balance, June 30	**$ 1,887,401**	**$ 2,189,200**	**$ 3,246,818**	**$ 3,733,698**	**$ 3,579,900**

Components of Fund Balance	2018	2019	2020	2021	2022
Nonspendable	$ 48,751	$ 71,435	$ 31,118	$ 27,811	$ 38,822
Restricted for					
Student activities	-	-	155,933	131,261	169,275
Scholarships	-	-	55,199	54,858	32,334
Staff development	68,983	113,780	164,318	245,609	-
Achievement and integration	3,272	7,971	32,688	77,271	-
Basic skills programs	154,144	-	-	108,448	-
Basic skills extended time	7,826	9,749	4,811	4,811	-
Operating capital	56,208	122,784	281,760	347,914	374,543
Health and safety	127,671	-	-	-	-
Gifted and talented	27,142	33,204	40,290	47,041	-
Learning and development	124,959	-	-	-	-
Teacher development and evaluation	20,249	20,249	20,249	-	-
Safe schools levy	39,798	29,198	18,981	20,630	-
LTFM	(144,496)	(63,199)	89,856	259,077	301,717
Medical assistance	-	-	11,151	44,577	104,582
Committed for retirement benefits	191,498	83,817	15,243	-	-
Assigned for student activities	134,968	147,865	-	-	-
Unassigned fund balance	1,026,428	1,612,347	2,325,221	2,364,390	2,558,627
Total Fund Balance	**$ 1,887,401**	**$ 2,189,200**	**$ 3,246,818**	**$ 3,733,698**	**$ 3,579,900**

General Fund revenues have increased 27.8%, while expenditures have increased 25.9% since 2018. Total fund balance increased to a balance of $3,579,900 in 2022, compared to a balance of $1,887,401 in 2018. From 2021 to 2022, fund balance decreased $153,798.

General Fund Operations (Continued)

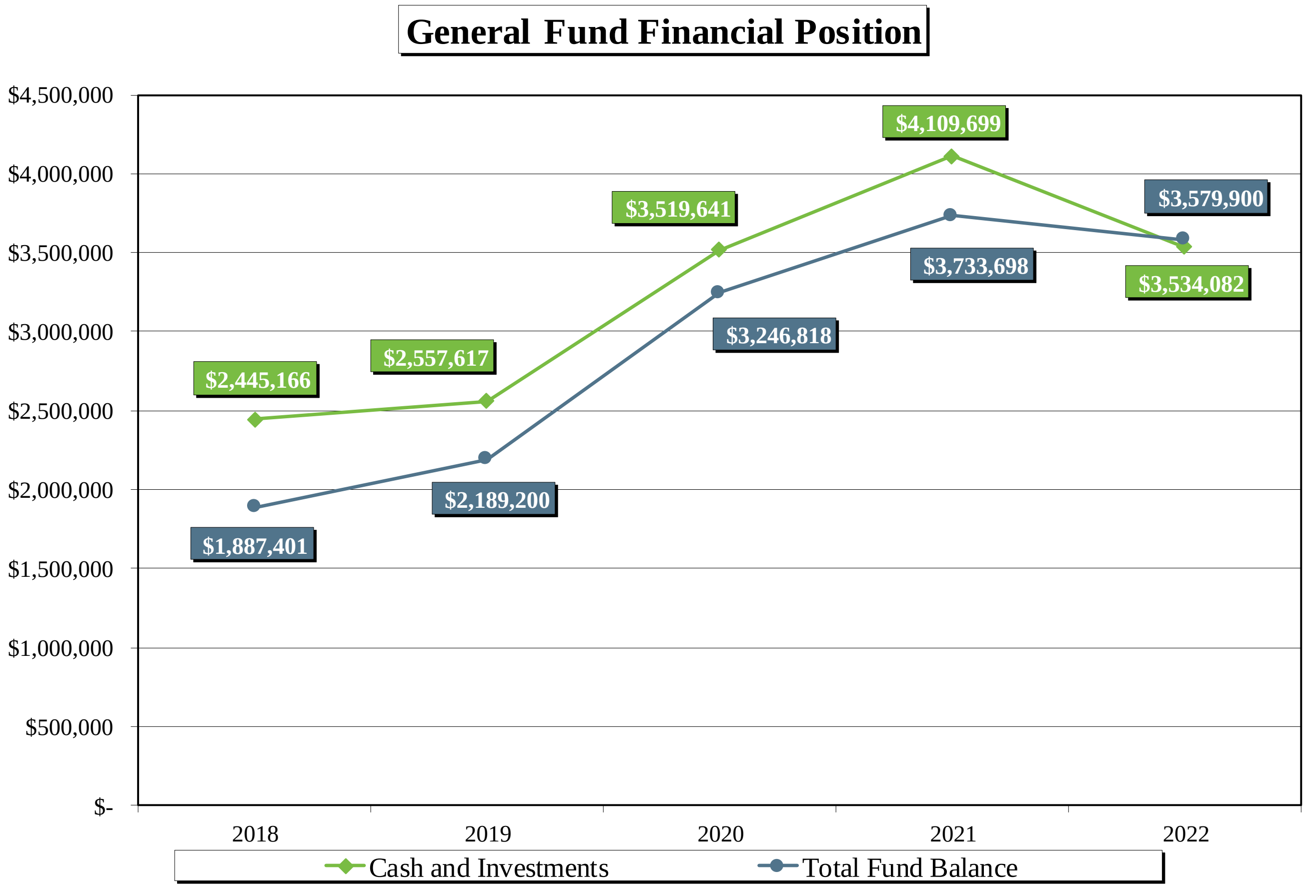
One of the most common and comparable statistics used to evaluate school district financial health is the operating fund balance as a percentage of operating expenditures.



The above graph details the total fund balance as a percentage of expenditures. Based on 2022 expenditures, the District's General Fund balance would be sufficient to cover almost four months of expenditures. The District's overall General Fund balance as a percentage of total expenditures decreased from 33.00% in 2021 to 26.7% in 2022, while the unassigned fund balance as a percentage of total expenditures decreased from 20.9% in 2021 to 19.1% in 2022. 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.

General Fund Operations (Continued)

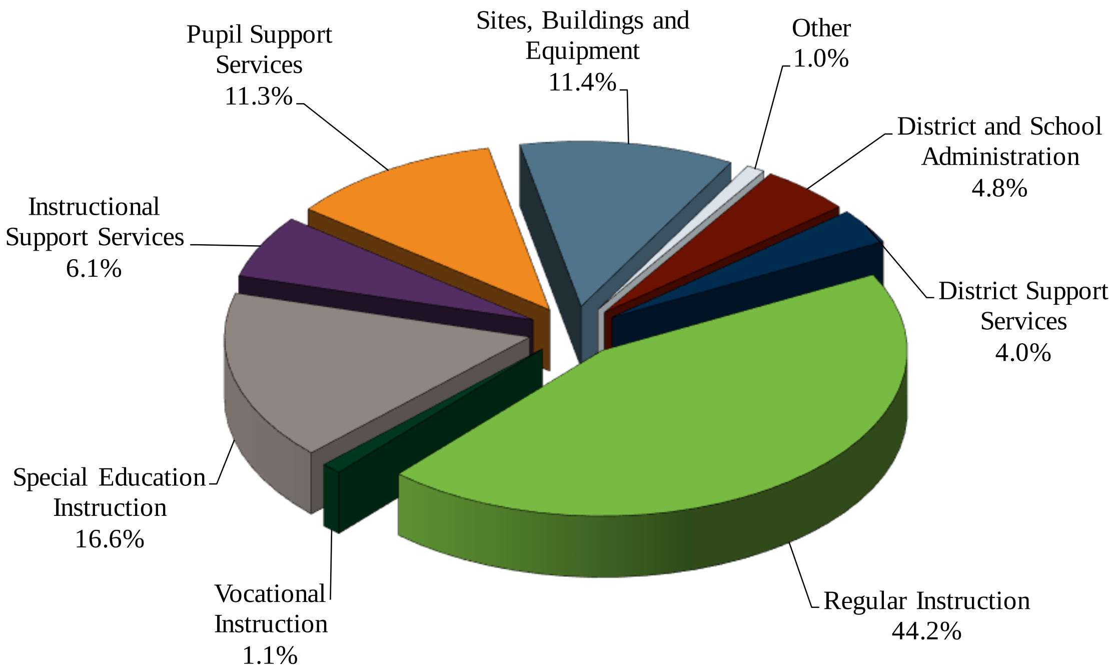


For the five years presented, fund balance has increased by $1,692,499 from 2018 to 2022. Cash has increased in that same time period by $1,088,916.

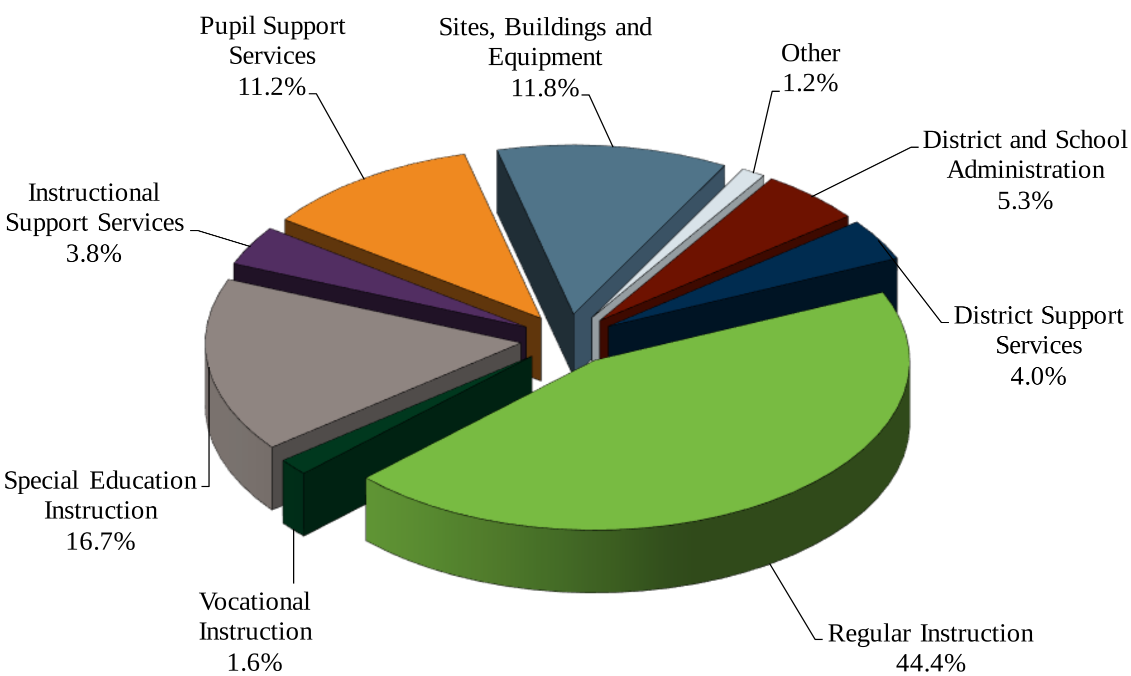
Independent School District No. 2396
Financial Analysis

General Fund Operations (Continued)

2022 District Expenditures



2021 District Expenditures



Food Service Fund

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

For the Year Ended June 30,	2018	2019	2020	2021	2022
Revenues	$ 447,261	$ 508,907	$ 572,479	$ 729,804	$ 748,726
Expenditures	434,442	451,405	495,833	497,251	625,491
Excess of revenues over expenditures	12,819	57,502	76,646	232,553	123,235
Fund balance, July 1	42,279	55,098	112,600	189,246	421,799
Fund Balance, June 30	**$ 55,098**	**$ 112,600**	**$ 189,246**	**$ 421,799**	**$ 545,034**

Food Service Fund revenues have exceeded expenditures in each of the last five years. In 2022, Food Service Fund revenues exceeded expenditures by $123,235. This increased the total fund balance to $545,034. Revenues increased $18,922 while expenditures increased $128,240, due to an increase in food costs as well as purchasing kitchen equipment.

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

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,	**2018**	**2019**	**2020**	**2021**	**2022**
Revenues	$ 462,075	$ 509,194	$ 561,248	$ 537,307	$ 563,030
Expenditures	458,805	484,315	527,748	452,164	543,733
Excess of revenues over expenditures	3,270	24,879	33,500	85,143	19,297
Fund balance, July 1	148,392	151,662	176,541	210,041	295,184
Fund Balance, June 30	**$ 151,662**	**$ 176,541**	**$ 210,041**	**$ 295,184**	**$ 314,481**

Fund Balance Components:	**2018**	**2019**	**2020**	**2021**	**2022**
Restricted for Early Childhood and Family Education	$ 42,699	$ 24,153	$ 25,987	$ 67,820	$ 82,432
Restricted for Community Education	105,400	135,306	118,790	80,786	100,633
Restricted for School Readiness	-	11,323	10,464	47,564	34,378
Restricted for Community Service	3,563	5,759	54,800	99,014	97,038
Total Fund Balance	**$ 151,662**	**$ 176,541**	**$ 210,041**	**$ 295,184**	**$ 314,481**

Community Service Fund revenues exceeded expenditures in all of the last five years. In 2022, revenues increased $25,723 while expenditures increased $91,569. Both revenues and expenditures increased due to increased programming offered as a result of less COVID-19 restrictions. As a result of revenues exceeding expenditures, total fund balance increased $19,297 from 2021 to 2022 to $314,481, 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 2022 is set at $6,728 and for 2023, the formula allowance is set at $6,863.

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

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

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

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

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

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

Voluntary Prekindergarten (VPK)/School Readiness Plus
For 2022 and 2023 only, the 4,000 seats currently expiring after 2021 will continue to be funded.

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

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

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

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

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. 96 – Subscription-Based Information Technology Arrangements**
  GASB has issued GASB Statement No. 96 relating to accounting and financial reporting for subscription-based information technology arrangements. The requirements of this Statement will improve financial reporting by establishing a definition for subscription-based information technology arrangements and providing uniform guidance for accounting and financial reporting for transactions that meet that definition.
- **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.

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*
This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended.

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements* (Continued)

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The subscription term includes the period during which a government has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend (if it is reasonably certain that the government or SBITA vendor will exercise that option) or to terminate (if it is reasonably certain that the government or SBITA vendor will not exercise that option).

Under this Statement, a government generally should recognize a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, – which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

In classifying certain outlays into the appropriate stage, the nature of the activity should be the determining factor. Training costs should be expensed as incurred, regardless of the stage in which they are incurred.

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements* (Continued)

If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

GASB Statement No. 96 is effective for reporting periods beginning after June 15, 2022. Earlier application is encouraged.

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

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

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

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

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

Accounting Standard Update – GASB Statement No. 100 – *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62* (Continued)
This Statement also requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.

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

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

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

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

Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences*
The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

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

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