

**Bdote Learning Center
Charter School No. 4226
Minneapolis, Minnesota**

Communications Letter

June 30, 2020



**Bdote Learning Center
Charter School No. 4226
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Report on Matters Identified as a Result of the Audit of the Financial Statements

Board of Directors and Management
Bdote Learning Center
Minneapolis, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bdote Learning Center, Minneapolis, 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 School's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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 School'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 what we would 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.

This communication is intended solely for the information and use of the School Board and others within the School 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
October 23, 2020

**Bdote Learning Center
Charter School No. 4226
Required Communication**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Bdote Learning Center, 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 School's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the School 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 supplement(s) 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 taken as a whole.

Our Responsibility in Relation to *Government Auditing Standards*

As communicated in our engagement letter, part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School'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.

**Bdote Learning Center
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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 School 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 School 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.

**Bdote Learning Center
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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 misstatement of the financial statements. Management has determined its effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- Understatement of pension expense and revenue related to direct aid contributions
- Understatement of state 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 School'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 School, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the School, 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 School's auditor.

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Required Communication**

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.

**Bdote Learning Center
Charter School No. 4226
Financial Analysis**

The following pages provide graphic representation of select data pertaining to the financial position and operations of the School for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance. We suggest you view each graph and document if our analysis is consistent with yours.

Average Daily Membership And Pupil Units

For 2020, total ADM served increased by 9.87 ADM. The following summarizes ADM served for the School over the past three years ended June 30:

ADM	2016	2017	2018	2019	2020
Total ADM Served	61.14	76.25	81.50	98.03	107.90
Total ADM Served	61.14	76.25	81.50	98.03	107.90

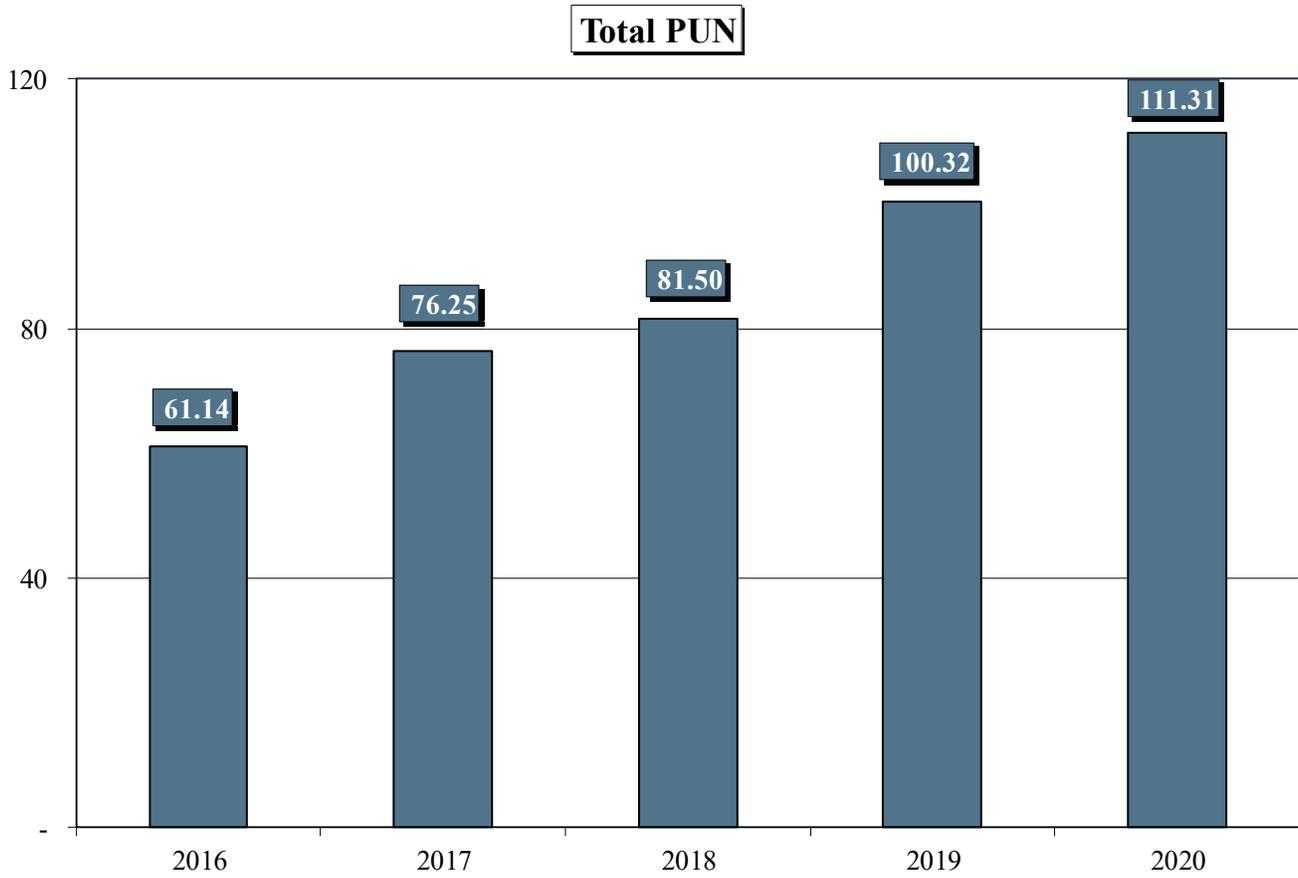
To calculate a majority of the School's education aids, the ADM amounts were converted into pupil units by weighting, based on the student's grade level. The weighting factor for students are presented in the table below.

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 on the following page converts the ADM served into weighted or adjusted pupil unit data for the past five years, taking into consideration the above weighting factors.

**Bdote Learning Center
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Financial Analysis**

Average Daily Membership And Pupil Units (Continued)



**Bdote Learning Center
Charter School No. 4226
Financial Analysis**

General Fund Operations, Budget, And Actual

The table below outlines the School's original and final budget and actual results for the General Fund. The School's original budget anticipated revenues would exceed expenditures by \$23,073. The final budget anticipated revenues would exceed expenditures by \$147,191. The School's revenues were 4.4% over the final budget and expenditures ended 6.3% over budget.

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Other local revenues	\$ 127,150	\$ 304,150	\$ 465,012	\$ 160,862
Revenue from state sources	2,378,646	2,646,292	2,670,407	24,115
Revenue from federal sources	353,300	679,554	652,390	(27,164)
Sales and Other Conversion of Assets	3,200	3,200	6,194	2,994
Interest earnings	150	150	217	67
Total revenues	<u>2,862,446</u>	<u>3,633,346</u>	<u>3,794,220</u>	<u>160,874</u>
Expenditures				
Administration	43,142	158,261	121,039	(37,222)
District support services	211,126	332,235	412,979	80,744
Elementary and secondary regular instruction	854,867	902,101	1,021,892	119,791
Special education instruction	980,867	1,209,931	1,222,227	12,296
Instructional support services	31,622	63,722	115,428	51,706
Pupil support services	466,608	474,739	344,622	(130,117)
Sites and buildings	236,241	328,566	319,439	(9,127)
Fiscal and other fixed cost programs	14,900	16,600	12,885	(3,715)
Total expenditures	<u>2,839,373</u>	<u>3,486,155</u>	<u>3,570,511</u>	<u>84,356</u>
Excess of revenues over expenditures	23,073	147,191	223,709	76,518
Other Financing Use				
Transfers out	<u>(4,000)</u>	<u>(4,000)</u>	<u>(14,262)</u>	<u>(10,262)</u>
Net change in fund balances	\$ 19,073	\$ 143,191	\$ 209,447	\$ 66,256

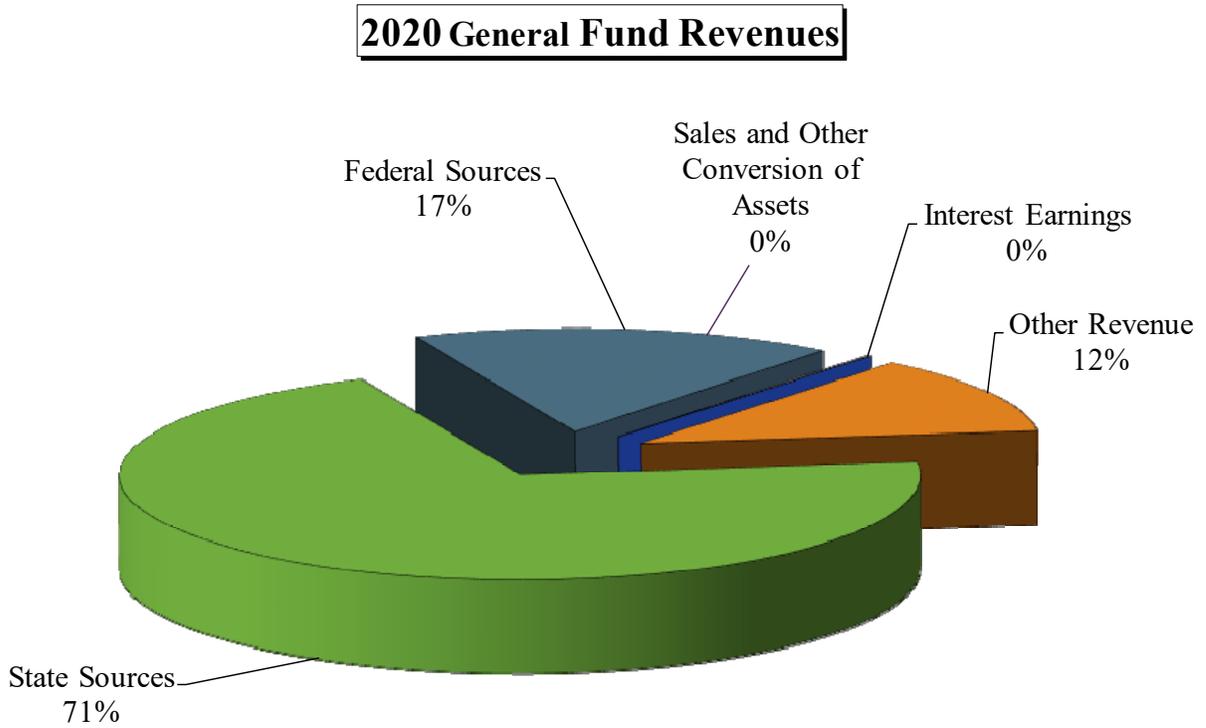
Other local revenues were over budget by \$160,862 as a result of more donations during the year.

District support services were \$80,744 over budget due to coding changes. Regular instruction expenditures were \$119,791 over budget due to hiring seven new staff and not accounting for all hires in the budget. Instructional support expenditures were \$51,706 over budget as a result of coding 100% of the Curriculum Coordinator in this category for fiscal year 2020. Pupil support services were \$130,117 under budget due to general transportation costs coming in less than anticipated due to purchasing a vehicle for transportation and due to distance learning at the end of the year.

**Bdote Learning Center
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Financial Analysis**

General Fund Revenues and Expenditures

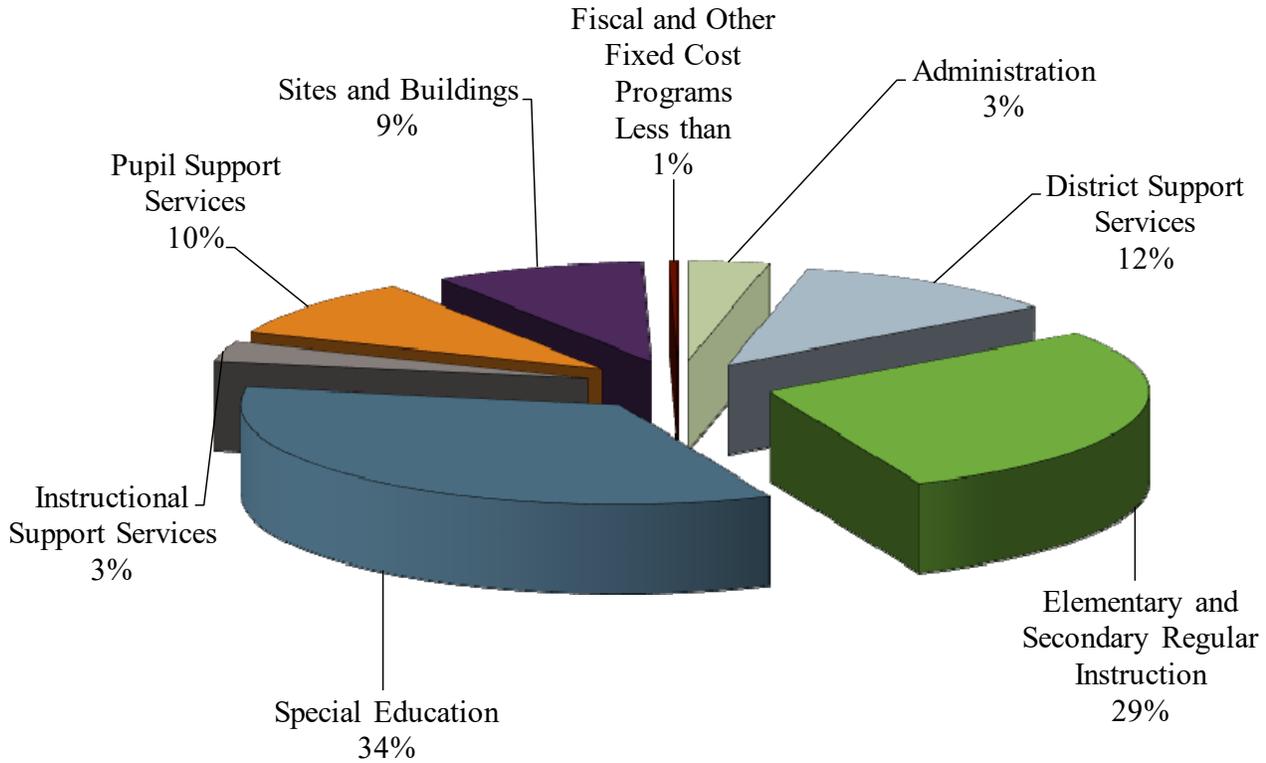
The following pie charts illustrate the breakdown of General Fund revenues and expenditures by program for the current year:



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Financial Analysis**

General Fund Revenues and Expenditures (Continued)

2020 General Fund Expenditures



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

For Year End June 30	2016	2017	2018	2019	2020
Revenues	\$ 1,628,185	\$1,645,111	\$ 2,311,726	\$ 2,726,961	\$ 3,794,220
Expenditures	1,602,183	1,771,069	2,218,595	2,728,866	3,570,511
Excess of revenues over (under) expenditures	26,002	(125,958)	93,131	(1,905)	223,709
Less: transfer out	(30,100)	(27,674)	(5,560)	-	(14,262)
Fund balance, July 1	26,294	22,196	(131,436)	(43,865)	(45,770)
Fund Balance, June 30	\$ 22,196	\$ (131,436)	\$ (43,865)	\$ (45,770)	\$ 163,677

For the year ended June 30, 2020, total revenues increased by \$1,067,259 compared to the prior year. At the same time, total expenditures increased by \$841,645. The School's General Fund revenues exceeded expenditures by \$223,709 for 2020. Revenues increased due to the increase in enrollment, an increase in aid received for special education, an increase in donations as well as an increase in the formula allowance. Expenditures increased primarily as a result of the hiring new teachers and more special education needs with an increase in student population.

The General Fund had a positive fund balance of \$163,677 at June 30, 2020. The School's unrestricted, operating fund balance is also positive, equaling 4.6% of operating expenditures.

**Bdote Learning Center
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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 2019 General Education Aid was increased \$124 (2%) to \$6,312. For 2020 and 2021, the formula allowance is set at \$6,438 and \$6,567, respectively, which is an increase of 2% each year.

Compensatory Revenue

The compensatory pilot grants have been added permanently to regular compensatory revenue at the 2017 level. A percentage of the total compensatory revenue (regular plus pilot grant) must be used for extended time activities. This percentage was 3.5% for 2019. For 2020 and 2021, this percentage increases based on the 2% increases each year in the formula allowance to 5.5% and 7.5%, respectively.

Special Education

Beginning in 2020, cross subsidy reduction aid will be established as a new component of the special education aid formula. Cross subsidy reduction aid will be 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 will be reduced from 90% to 85% of unfunded costs for 2020 and to 80% for 2021 and later. The hold harmless calculation will be adjusted to reduce reliance on the 2016 base and factor in current year costs.

For 2020, the special education aid cap is 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 is limited to the sum of 90% in 2020, 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 4.6% in 2020 until the inflation adjustment reaches 2.0%.

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. Total amounts available state-wide will be \$45.2 million in 2020 and \$52.5 million in 2021.

The equalizing factor for tier 2 of the operating referendum was increased from \$510,000 to \$567,000.

**Bdote Learning Center
Charter School No. 4226
Legislative Summary**

Board Control of Extracurricular Activities

School boards are required to take charge of and control all extracurricular activities. School districts are required to reserve revenue raised for extracurricular activities and spend the revenue only for extracurricular activities.

Safe Schools Supplemental Aid

Funding is contingent based on the 2019 closing balance and will be up to \$30 million. The aid will be allocated among districts and charter schools based on total adjusted ADMs for 2018. The aid will be available beginning October 1, 2019, and will be allocated during 2020. 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.

Safe Schools Revenue

Revenue is \$54/PU for 2019 and \$41.50/PU for 2020 and later with a maximum revenue of \$30,000 per District for 2019 and later. Districts must annually report safe schools expenditures to MDE by area and any new staff positions hired beginning in 2019.

Disposal of Surplus Computers

School districts are authorized to sell or give surplus computers to charitable organizations for educational use or to currently enrolled students who intend to enroll the following year.

Energy Use Reductions and Reporting

School districts are required to enter and maintain monthly consumption data into the Minnesota B3 benchmarking program for each school building.

Pension Bill

Augmentation has been eliminated for TRA members after 12/31/17, 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 5 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 FY2024. Required employer contributions will increase 0.21% for FY2019 to FY2023 and 0.2% in FY2024 until a required contribution rate of 8.75% is reached.

Pension adjustment revenue will increase to match the required contribution increases.

**Bdote Learning Center
Charter School No. 4226
Emerging Issue**

Executive Summary

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

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

The following are extensive summaries 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 School.

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.

**Bdote Learning Center
Charter School No. 4226
Emerging Issue**

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

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

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

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

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