

**Independent School District No. 317  
Deer River, Minnesota**

**Communication Letter**

**June 30, 2021**



**Independent School District No. 317**  
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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. 317  
Deer River, 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. 317, Deer River, Minnesota, as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified 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 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 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 November 22, 2021, on such statements.

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

A handwritten signature in black ink that reads "BergankDV, LTD." The signature is written in a cursive, slightly slanted style. It is contained within a thin black rectangular border.

St. Cloud, Minnesota  
November 22, 2021

## **Independent School District No. 317 Material Weaknesses**

### **Lack of Segregation of Accounting Duties**

The District had a lack of segregation of accounting duties in the cash disbursements, receipts, and payroll processes due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the basic financial statements. Although this meets the definition of a "material weakness," it may not be practical to correct since the costs of obtaining desirable segregation of accounting duties may exceed benefits that could be derived.

### **Cash Disbursement Process**

- The Accounts Payable Administrative Assistant enters invoices, prepares, and mails checks for disbursements.
- The Business Manager prepares and posts entries into the finance system.

### **Cash Receipt Process**

- The Human Resources Director tracks cash receipts and the District Secretary reconciles receipts and prepares the deposits, but the cash receipt listing is not compared to the deposit.
- The Business Manager receipts state aid, reconciles the District's accounts, and has full access to the finance system.

### **Payroll Process**

- The Assistant Business Manager enters payroll information, processes payroll, and prepares checks.
- The Business Manager reviews payroll and has access to the payroll system.

Management is aware of this condition and will take 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.

### **Material Audit Adjustments**

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's basic financial statements. In order to ensure basic financial statements were free from material misstatement, audit adjustments were required in the following areas:

- Receivables/Revenues

## **Independent School District No. 317 Required Communication**

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2021. Professional standards require that we advise you of the following matters related to our audit.

### **Our Responsibility in Relation to the Basic Financial Statement Audit**

As communicated in our engagement letter, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

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

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

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Our responsibility with respect to the other information in documents containing the audited financial statements and auditor's report does not extend beyond the financial information identified in the report. We have no responsibility for determining whether this other information is properly stated. This other information was not audited and we do not express an opinion or provide any assurance on it.

## **Independent School District No. 317 Required Communication**

### **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.

### **Qualitative Aspects of Significant Accounting Practices**

#### *Significant Accounting Policies*

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

## **Independent School District No. 317 Required Communication**

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

#### *Significant Accounting Estimates*

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

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

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadlines, this Aid is an estimate. Special Education Aid is also dependent upon ADM values; 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 Relating to Pensions Activity, and Deferred Inflows of Resources relating to Pensions Activity – These balances are based on an allocation by the pension plans using estimates based on contributions.

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

#### *Financial Statement Disclosures*

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

### **Significant Difficulties Encountered during the Audit**

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

### **Uncorrected and Corrected Misstatements**

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



## **Independent School District No. 317 Required Communication**

### **Uncorrected and Corrected Misstatements (Continued)**

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

- State revenue and receivable was overbooked

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

- Revenue and receivables

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

### **Representations Requested from Management**

We have requested certain written representations from management, which are included in the management representation letter.

### **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management has informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

### **Other Significant Matters, Findings, or Issues**

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

### **Other Information in Documents Containing Audited Basic Financial Statements**

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

**Independent School District No. 317  
Required Communication**

**Other Information in Documents Containing Audited Basic Financial Statements (Continued)**

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. 317  
Financial Analysis**

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours. A subsequent discussion of this information should be useful for planning purposes.

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

**Average Daily Membership and Pupil Units**

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

| <u>Year</u> | <u>General Education Aid<br/>Formula Allowance</u> |                             |
|-------------|----------------------------------------------------|-----------------------------|
|             | <u>Amount</u>                                      | <u>Percent<br/>Increase</u> |
| 2012        | \$ 5,174                                           | 1.0%                        |
| 2013        | 5,224                                              | 1.0%                        |
| 2014        | 5,302                                              | 1.5%                        |
| 2015 *      | 5,831                                              | 1.9%                        |
| 2016        | 5,948                                              | 2.0%                        |
| 2017        | 6,067                                              | 2.0%                        |
| 2018        | 6,188                                              | 2.0%                        |
| 2019        | 6,312                                              | 2.0%                        |
| 2020        | 6,438                                              | 2.0%                        |
| 2021        | 6,567                                              | 2.0%                        |
| 2022        | 6,728                                              | 2.5%                        |

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

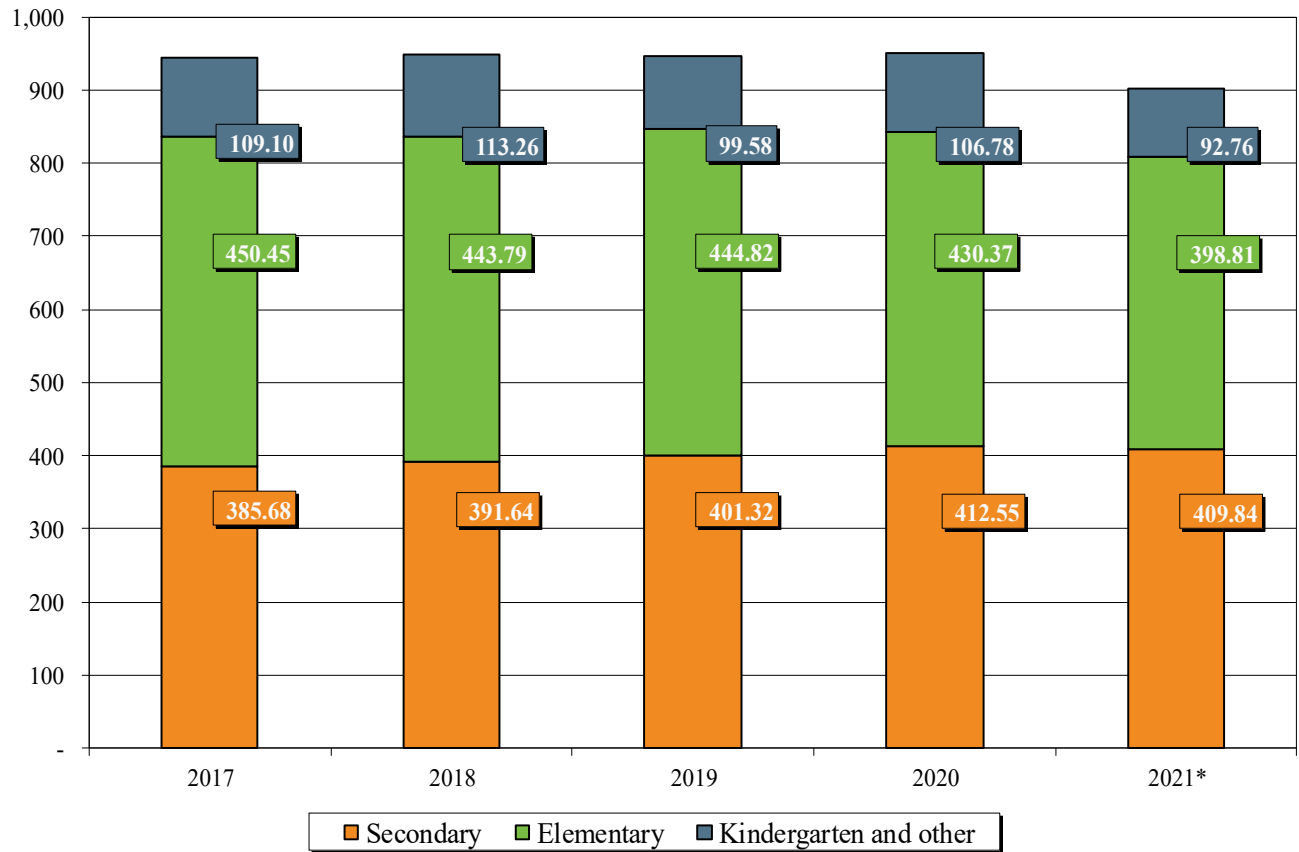
**Independent School District No. 317  
Financial Analysis  
June 30, 2021**

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

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

| Resident ADM              | 2017          | 2018          | 2019          | 2020          | 2021*         |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
| Kindergarten and other    | 109.10        | 113.26        | 99.58         | 106.78        | 92.76         |
| Elementary                | 450.45        | 443.79        | 444.82        | 430.37        | 398.81        |
| Secondary                 | 385.68        | 391.64        | 401.32        | 412.55        | 409.84        |
| <b>Total Resident ADM</b> | <b>945.23</b> | <b>948.69</b> | <b>945.72</b> | <b>949.70</b> | <b>901.41</b> |

**Students (Average Daily Membership)**



\* Estimate

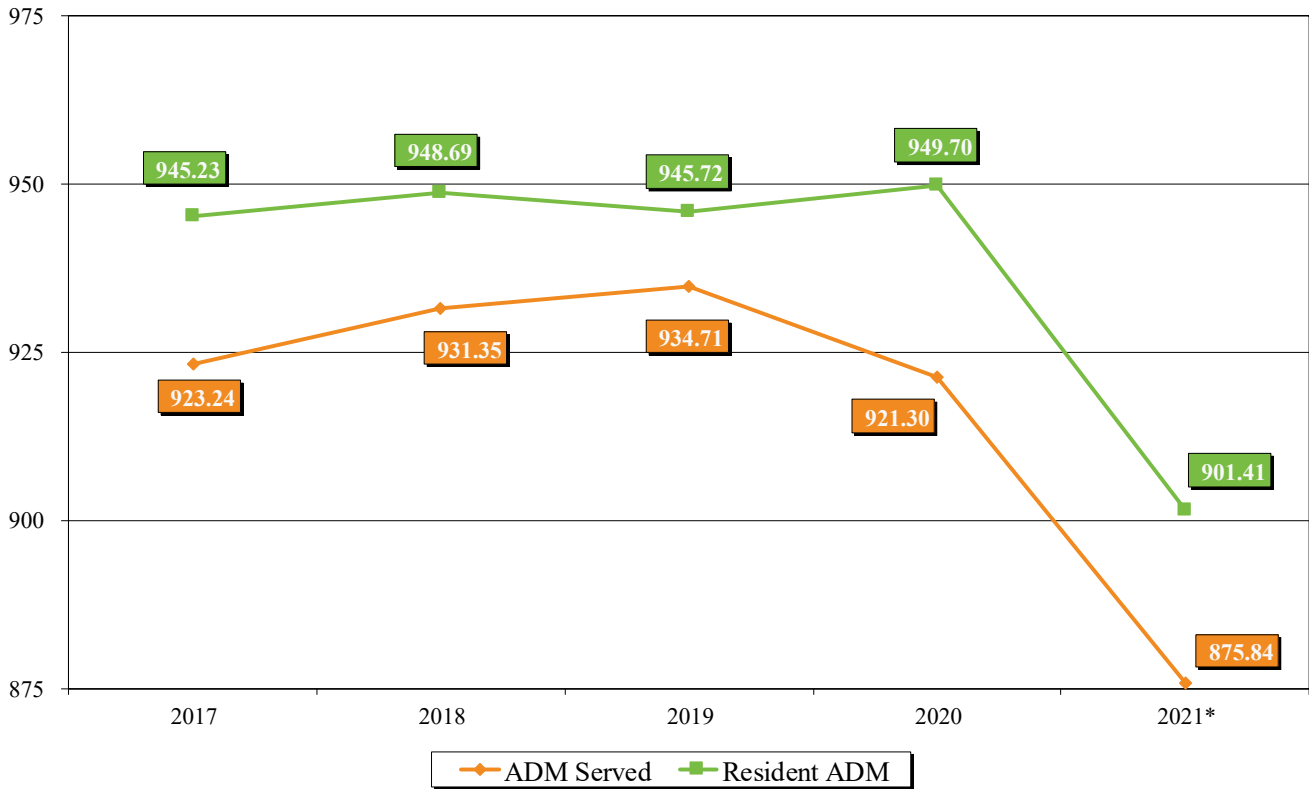
As the chart above indicates, the District has an overall increase in resident ADM over the past five years. Total resident ADM decreased approximately 48, or 5.1%, from 2020 to 2021.

## Independent School District No. 317 Financial Analysis

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

The graph below illustrates the comparison between resident ADM versus the ADM served over the last five years.

**Resident ADM and ADM Served**



\*Estimate

To calculate the majority of the District's education aids, the ADM amounts are weighted, based on the students' grade level. The table below displays the weighting factors in effect for the past five years. The pupil unit weighting factors have been the same for the past five years.

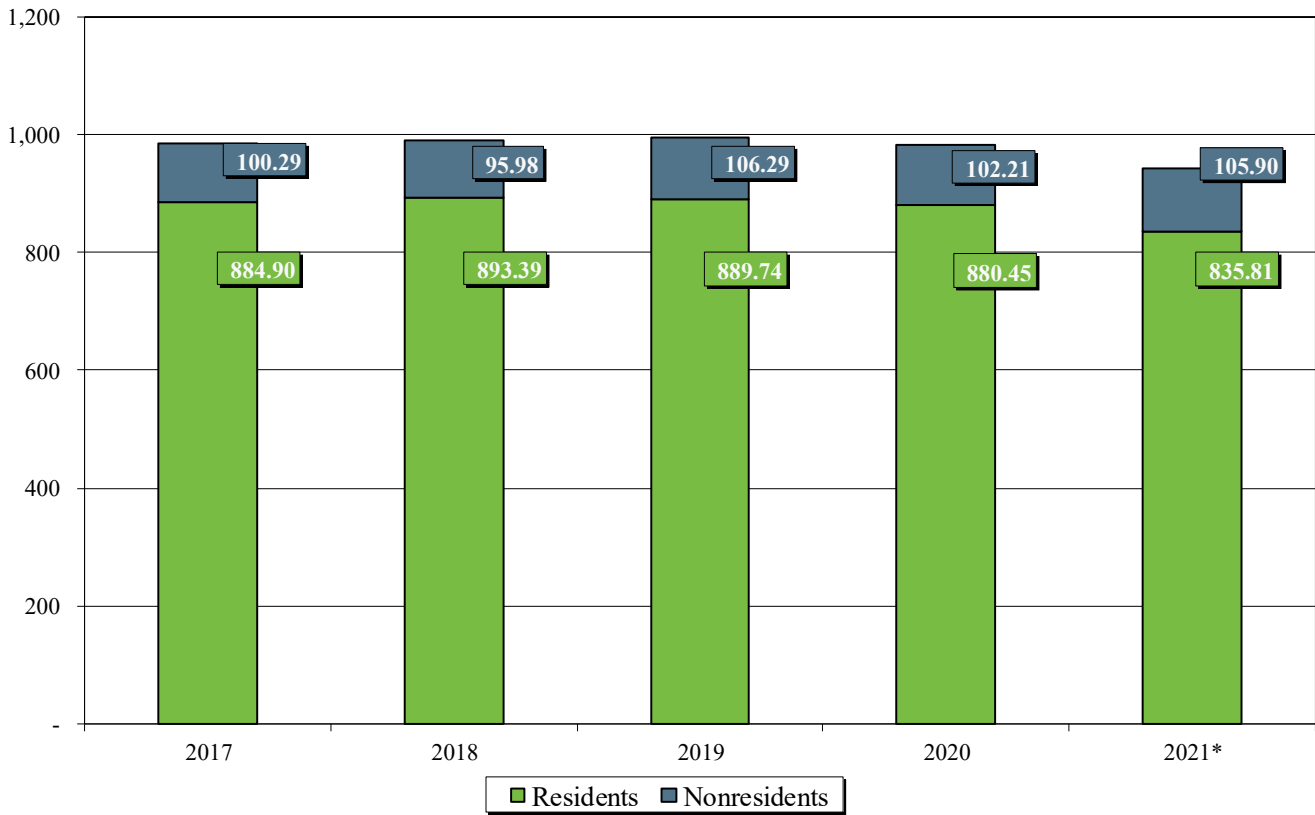
| Pupil Units Weighting |                  |                          |              |                       |                       |           |
|-----------------------|------------------|--------------------------|--------------|-----------------------|-----------------------|-----------|
|                       | Pre-Kindergarten | Handicapped Kindergarten | Kindergarten | Elementary Grades 1-3 | Elementary Grades 4-6 | Secondary |
| 2017-2021             | 1.000            | 1.000                    | 0.550/1.000  | 1.000                 | 1.000                 | 1.200     |

## Independent School District No. 317 Financial Analysis

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

| Pupil Unit Numbers        | 2017          | 2018          | 2019          | 2020          | 2021*         |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
| Residents                 | 1,022.36      | 1,027.01      | 1,025.96      | 1,032.22      | 983.38        |
| Residents going elsewhere | (137.46)      | (133.62)      | (136.22)      | (151.77)      | (147.57)      |
| Nonresident gain          | 100.29        | 95.98         | 106.29        | 102.21        | 105.90        |
| <b>Total</b>              | <b>985.19</b> | <b>989.37</b> | <b>996.03</b> | <b>982.66</b> | <b>941.71</b> |

### Pupil Units Served



\* Estimate

After the weighting is applied to resident ADM, the open enrollment adjustment is also considered. The table and graph above illustrate total pupil unit numbers (PUN) served for 2017 through 2021. Total PUN served decreased approximately 41, or 4.2%, from 2020 to 2021.

## Independent School District No. 317 Financial Analysis

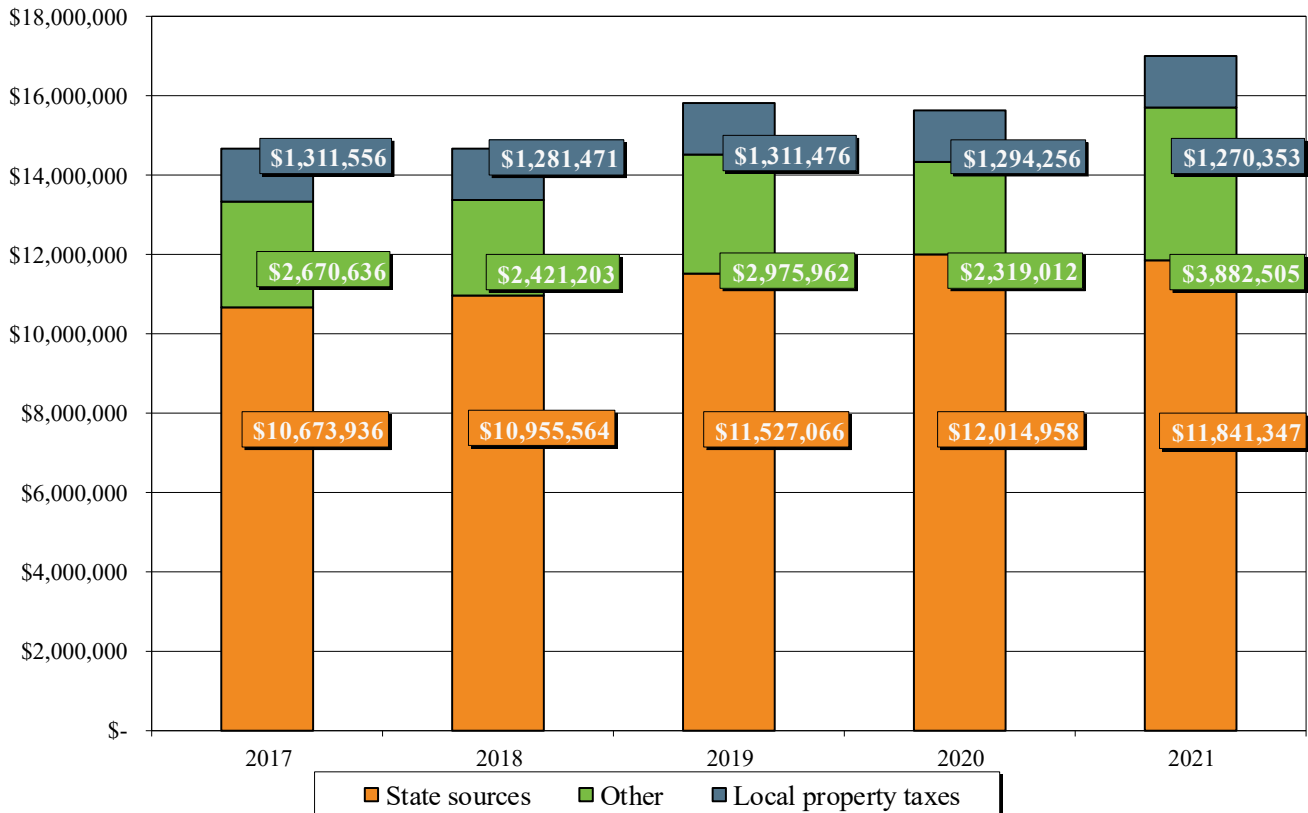
### General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows:

|                      | 2017                 | 2018                 | 2019                 | 2020                 | 2021                 |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Local property taxes | \$ 1,311,556         | \$ 1,281,471         | \$ 1,311,476         | \$ 1,294,256         | \$ 1,270,353         |
| State sources        | 10,673,936           | 10,955,564           | 11,527,066           | 12,014,958           | 11,841,347           |
| Other                | 2,670,636            | 2,421,203            | 2,975,962            | 2,319,012            | 3,882,505            |
| <b>Total</b>         | <b>\$ 14,656,128</b> | <b>\$ 14,658,238</b> | <b>\$ 15,814,504</b> | <b>\$ 15,628,226</b> | <b>\$ 16,994,205</b> |

Overall, General Fund revenues for 2021 increased \$1,365,979, or 8.7%, from 2020. Other revenues increased \$1,563,493 due to increased federal funding including funding provided in response to the pandemic such as the Coronavirus Relief Fund and Education Stabilization Fund as well as an increased Impact Aid entitlement. The District also entered the first year of the Full Service Community Schools grant. State sources of revenue decreased \$173,611 primarily due to the decrease in enrollment. Local property taxes stayed relatively consistent.

**General Fund Sources of Revenue**



**Independent School District No. 317**  
**Financial Analysis**

**General Fund Budget and Actual**

The chart below highlights the 2021 General Fund budget and actual results.

|                                      | Final Budget | Actual<br>Amounts | Variance with<br>Final Budget -<br>Over (Under) |
|--------------------------------------|--------------|-------------------|-------------------------------------------------|
| <b>Revenues</b>                      |              |                   |                                                 |
| Local property taxes                 | \$ 1,064,068 | \$ 1,270,353      | \$ 206,285                                      |
| Other local and county revenues      | 731,519      | 903,888           | 172,369                                         |
| Revenue from state sources           | 12,045,826   | 11,841,347        | (204,479)                                       |
| Revenue from federal sources         | 3,212,555    | 2,977,915         | (234,640)                                       |
| Sales and other conversion of assets | 479          | 702               | 223                                             |
| Total revenues                       | 17,054,447   | 16,994,205        | (60,242)                                        |
| <b>Expenditures</b>                  |              |                   |                                                 |
| Administration                       | 737,927      | 755,273           | 17,346                                          |
| District support services            | 731,625      | 678,229           | (53,396)                                        |
| Regular instruction                  | 6,082,302    | 6,052,270         | (30,032)                                        |
| Vocational education instruction     | 168,502      | 178,291           | 9,789                                           |
| Special education instruction        | 3,661,335    | 3,559,877         | (101,458)                                       |
| Instructional support services       | 1,512,792    | 1,505,422         | (7,370)                                         |
| Pupil support services               | 1,963,544    | 1,732,209         | (231,335)                                       |
| Sites and buildings                  | 1,150,414    | 1,183,380         | 32,966                                          |
| Fiscal and other fixed cost programs | 72,044       | 152,031           | 79,987                                          |
| Community education and services     | 50,000       | -                 | (50,000)                                        |
| Capital outlay                       | 310,281      | 365,565           | 55,284                                          |
| Debt service                         | 241,023      | 241,023           | -                                               |
| Total expenditures                   | 16,681,789   | 16,403,570        | (278,219)                                       |
| Net change in fund balances          | \$ 372,658   | \$ 590,635        | \$ 217,977                                      |



## **Independent School District No. 317 Financial Analysis**

### **General Fund Revenues Budget and Actual**

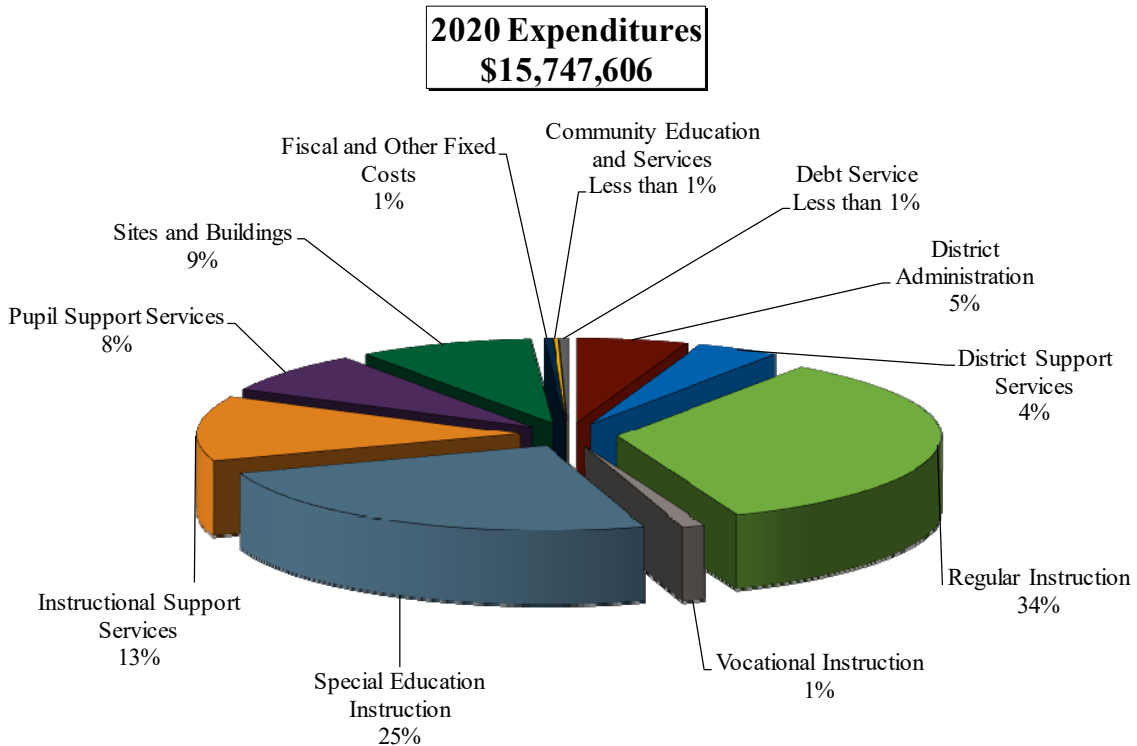
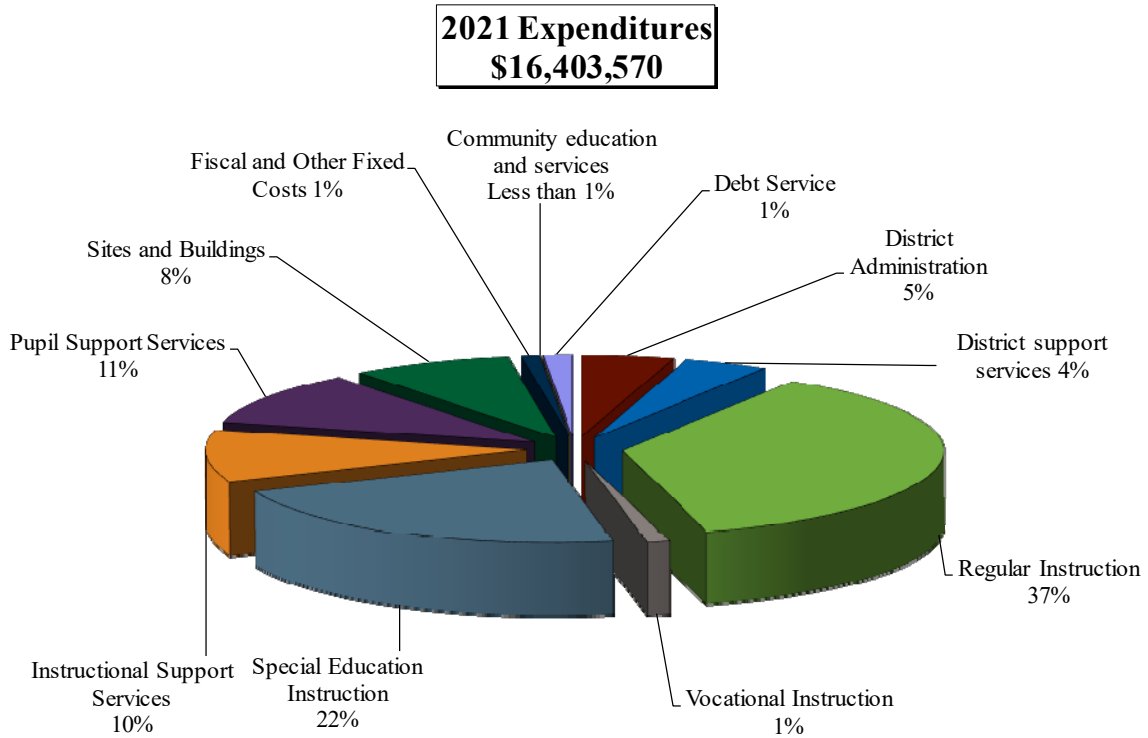
Overall, General Fund revenues were under budgeted by \$60,242, or just 0.4%. There were some variances in the sources of revenue compared to the final budgeted amounts. Local property taxes were over budget due to conservative budgeting for delinquent amounts and other miscellaneous tax receipts. Other local and count revenues were also over budget due to conservative budgeting for medical assistance reimbursement revenues. Revenues from state sources were under budget due to budgeting for higher general education aid based on higher enrollment and also budgeting for higher state special education aid. Revenues from federal sources were under budget due to budgeting for the full first year entitlement for the Full Service Community Schools grant, but not all of this entitlement was spent in fiscal year 2021 and was carried over to fiscal year 2022.

### **General Fund Expenditures Budget and Actual**

In total, General Fund expenditures were under budget by \$278,219 or 1.7%. The most significant variance was in the pupil support services program, where expenditures were \$231,335 under budget also due to budgeting for the full first year entitlement for the Full Service Community Schools grant, but not all of this entitlement was spent in fiscal year 2021 and was carried over to fiscal year 2022.

## Independent School District No. 317 Financial Analysis

### General Fund Expenditures



## Independent School District No. 317 Financial Analysis

### General Fund Expenditures (Continued)

General Fund expenditures by program for the past two years are summarized on the previous page.

Overall, the expenditures increased \$655,964, or 4.2%, from 2020 to 2021. Regular instruction expenditures increased due to cost of living increases, step and lane movement, and increased long-term substitute costs. The District also spent a large portion of the Coronavirus Relief Fund and Education Stabilization Fund on supplies and technology equipment. Pupil support services expenditures increased due to spending of the first year of the Full Service Community Schools grant and one-time Expanded Meals Access funds provided under the Coronavirus Relief Fund. Debt service expenditures increase due to the first year of payments on the G.O. Equipment Certificates issued in fiscal year 2020. Partially offsetting these variances, special education expenditures decreased due to a decrease in amounts paid for mental health sessions and fewer shared salaries with IASC, and instructional support services expenditures decreased due to the issuance of the G.O. Equipment Certificates issued in fiscal year 2020.

### General Fund Operations

As previously discussed, revenues increased 8.7% while expenditures increased 4.2%. Fund balance increased \$590,635 as a result of 2021 operations.

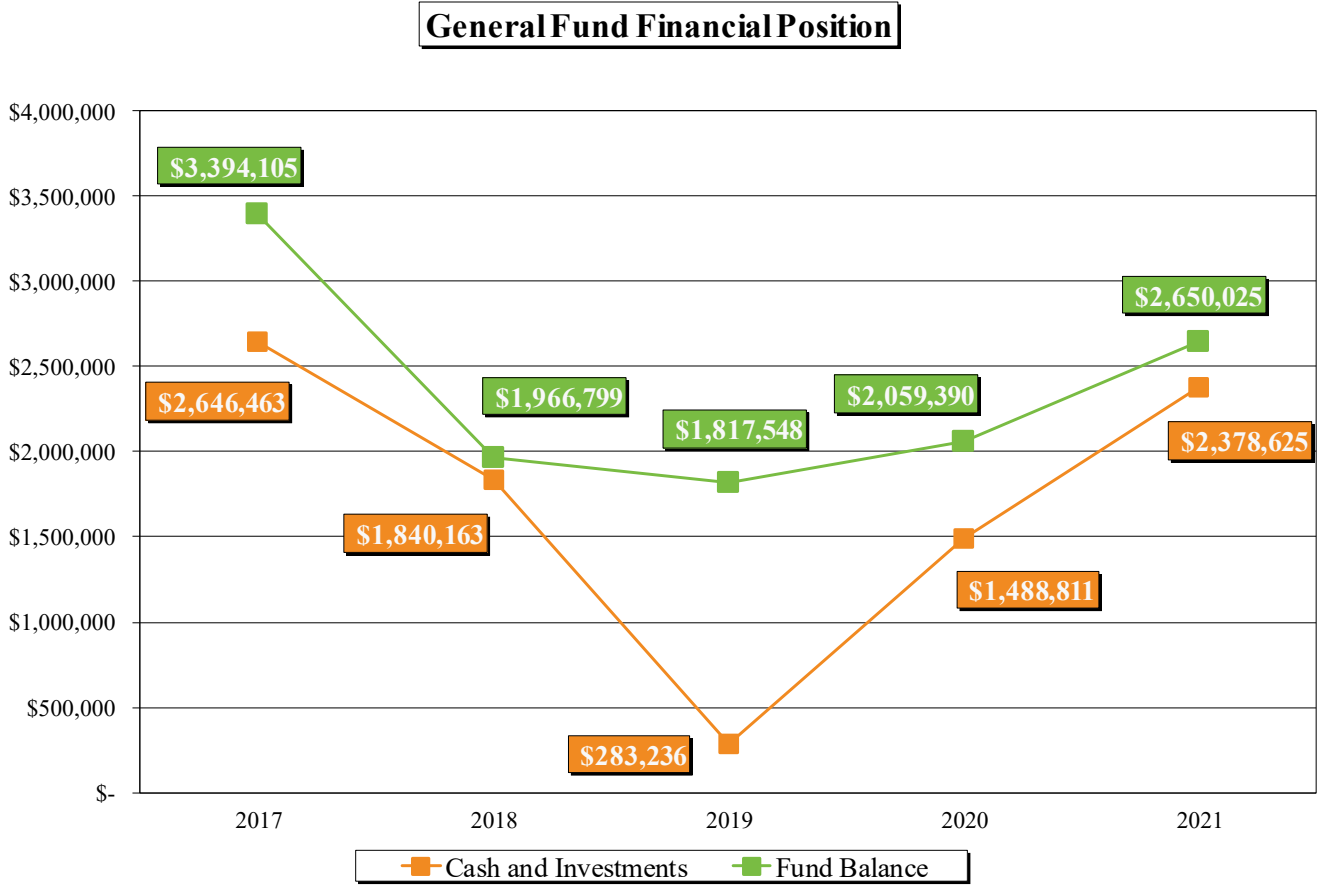
| For the Year Ended June 30,                     | 2017                | 2018                | 2019                | 2020                | 2021                |
|-------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues                                        | \$ 14,656,128       | \$ 14,658,238       | \$ 15,814,504       | \$ 15,628,226       | \$ 16,994,205       |
| Expenditures                                    | 14,843,104          | 16,105,273          | 16,223,425          | 15,747,606          | 16,403,570          |
| Excess of revenues over<br>(under) expenditures | (186,976)           | (1,447,035)         | (408,921)           | (119,380)           | 590,635             |
| Insurance recovery                              | 339,407             | 19,729              | 414                 | -                   | -                   |
| Transfers out                                   | (57,739)            | -                   | -                   | (17,603)            | -                   |
| Proceeds from debt issuances                    | -                   | -                   | 256,928             | 503,235             | -                   |
| Sale of capital assets                          | 14,624              | -                   | 2,328               | 3,287               | -                   |
| Fund balance, July 1                            | 3,284,789           | 3,394,105           | 1,966,799           | 1,817,548           | 2,059,390           |
| Adjustments to beginning fund balance           | -                   | -                   | -                   | (127,697)           | -                   |
| <b>Fund Balance, June 30</b>                    | <b>\$ 3,394,105</b> | <b>\$ 1,966,799</b> | <b>\$ 1,817,548</b> | <b>\$ 2,059,390</b> | <b>\$ 2,650,025</b> |
| <b>Components of the fund balance</b>           |                     |                     |                     |                     |                     |
| Restricted                                      | \$ 118,362          | \$ 96,952           | \$ 9,715            | \$ 282,618          | \$ 1,196,904        |
| Committed                                       | 460,154             | 379,843             | 360,419             | 359,374             | 357,275             |
| Assigned                                        | 816,000             | 781,508             | -                   | -                   | -                   |
| Unassigned                                      | 1,999,589           | 708,496             | 1,447,414           | 1,417,398           | 1,095,846           |
| <b>Fund Balance, June 30</b>                    | <b>\$ 3,394,105</b> | <b>\$ 1,966,799</b> | <b>\$ 1,817,548</b> | <b>\$ 2,059,390</b> | <b>\$ 2,650,025</b> |

As seen in the table above, the largest fund balance change from 2020 to 2021 was in restricted fund balance. The District restricted funds for its Basic Skills program for spending in future years. There were also fewer staff development expenditures in 2021.

At June 30, 2021, the District's General Fund unassigned fund balance represents 6.7% of expenditures, based on 2021 spending levels. The District's Fund Balance Policy sets a goal for unassigned fund balance in the General Fund of not less than 9.0% of the annual budget. A healthy fund balance allows the District to maintain a positive operating cash position when expenditures are recognized prior to the receipt of significant revenues, including state aid and local property tax levies.

## Independent School District No. 317 Financial Analysis

### General Fund Financial Position



The state has been metering aid payments by paying 90% of the aids throughout the year and holding 10% back to pay subsequent to year-end. As a result, cash and investments and fund balance have changed at similar rates over the past five years. In 2019, cash and investments decreased by an amount greater than the fund balance decrease due to an increase in amounts due from the Minnesota Department of Education as the 90% payment schedule is based on initial aid determinations and the District's adjusted entitlements increased from original entitlements, an increase in amounts due from the federal government due to the District requesting reimbursement after year-end in 2019, and an increase in amounts due from other governments for medical assistance. In 2020, cash and investments were closer to ending total fund balance due to more timely collections of amounts due from other districts in 2020. In 2021, cash and investments were again a fairly similar amount to the ending total fund balance due to timely payments and collections.

**Independent School District No. 317  
Financial Analysis**

**Revenue Per Student (ADM) Served**

The table below shows a comparison of total revenue per ADM received by the District and state-wide averages.

| Deer River                        |                  |                  |                  |                  |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|
| General Fund Revenue              | 2017             | 2018             | 2019             | 2020             | 2021 (est.)      |
| Property taxes                    | \$ 653           | \$ 740           | \$ 736           | \$ 650           | \$ 831           |
| Other local sources               | 2,403            | 1,739            | 2,193            | 1,730            | 1,652            |
| State aid                         | 11,518           | 11,706           | 12,397           | 13,080           | 13,520           |
| Federal aid                       | 1,625            | 1,513            | 1,701            | 1,569            | 3,400            |
| <b>Total General Fund Revenue</b> | <b>\$ 16,199</b> | <b>\$ 15,698</b> | <b>\$ 17,027</b> | <b>\$ 17,029</b> | <b>\$ 19,403</b> |

| State-Wide**                      |                  |                  |                  |                  |             |
|-----------------------------------|------------------|------------------|------------------|------------------|-------------|
| General Fund Revenue              | 2017             | 2018             | 2019             | 2020             | 2021 (est.) |
| Property taxes                    | \$ 1,815         | \$ 1,894         | \$ 1,996         | \$ 2,180         | N/A         |
| Other local sources               | 511              | 515              | 547              | 528              | N/A         |
| State aid                         | 9,577            | 9,821            | 10,118           | 10,393           | N/A         |
| Federal aid                       | 462              | 461              | 486              | 527              | N/A         |
| <b>Total General Fund Revenue</b> | <b>\$ 12,365</b> | <b>\$ 12,691</b> | <b>\$ 13,147</b> | <b>\$ 13,628</b> | <b>N/A</b>  |

\*\* State of Minnesota *School District Profiles*

The District's revenue per student served has increased significantly in 2021 due to the increase in revenue discussed previously combined with a decrease in ADM served of 4.9%.

The District's revenues per ADM have exceeded state-wide over the past five years due to other local sources, state aids, and federal aids that are higher than average.

**Independent School District No. 317  
Financial Analysis**

**Expenditures Per Student**

Expenditures per student (ADM served) for all programs are summarized below.

|                   | 2017*     | 2018*     | 2019*     | 2020*     | 2021**    |
|-------------------|-----------|-----------|-----------|-----------|-----------|
| General Fund      | \$ 16,034 | \$ 17,230 | \$ 17,190 | \$ 17,090 | \$ 18,729 |
| Food Service      | 682       | 726       | 777       | 788       | 856       |
| Community Service | 310       | 342       | 325       | 330       | 278       |

| <b>State-Wide Averages</b> | 2017*     | 2018*     | 2019*     | 2020*     | 2020 |
|----------------------------|-----------|-----------|-----------|-----------|------|
| General Fund               | \$ 12,249 | \$ 12,596 | \$ 13,025 | \$ 13,313 | N/A  |
| Food Service               | 546       | 550       | 559       | 554       | N/A  |
| Community Service          | 579       | 606       | 638       | 622       | N/A  |

\* Source: *School District Profiles*

\*\* Estimate

Expenditures per student served increased in 2021 due to the increase in expenditures as discussed previously. The District's expenditures per student served are also significantly higher than state-wide averages.

## Independent School District No. 317 Financial Analysis

### Food Service Fund

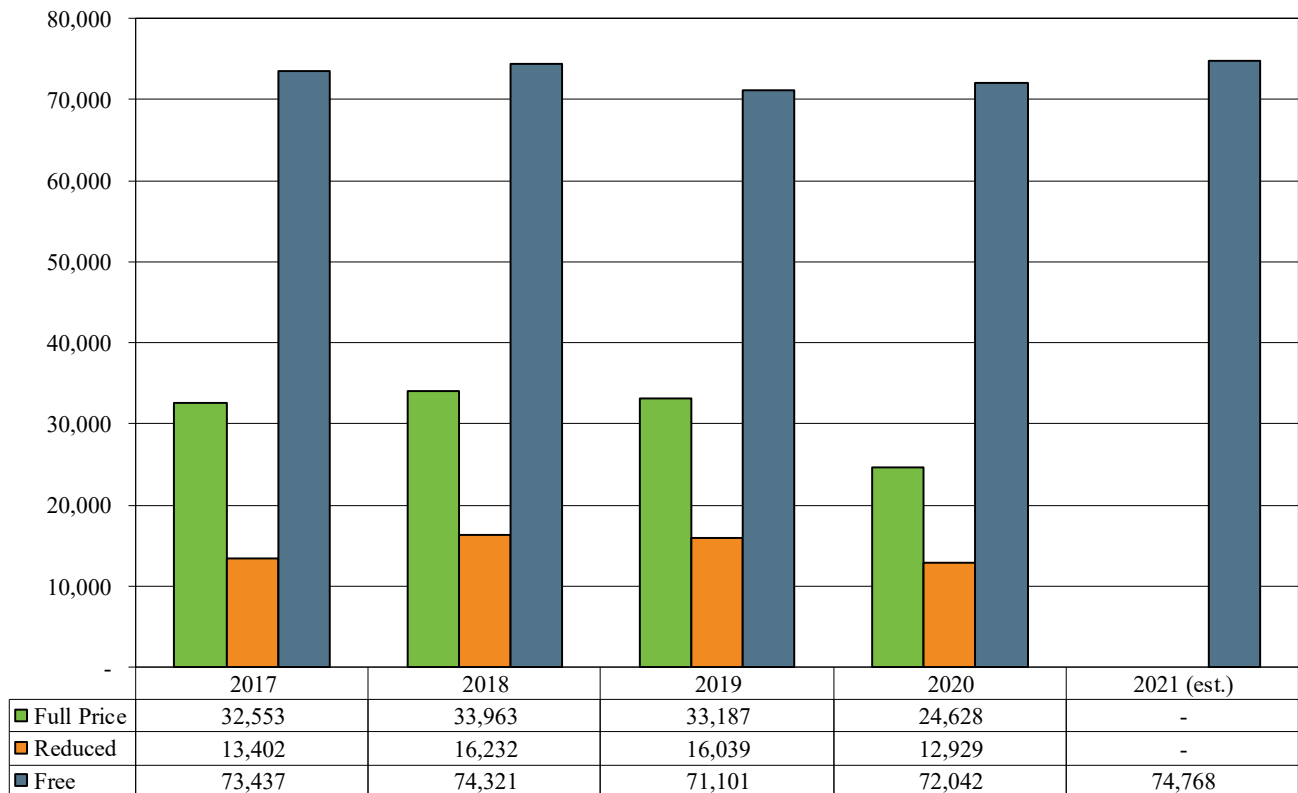
The following table presents five years of comparative operating results for the District's Food Service Fund:

| Year Ended June 30,                        | 2017              | 2018              | 2019              | 2020              | 2021              |
|--------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Revenues                                   | \$ 663,136        | \$ 686,415        | \$ 677,529        | \$ 832,361        | \$ 737,824        |
| Expenditures                               | 630,055           | 677,129           | 719,535           | 721,108           | 750,064           |
| Excess of revenues<br>(under) expenditures | 33,081            | 9,286             | (42,006)          | 111,253           | (12,240)          |
| Fund balance, July 1                       | 157,790           | 190,871           | 200,157           | 158,151           | 269,404           |
| <b>Fund Balance, June 30</b>               | <b>\$ 190,871</b> | <b>\$ 200,157</b> | <b>\$ 158,151</b> | <b>\$ 269,404</b> | <b>\$ 257,164</b> |

Food service revenues decreased \$94,537, while expenditures increased \$28,956 in 2021 compared to 2020. Revenues decreased due to a decrease in the number of meals served. Expenditures increased due to the purchase of kitchen equipment in 2021.

The following chart reflects the number and type of lunches served to students from September - May over the past five years.

**Lunch Served to Students**

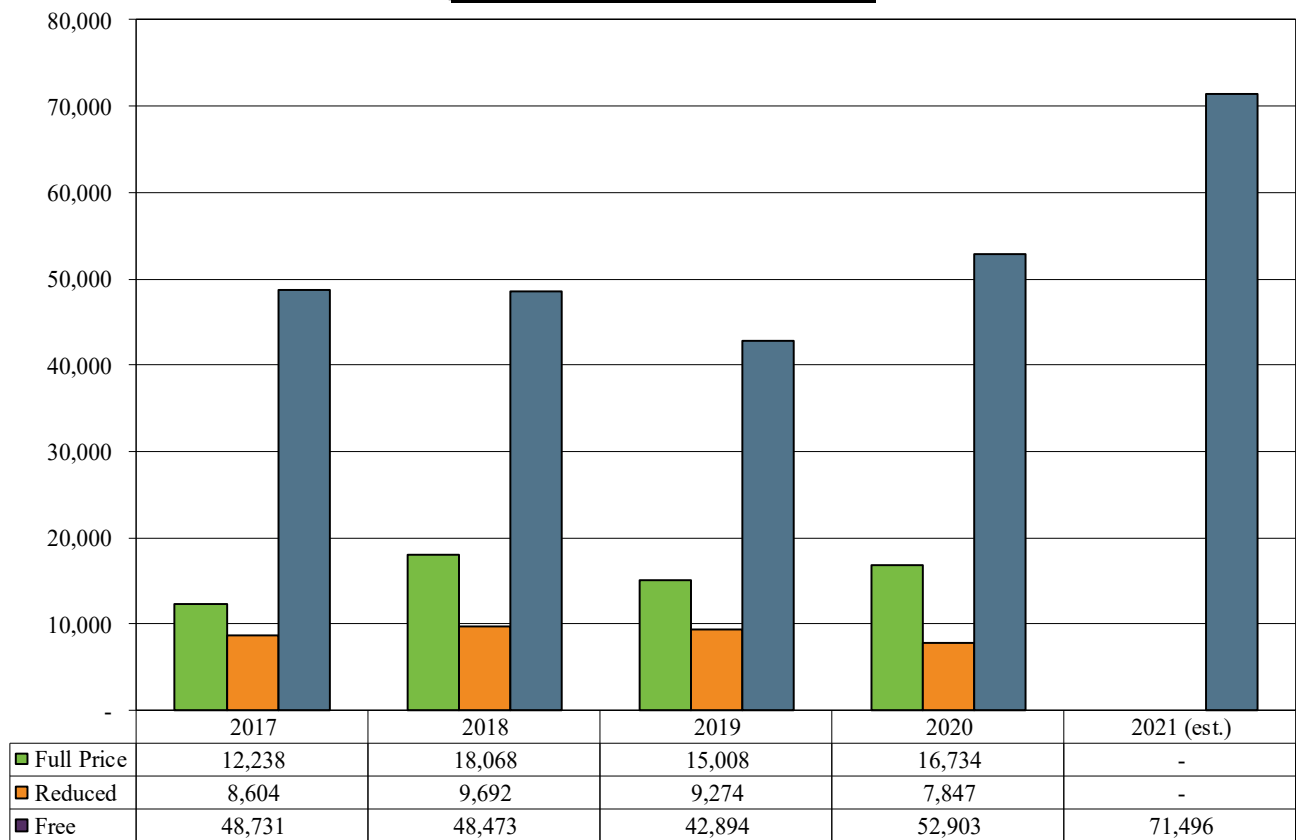


## Independent School District No. 317 Financial Analysis

### Food Service Fund (Continued)

The following chart reflects the number and type of breakfast served to students from September - May over the past five years.

**Breakfast Served to Students**





**Independent School District No. 317**  
**Financial Analysis**

**Community Service Fund**

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

| Year Ended June 30,                             | 2017             | 2018             | 2019            | 2020              | 2021             |
|-------------------------------------------------|------------------|------------------|-----------------|-------------------|------------------|
| Revenues                                        | \$ 263,339       | \$ 267,734       | \$ 265,853      | \$ 272,068        | \$ 270,838       |
| Expenditures                                    | 286,461          | 319,281          | 300,868         | 302,329           | 243,618          |
| Excess of revenues over<br>(under) expenditures | (23,122)         | (51,547)         | (35,015)        | (30,261)          | 27,220           |
| Transfers in                                    | 57,739           | -                | -               | 14,926            | -                |
| Fund balance, July 1                            | 60,949           | 95,566           | 44,019          | 9,004             | (6,331)          |
| <b>Fund Balance, June 30</b>                    | <b>\$ 95,566</b> | <b>\$ 44,019</b> | <b>\$ 9,004</b> | <b>\$ (6,331)</b> | <b>\$ 20,889</b> |
| <b>Fund Balance Components</b>                  |                  |                  |                 |                   |                  |
| Restricted/reserved for                         |                  |                  |                 |                   |                  |
| Community Education                             | \$ 84,330        | \$ 35,302        | \$ (2,348)      | \$ (33,785)       | \$ (3,726)       |
| ECFE                                            | (589)            | (3,311)          | (2,578)         | -                 | 360              |
| School Readiness                                | (4,565)          | (7,065)          | (9,565)         | -                 | (8,783)          |
| Community Service                               | 16,390           | 19,093           | 23,495          | 27,454            | 33,038           |
| <b>Total</b>                                    | <b>\$ 95,566</b> | <b>\$ 44,019</b> | <b>\$ 9,004</b> | <b>\$ (6,331)</b> | <b>\$ 20,889</b> |

The Community Service Fund experienced stable revenues in 2021 compared to 2020. Expenditures decreased \$58,711 in 2021 due to some expenditures that were previously paid for out of the Community Service Fund being paid out of the General Fund in 2021 with the Full Service Community Schools grant.

The fund balance in the Community Service Fund is comprised of four restrictions (community education, ECFE, school readiness and community service) as shown above. This Fund accounts for numerous programs within these broad categories of fund balance.

We recommend the District continue to regularly monitor and analyze each Community Service Fund program to determine if fees and aids are covering the related costs. The School Board and administration should be aware of those activities that are not able to cover costs so they can make decisions to maintain positive fund balances.

## **Independent School District No. 317 Legislative Summary**

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

### **State Aid Appropriations**

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

### **Special Education**

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

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

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

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

### **Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act**

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

### **American Rescue Plan (ARP) Act**

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

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

## **Independent School District No. 317 Legislative Summary**

### **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.

## **Independent School District No. 317 Emerging Issue**

### **Executive Summary**

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

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

The following is an extensive summary of the current update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss 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' basic financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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

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

**Independent School District No. 317**  
**Emerging Issue**

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

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

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

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

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).