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Minnesota Excellence in Learning Academy
Charter School No. 4230
Maple Grove, Minnesota

Communications Letter

June 30, 2020

Minnesota Excellence in Learning Academy
Charter School No. 4230
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Report on Matters Identified as a Result of
the Audit of the Financial Statements

Board of Directors and Management
Minnesota Excellence in Learning Academy
Maple Grove, Minnesota

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Minnesota Excellence in Learning Academy, Maple Grove, Minnesota as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Academy'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 Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

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

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 Academy's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible*. The chance of the future event or events occurring is more than remote but less than likely.

- *Probable*. The future event or events are likely to occur.

We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

The 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 September 28, 2020, on such statements.

This communication is intended solely for the information and use of the Board of Directors, management and others within the Academy, 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
September 28, 2020

Minnesota Excellence in Learning Academy
Charter School No. 4230
Required Communication

We have audited the financial statements of the governmental activities and each major fund of the Academy, as of and for the year ended June 30, 2020. Professional standards require that we advise you of the following matters related to our audit.

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

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Academy 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 audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

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

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

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Required Communication

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 Academy is included in the notes to financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2020. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

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

> Depreciation – The Academy 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 deadline, this Aid is an estimate. Special Education Aid is dependent on the availability of funds and complex formulas that are finalized after reporting deadlines.
>
> Net Pension Liability, Deferred Outflows of Resources Related to Pensions, and Deferred Inflows of Resources Related to Pensions – These balances are based on an allocation by the pension plans using estimates based on contributions.

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

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.

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

- GASB 68 State Contribution and offsetting expenditure

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

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 Academy'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 Academy, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the Academy, 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 Academy's auditor.

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

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

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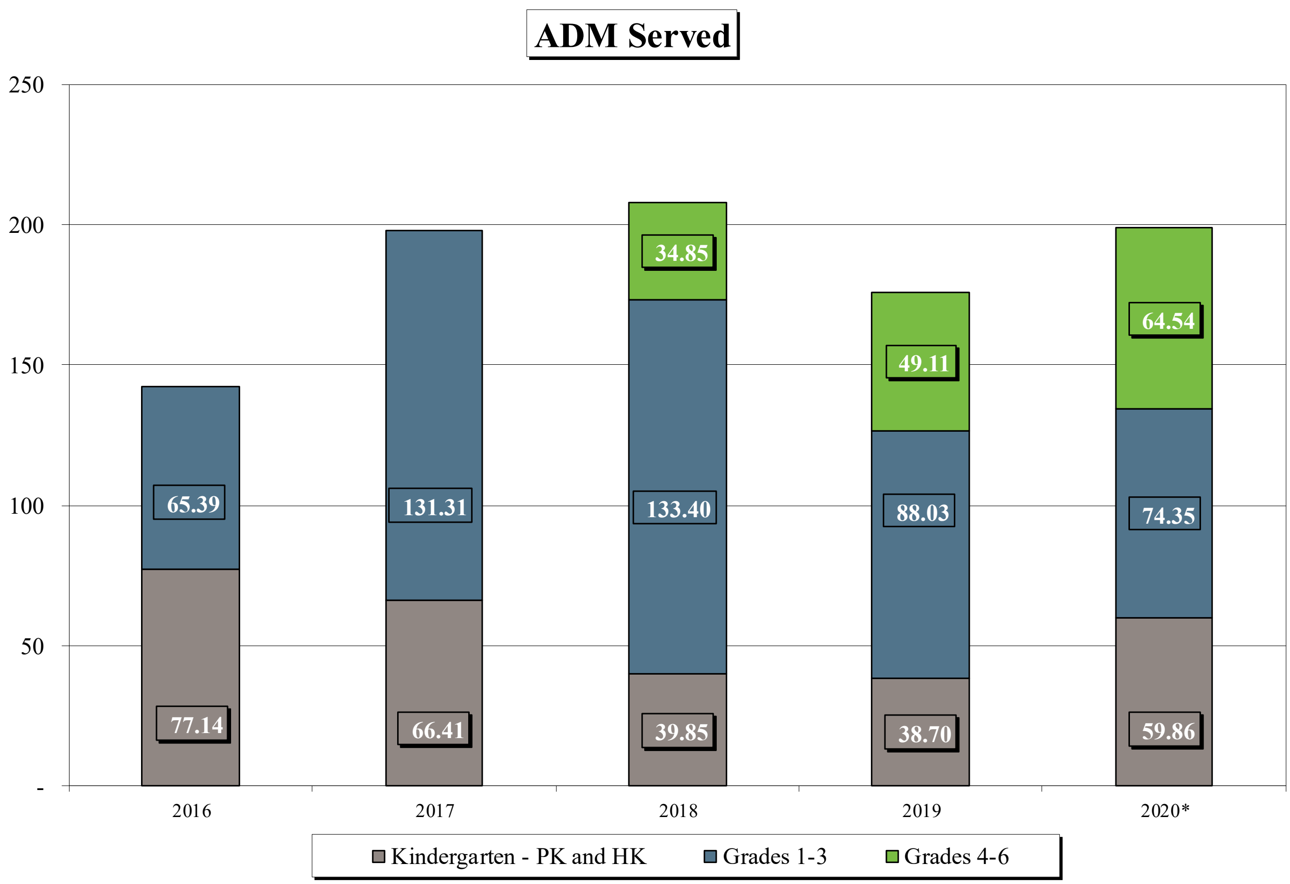
Financial Analysis

The following pages provide graphic representation of select data pertaining to the financial position and operations of the Academy for the past five years. Our analysis of each graph is presented to provide a basis for discussion.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

ADM	2016	2017	2018	2019	2020*
Kindergarten - PK and HK	77.14	66.41	39.85	38.70	59.86
Grades 1-3	65.39	131.31	133.40	88.03	74.35
Grades 4-6	-	-	34.85	49.11	64.54
Total ADM Served	**142.53**	**197.72**	**208.10**	**175.84**	**198.75**



* Estimate

The chart and graph above illustrates the trend in ADM served by the Academy over the last five years of operations. The Academy's student count increased 13% from 2019 to 2020.

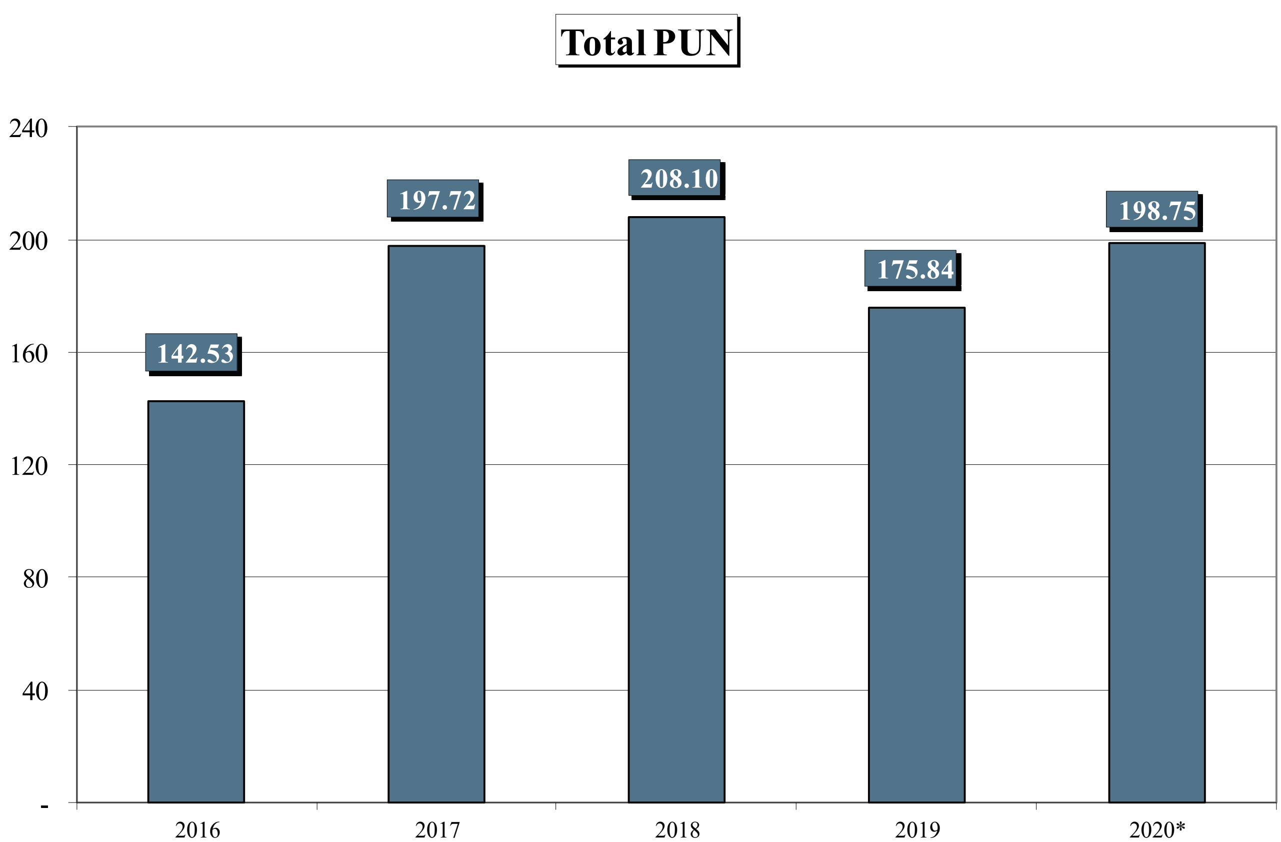
AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

To calculate a majority of the Academy's education aids, the ADM amounts are converted into pupil units by weighting, based on the student's grade level. These weighting factors are presented in the table below.

The total pupil units are converted to adjusted pupil units, which is used to calculate the Academy's education aids. Adjusted pupil units are calculated by multiplying 77% of current year pupil units and 23% of prior year, or 100% of current year, whichever is greater. The adjusted pupil unit data is used for districts with declining enrollment to lessen the negative impact.

Pupil Units Weighting				
	Kindergarten	Elementary Grades 1-4	Elementary Grades 4-6	Secondary
Years 2016-2020	1.000	1.000	1.000	1.200

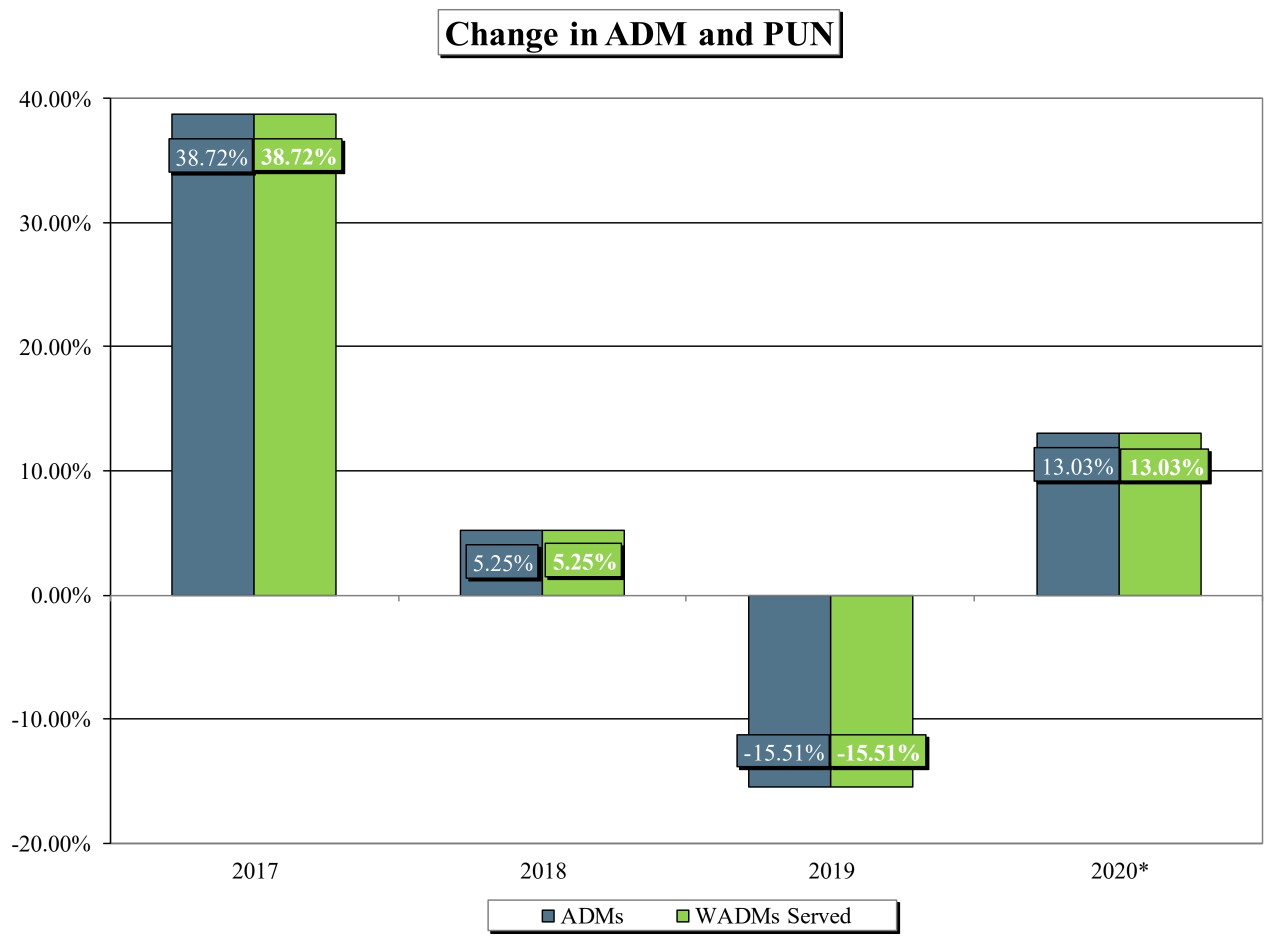
The pupil unit weighting (PUN) served graph below converts the ADM served into weighted or adjusted pupil unit data for the past four years taking into consideration the above weighting factors. PUN increased the past year due to the increase in enrollment.



* Estimate

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS (CONTINUED)

The following graph illustrates the percentage change in ADM and PUN served over the past four years. The Academy experienced an increase in each year presented except 2019.



* Estimate

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Financial Analysis

GENERAL FUND BUDGET AND ACTUAL

The table below outlines the Academy's original and final budget and actual results for the General Fund. The Academy's original budget anticipated revenues would exceed expenditures by $52,499. The final budget anticipated revenues would exceed expenditures by $5,511. The Academy's revenues were 1.9% over the final budget and expenditures ended 0.4% under budget.

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Other local revenues	$ 28,500	$ 29,000	$ 22,845	$ (6,155)
Revenue from state sources	3,085,187	2,970,879	2,973,667	2,788
Revenue from federal sources	153,625	134,576	196,783	62,207
Total revenues	3,267,312	3,134,455	3,193,295	58,840
Expenditures				
Administration	339,753	285,549	259,817	(25,732)
District support services	397,312	387,771	363,928	(23,843)
Elementary and secondary regular instruction	803,530	917,426	994,006	76,580
Special education instruction	608,842	524,862	554,944	30,082
Instructional support services	54,000	45,800	39,068	(6,732)
Pupil support services	431,056	408,536	375,131	(33,405)
Sites and buildings	554,820	544,000	518,559	(25,441)
Fiscal and other fixed cost programs	25,500	15,000	11,805	(3,195)
Total expenditures	3,214,813	3,128,944	3,117,258	(11,686)
Excess of revenues over expenditures	52,499	5,511	76,037	70,526
Other Financing Use				
Transfers out	(15,000)	(5,000)	-	5,000
Net change in fund balances	$ 37,499	$ 511	$ 76,037	$ 75,526

Revenue from federal sources was $62,207 over budget due to not budgeting for CARES funding and final entitlements to be received. All other revenue were consistent with the budget.

Expenditures were $11,686 under budget. Regular instruction expenditures were over budget by $76,580 due to more hours and extra pay for additional roles with COVID-19. Special education expenditures were $30,082 over budget as a result of more contracted special education services needed with new IEPs after winter break and more support staff needed with distance learning zoom meetings. Pupil support services expenditures were under budget by $33,405 due to not needing bus monitors during the time of distance learning.

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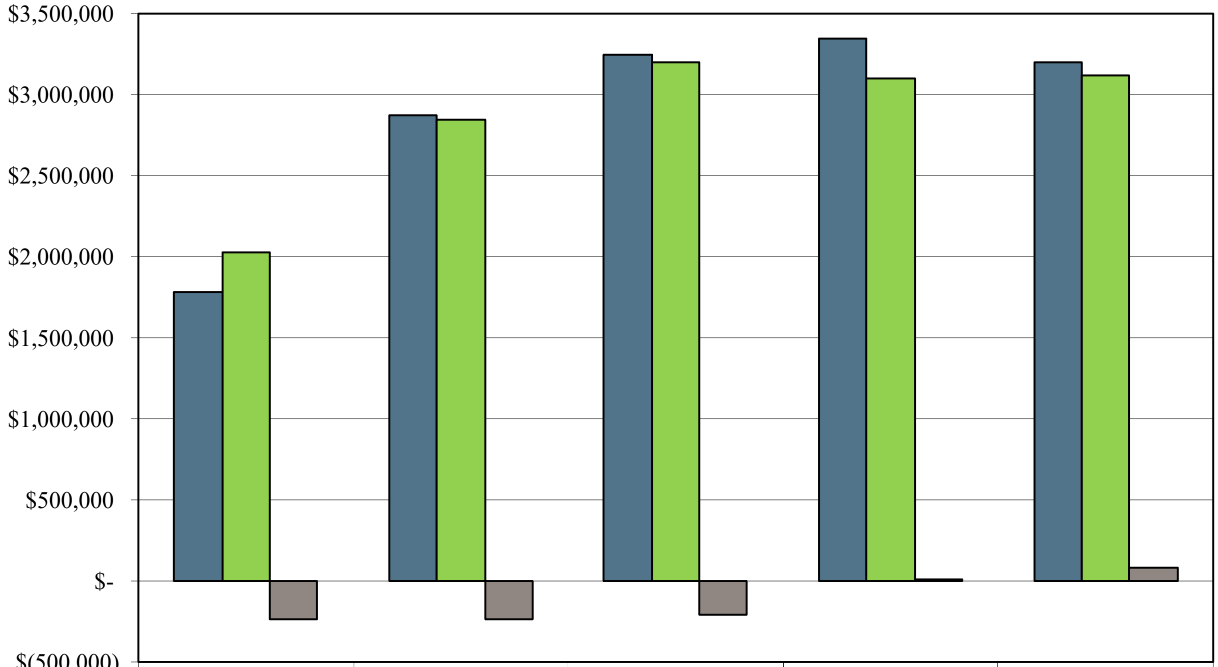
GENERAL FUND OPERATIONS

The graph below presents the results of operations for the General Fund at June 30 for each of the past five years. Expenditures exceeded revenues in 2016, which caused a deficit fund balance. Fund balance improved slightly in subsequent years and more significantly in 2019 and 2020; this can be seen in both the graph and the fund balance as a percentage of expenditure table below

General Fund Operations



	2016	2017	2018	2019	2020
Revenues	$1,781,776	$2,869,165	$3,244,902	$3,346,546	$3,193,295
Expenditures	2,024,857	2,845,385	3,193,446	3,100,359	3,117,258
Fund Balance	(243,081)	(241,210)	(214,314)	3,607	79,644

For Year End June 30	2016	2017	2018	2019	2020
Fund Balance as a % of Expenditures	-12.0%	-8.5%	-6.7%	0.1%	2.6%

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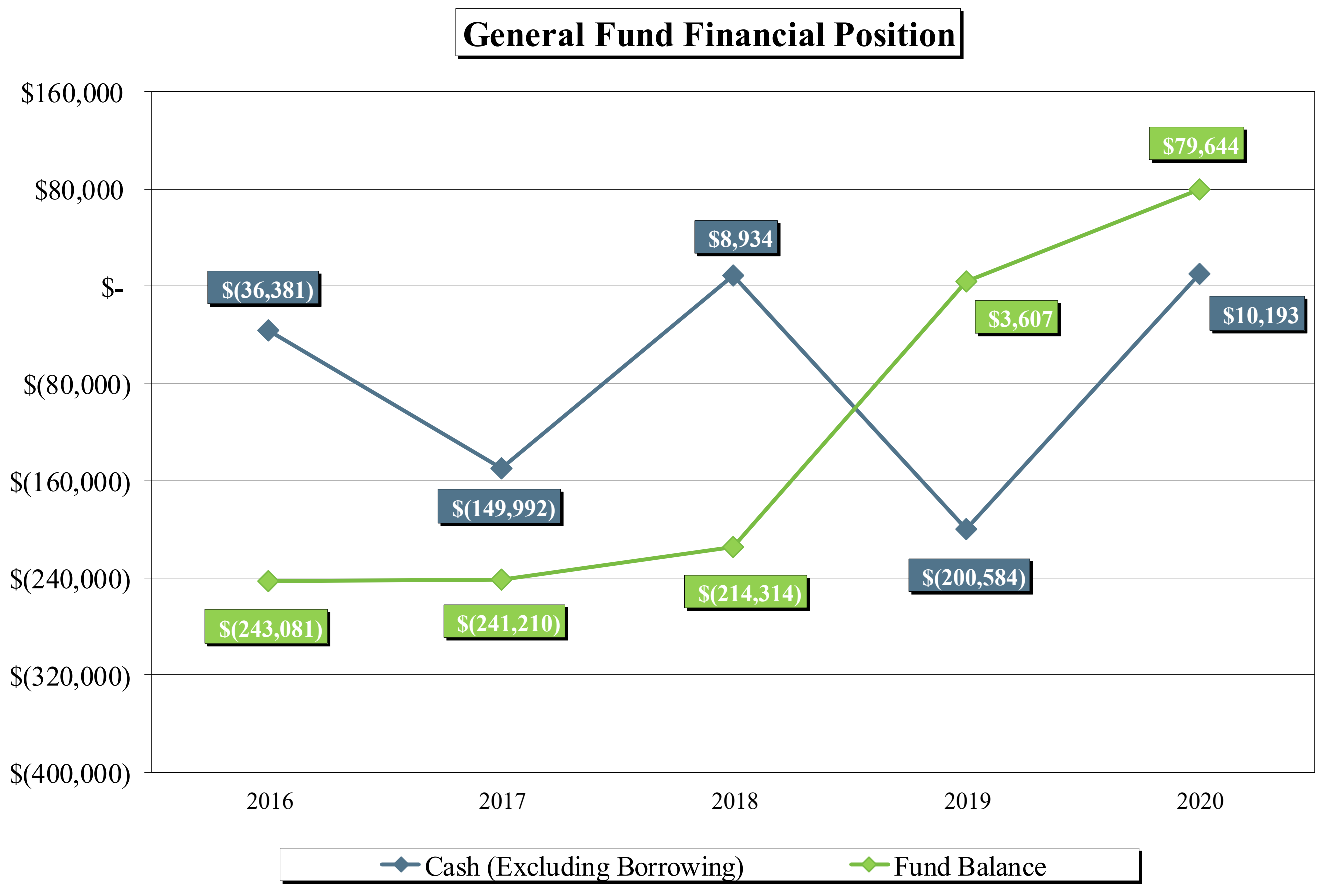
GENERAL FUND FINANCIAL POSITION

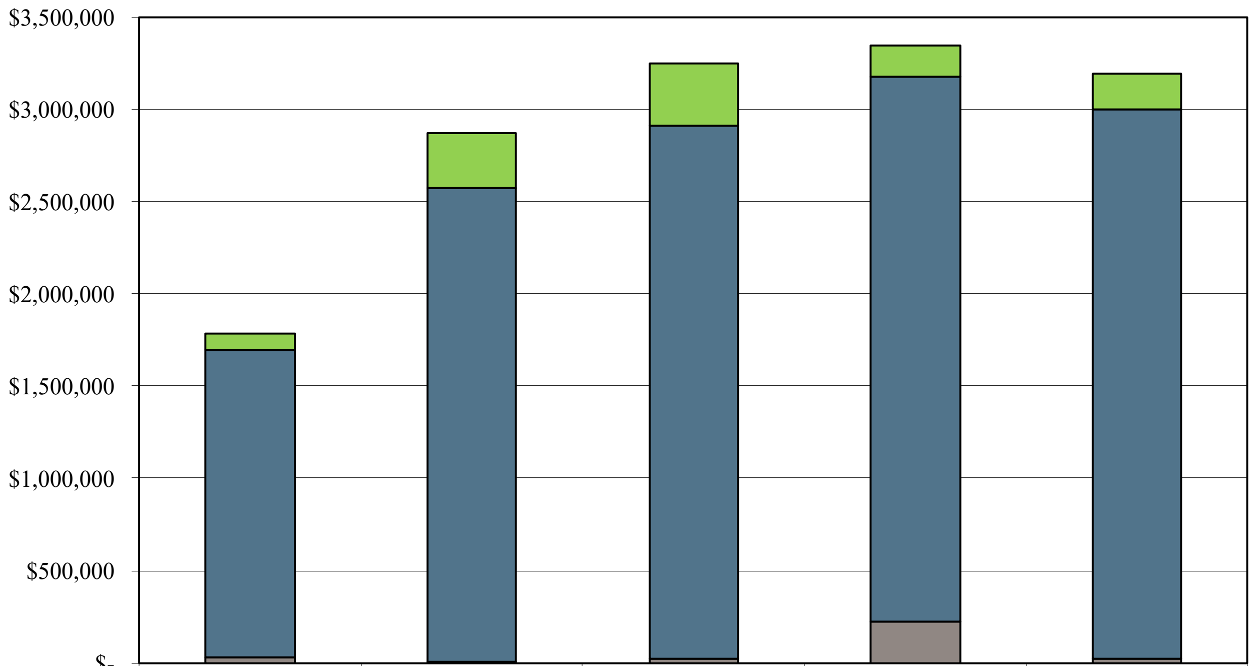
The graph below presents the fund balance of the General Fund at June 30 for each of the past four years with cash (net of any borrowings) for the same periods.



GENERAL FUND SOURCES OF REVENUE

Total General Fund revenues decreased by $153,251, or 4.6%, in 2020. The largest component of the decrease in revenue was the $197,662 decrease in other local revenues. This decrease was due to the credit from Distinctive Schools releasing past accounts payable balances in the prior year and not having that in the current year.

General Fund Sources of Revenue

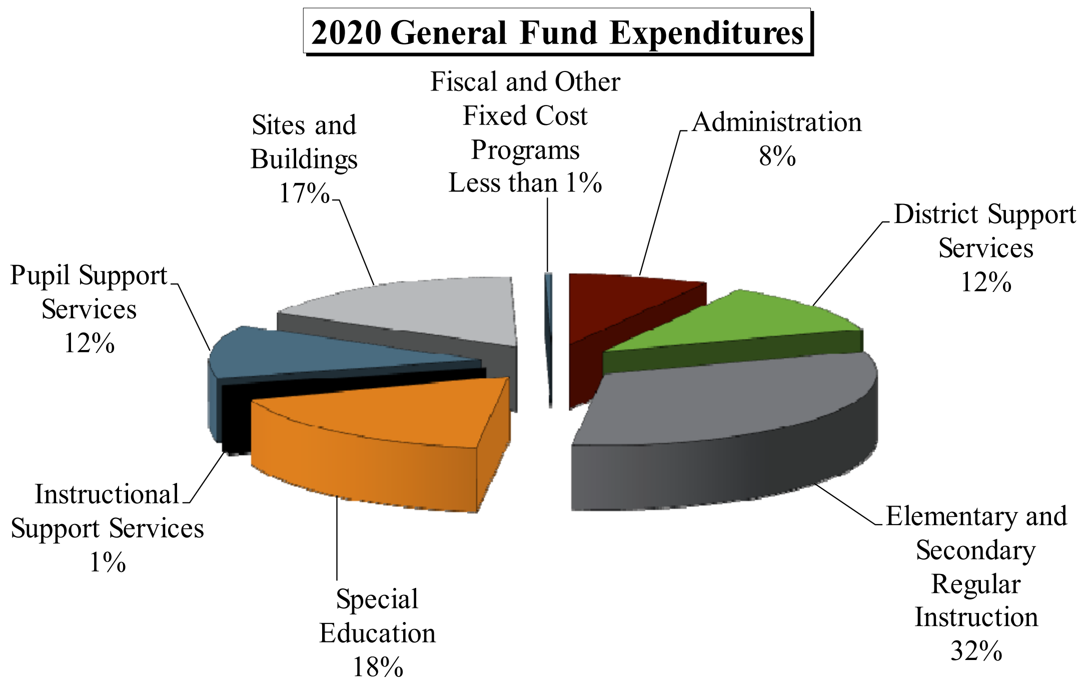


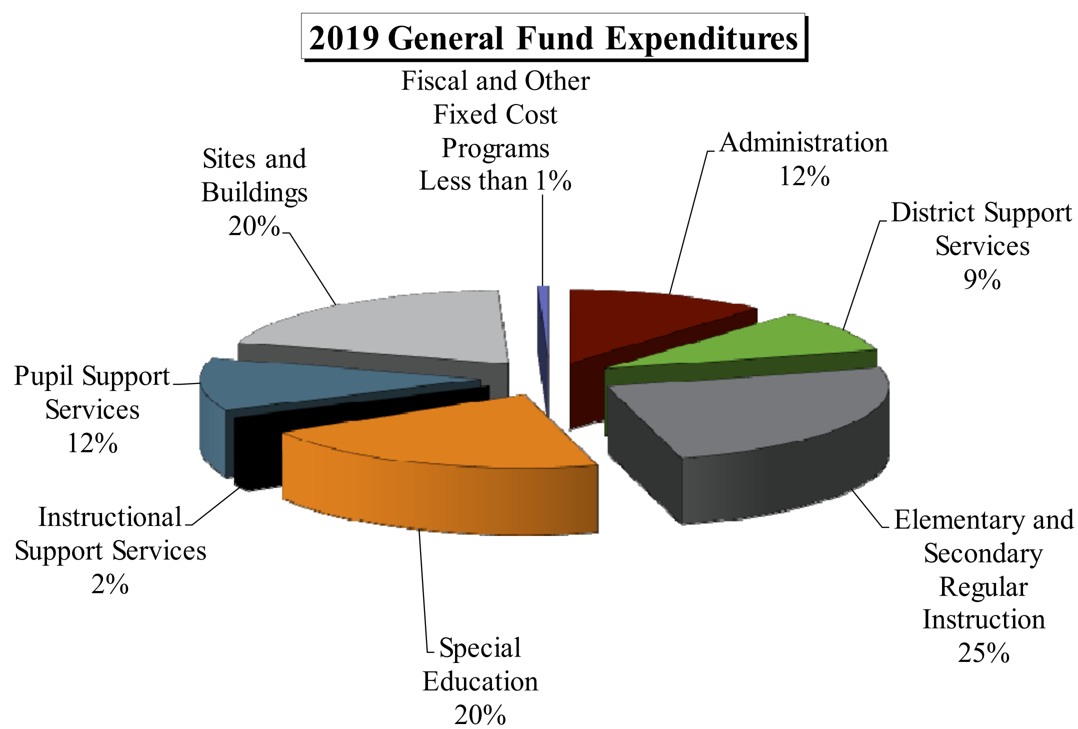
	2016	2017	2018	2019	2020
Federal Sources	$89,596	$295,163	$334,657	$169,730	$196,783
State Sources	1,659,300	2,569,921	2,886,278	2,956,309	2,973,667
Other Revenue	32,649	4,081	23,967	220,507	22,845

Minnesota Excellence in Learning Academy
Financial Analysis

GENERAL FUND EXPENDITURES

The following pie charts illustrate the breakdown of General Fund expenditures by program for the past two years.





Minnesota Excellence in Learning Academy
Financial Analysis

GENERAL FUND EXPENDITURES (CONTINUED)

The General Fund expenditures increased $16,899, or 0.5%, in 2020 over the prior year.

Administration expenditures decreased $99,388 due to not replacing the principal position in 2020, combining it with the Dean of Student role. District support services increased $76,022 due to an increase in salaries and benefits as a result of more COVID-19 assistance by staff. Regular instruction increased by $221,787 due to three new teachers and one new para as well as more COVID-19 related purchases and new math curriculum. Special education decreased $82,804 as a result of less contracted services due to distance learning. Sites and buildings decreased by $95,231 due to rent decreasing in 2020 compared to the prior year. All other programs stayed fairly consistent with the prior year.

General Fund Expenditures					
	2016	**2017**	**2018**	**2019**	**2020**
Administration	$ 178,936	$ 241,688	$ 211,141	$ 359,205	$ 259,817
District Support Services	358,532	406,662	475,762	287,906	363,928
Elementary and Secondary Regular Instruction	648,981	925,781	1,032,231	772,219	994,006
Special Education	168,900	499,724	532,356	637,748	554,944
Instructional Support Services	67,882	91,031	47,036	51,990	39,068
Pupil Support Services	259,699	212,714	263,986	360,587	375,131
Sites and Buildings	329,035	451,917	612,443	613,790	518,559
Fiscal and Other Fixed Cost Programs	12,892	15,868	18,491	16,914	11,805
Total Expenditures	**$ 2,024,857**	**$ 2,845,385**	**$ 3,193,446**	**$ 3,100,359**	**$ 3,117,258**

Below is a chart showing the Academy's expenditures per ADM served. Expenditures per ADM served were above the state average per student served in the General Fund for 2016 through 2019.

	2016**	**2017****	**2018****	**2019****	**2020***
General Fund	$ 14,207	$ 14,369	$ 15,346	$ 17,632	$ 15,684
Food Service	979	997	923	948	719
Community Service	1	12	47	15	-
State General Fund Average	**$ 11,956**	**$ 12,249**	**$ 12,596**	**$ 13,025**	**Unavailable**

* Estimate
** Amounts listed for 2016-2019 were obtained from the Minnesota Department of Education (MDE) publication, *School District Profiles*.

FOOD SERVICE FUND

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

For Year End June 30	2016	2017	2018	2019	2020
Revenues	$ 117,610	$ 181,781	$ 174,339	$ 156,283	$ 154,975
Expenditures	139,518	197,155	192,134	166,755	142,843
Excess of revenues under expenditures	(21,908)	(15,374)	(17,795)	(10,472)	12,132
Add: Transfer in	-	21,909	15,374	28,266	-
Fund balance, July 1	-	(21,908)	(15,373)	(17,794)	-
Fund Balance, June 30	**$ (21,908)**	**$ (15,373)**	**$ (17,794)**	**$ -**	**$ 12,132**

In four out of the five years presented, expenditures exceeded revenues in the Food Service Fund, ultimately requiring a subsidy from the General Fund. In 2020, revenues exceeded expenditures for the first time causing a positive fund balance. This was a result of the decrease in expenditures in food costs and salaries.

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Legislative Summary

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

State Aid Appropriations
The formula allowance for 2020 General Education Aid was increased $126 (2%) to $6,438. For 2021, the formula allowance is set at $6,567, which is an increase of $129, or 2%.

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

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

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

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

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

The special education hold harmless guarantee was limited to the sum of 90% in 2020, and will be limited to 85% in 2021, 80% in 2022, and 75% in 2023 and later, of current year special education program costs plus 100% of special transportation costs plus the tuition adjustment. The annual inflation adjustment used in the calculation of the hold harmless will be reduced by 0.2% per year from 4.4% in 2021 until the inflation adjustment reaches 2.0%.

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Legislative Summary

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

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

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

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

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

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

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

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

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

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

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

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

Voluntary Prekindergarten (VPK)/School Readiness Plus
For 2020 and 2021 only, the 4,000 seats currently expiring after 2019 will continue to be funded.

Pension Bill
Augmentation has been eliminated for TRA members after December 31, 2017, and early retirement subsidies have been phased out.
Post-retirement cost of living adjustments (COLAs) have been reduced –

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

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.

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Emerging Issue

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

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

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

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – *LEASES*

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

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

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

ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 87 – *LEASES* (CONTINUED)

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

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

GASB Statement No. 87 is effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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