Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

Communications Letter

June 30, 2020

Independent School District No. 877
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Report on Matters Identified as a Result of the Audit of the Financial Statements

To the School Board and Management
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

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

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

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 October 14, 2020, on such statements.

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 14, 2020

Independent School District No. 877
Required Communication

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

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

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

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

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic 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. 877
Required Communication

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

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 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.

Qualitative Aspects of Significant Accounting Practices (Continued)

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 estimate/s affecting the financial statements were:

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

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

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

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

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

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

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

Uncorrected and Corrected Misstatements (Continued)
Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

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 District's financial statements or the auditor's report. No such disagreements arose during the course of our audit.

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

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

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

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

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

Other Information in Documents Containing Audited Financial Statements (Continued)

We were not engaged to report on the other information accompanying the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Independent School District No. 877
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.

Average Daily Membership and Pupil Units

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

	General Education Aid Formula Allowance	
Year	Amount	Percent Increase
2011	$ 5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%

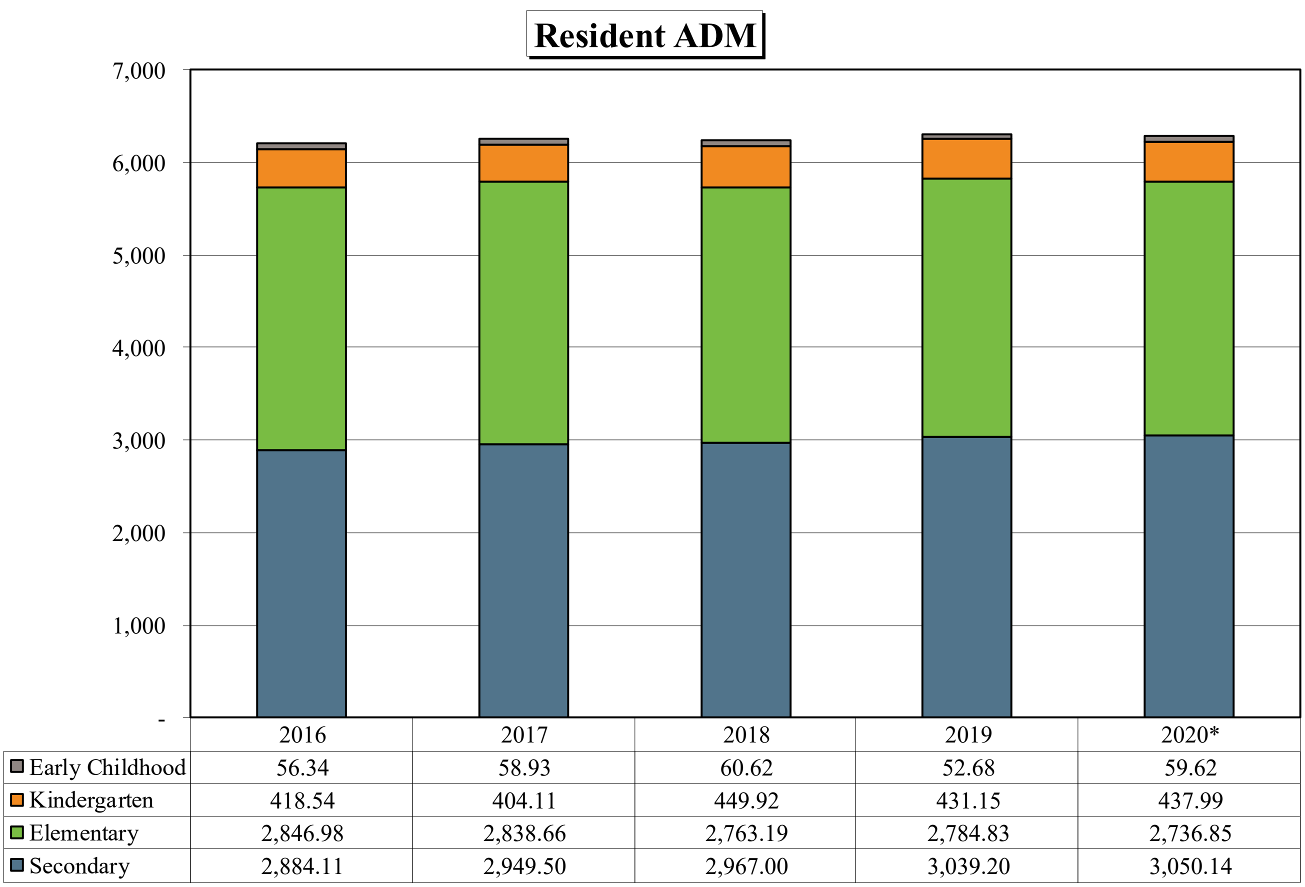
* General Education Aid - Of the $529 increase over 2014, $105 is for inflation at 1.9%; the remaining $424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

Independent School District No. 877
Financial Analysis

Resident Average Daily Membership and Pupil Units

Approximately 83% of the District's General Fund revenue is from the state. A majority of this funding is based on student counts, so an understanding of the District's population trends is critical to overall budgeting plans. The following table and graph summarizes resident average daily membership (ADM) of the District for the past five years ended June 30.

ADM	2016	2017	2018	2019	2020*
Early Childhood	56.34	58.93	60.62	52.68	59.62
Kindergarten	418.54	404.11	449.92	431.15	437.99
Elementary	2,846.98	2,838.66	2,763.19	2,784.83	2,736.85
Secondary	2,884.11	2,949.50	2,967.00	3,039.20	3,050.14
Total Resident ADM	**6,205.97**	**6,251.20**	**6,240.73**	**6,307.86**	**6,284.60**



* Estimate as of September 21, 2020

Resident Average Daily Membership and Pupil Units (Continued)
The chart and graph on the previous page illustrate the fluctuations in resident ADM experienced by the District over the past five years. Total resident ADM increased 1.3% since 2016 and decreased 0.4% from 2019. The majority of the increase from 2016 was in secondary ADM, increasing 166.03 units over that timeframe.

To calculate a majority of the District'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.

Pupil Units Weighting				
	Pre-Kindergarten and Handicapped Kindergarten	Part-time and All-Day Kindergarten	Elementary Grades 1-3/4-6	Secondary
2016-2020	1.000	0.612/1.000	1.000	1.200

The total pupil units are converted to adjusted pupil units, which also may be used to calculate the District'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.

The pupil units weighting (PUN) served table below and graph on the following page, converts the resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

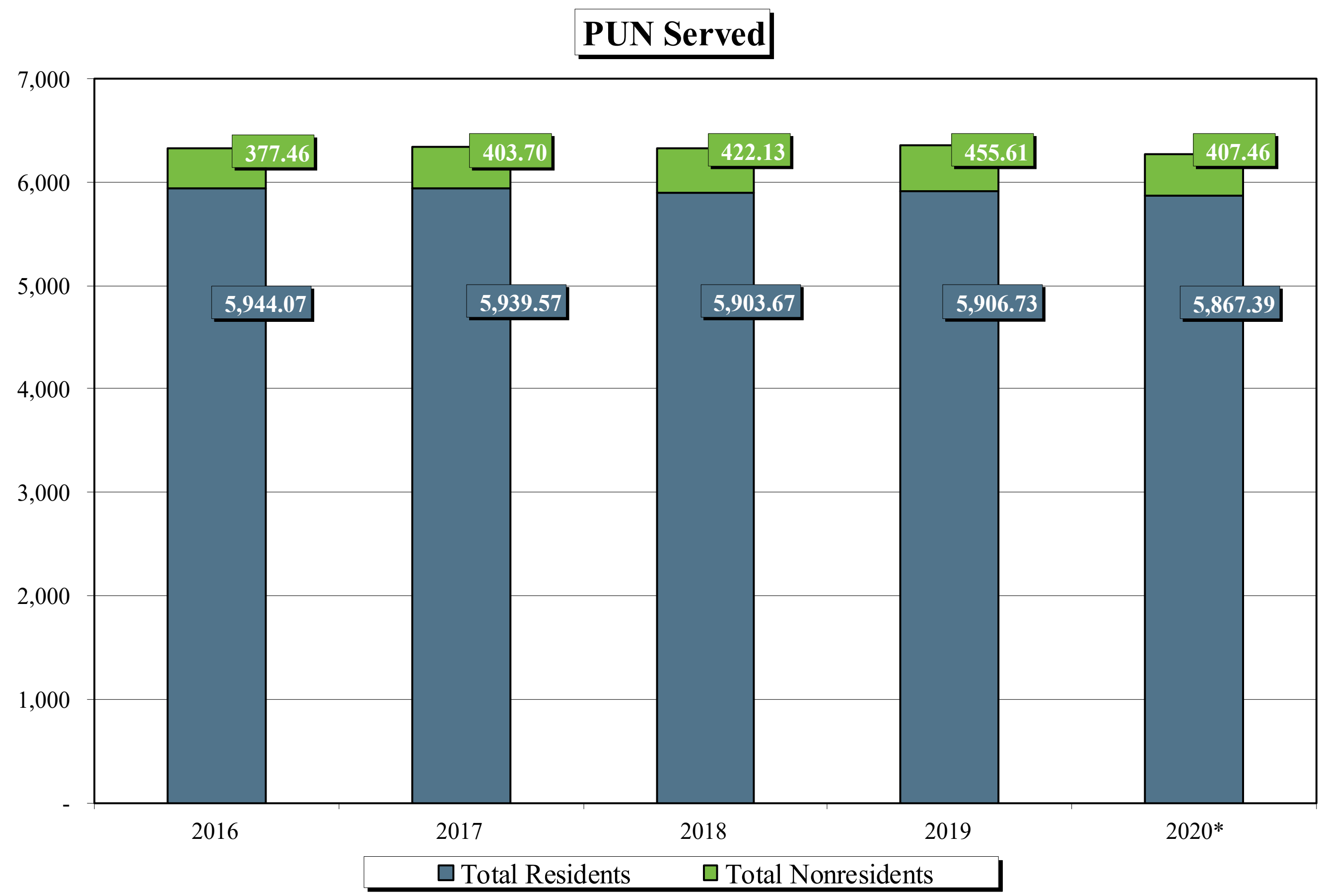
PUN	2016	2017	2018	2019	2020*
Residents	6,780.39	6,840.28	6,834.04	6,915.71	6,894.53
Resident PUN loss	(836.32)	(900.71)	(930.37)	(1,008.98)	(1,027.14)
Nonresident PUN gain	377.46	403.70	422.13	455.61	407.46
Total PUN Served	**6,321.53**	**6,343.27**	**6,325.80**	**6,362.34**	**6,274.85**

* Estimate as of September 21, 2020

Resident PUN decreased from 2019 by 21.18 units. PUN served has varied from year-to-year based on open enrollment. From 2019 to 2020, total PUN served decreased 87.49 units as a result of the decreases in resident PUN and nonresident PUN gain.

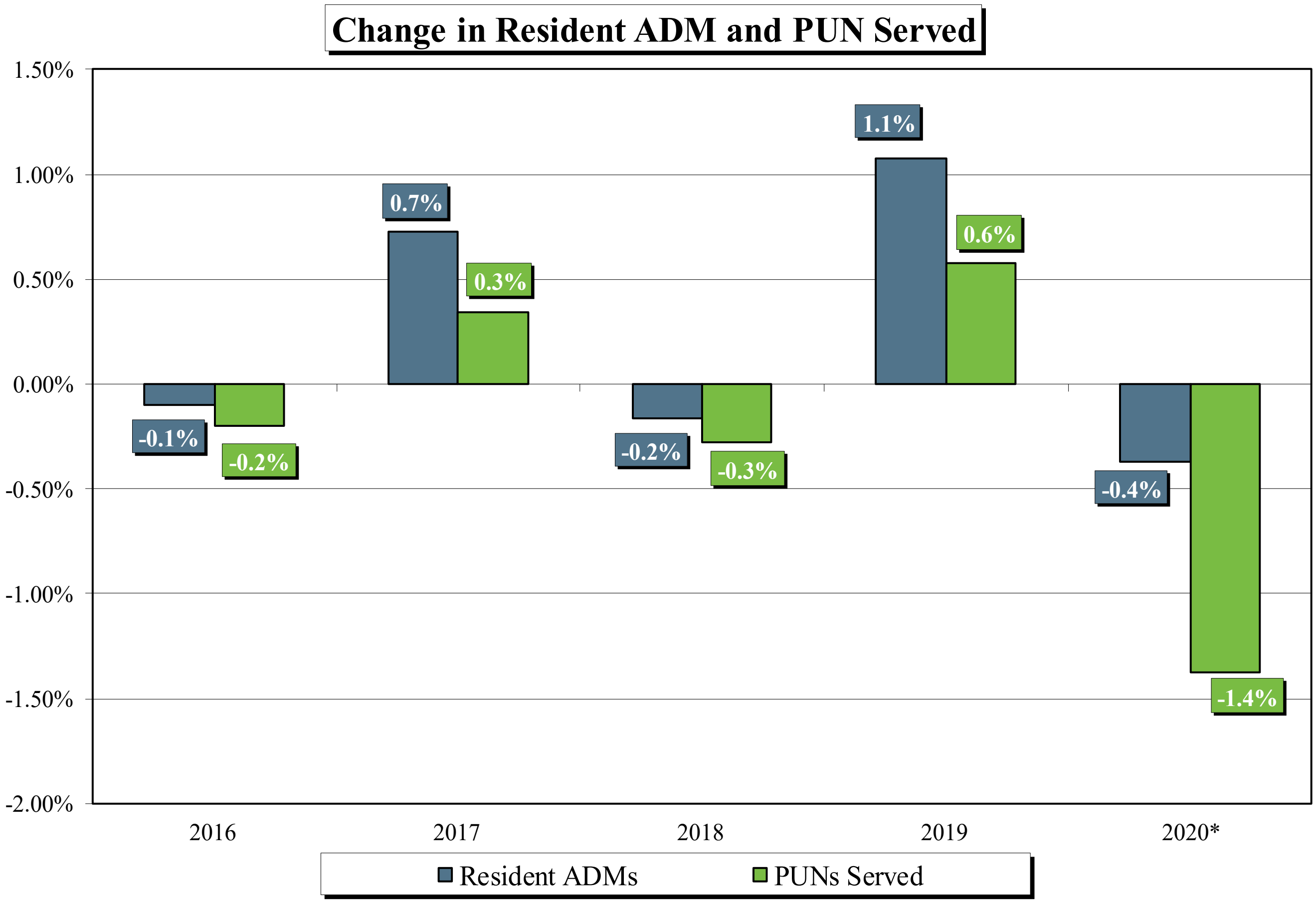
Independent School District No. 877
Financial Analysis

Pupil Units Weighting Served



Independent School District No. 877
Financial Analysis

Pupil Units Weighting Served (Continued)



Independent School District No. 877
Financial Analysis

General Fund Revenues Budget and Actual

The graph below outlines the District's final budget and actual results for the General Fund.

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 7,457,205	$ 7,418,516	$ 7,557,111	$ 138,595
Other local revenues	2,268,824	1,831,024	1,971,135	140,111
Revenue from state sources	56,431,359	56,676,566	56,801,416	124,850
Revenue from federal sources	2,322,773	2,101,957	2,135,166	33,209
Sales and other conversion of assets	36,300	24,815	16,655	(8,160)
Total revenues	68,516,461	68,052,878	68,481,483	428,605
Expenditures				
Administration	1,851,796	1,878,382	1,850,020	(28,362)
District support services	1,698,694	1,732,481	1,654,420	(78,061)
Regular instruction	31,886,759	31,235,448	29,954,267	(1,281,181)
Vocational instruction	1,886,589	1,805,306	1,707,497	(97,809)
Special education instruction	12,680,039	11,992,044	12,053,067	61,023
Instructional support services	5,814,625	5,559,656	5,266,637	(293,019)
Pupil support services	7,252,262	7,229,435	6,982,599	(246,836)
Sites and buildings	7,996,749	7,529,046	7,545,782	16,736
Fiscal and other fixed cost programs	253,102	257,621	193,347	(64,274)
Debt service	202,080	202,080	202,081	1
Total expenditures	71,522,695	69,421,499	67,409,717	(2,011,782)
Excess of revenues over (under) expenditures	$ (3,006,234)	$ (1,368,621)	$ 1,071,766	$ 2,440,387

The District approved a final General Fund revenue budget of $68,052,878. With actual revenues coming in at $68,481,483, the final budget produced a variance of $428,605. The largest variance was in other local revenues which were primarily over budget due to a conservative budget for investment income.

In total, General Fund expenditures were under budget 2.9% or $2,011,782. Regular instruction was the largest components of the variance with salaries and benefits coming in under budget due to staffing changes and not using as many substitutes during COVID; textbooks and instructional supplies also came in under budget.

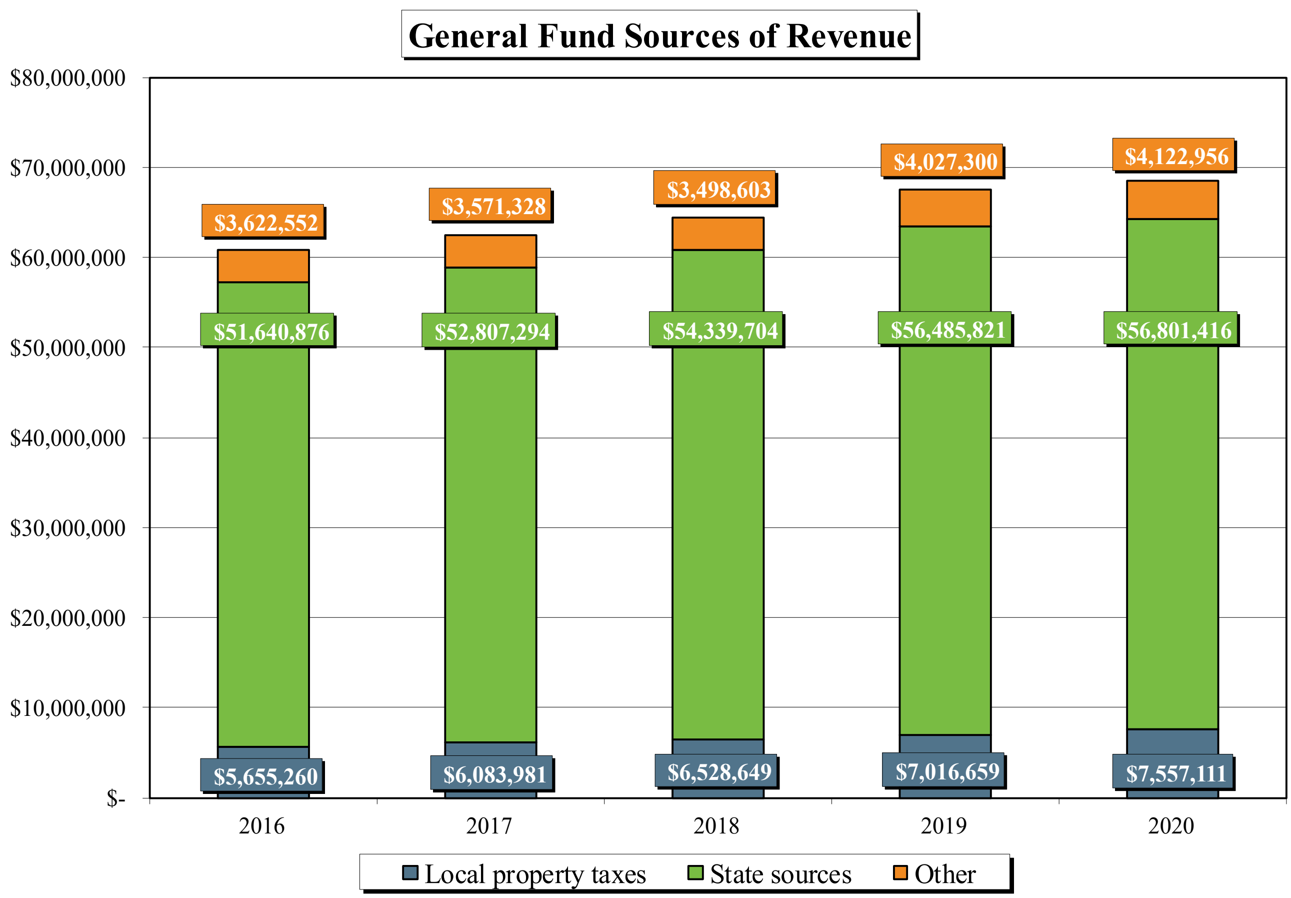
Independent School District No. 877
Financial Analysis

General Fund Sources of Revenue

General Fund sources of revenue are summarized as follows for the last five years:

	2016	2017	2018	2019	2020
Local property taxes	$ 5,655,260	$ 6,083,981	$ 6,528,649	$ 7,016,659	$ 7,557,111
State sources	51,640,876	52,807,294	54,339,704	56,485,821	56,801,416
Other	3,622,552	3,571,328	3,498,603	4,027,300	4,122,956
Total	**$ 60,918,688**	**$ 62,462,603**	**$ 64,366,956**	**$ 67,529,780**	**$ 68,481,483**

Total general fund revenue increased $951,703 or 1.4%. State revenue sources, which make up approximately 82.9% of total revenues, increased by $315,595 for the year ended June 30, 2020, while local property taxes increased by $540,452 and other sources increased $95,656. Included in other revenues are local, county, and federal revenues. Factors contributing to these changes include increases in special education and safe schools revenues and an increase in the amounts levied during the year.



Independent School District No. 877
Financial Analysis

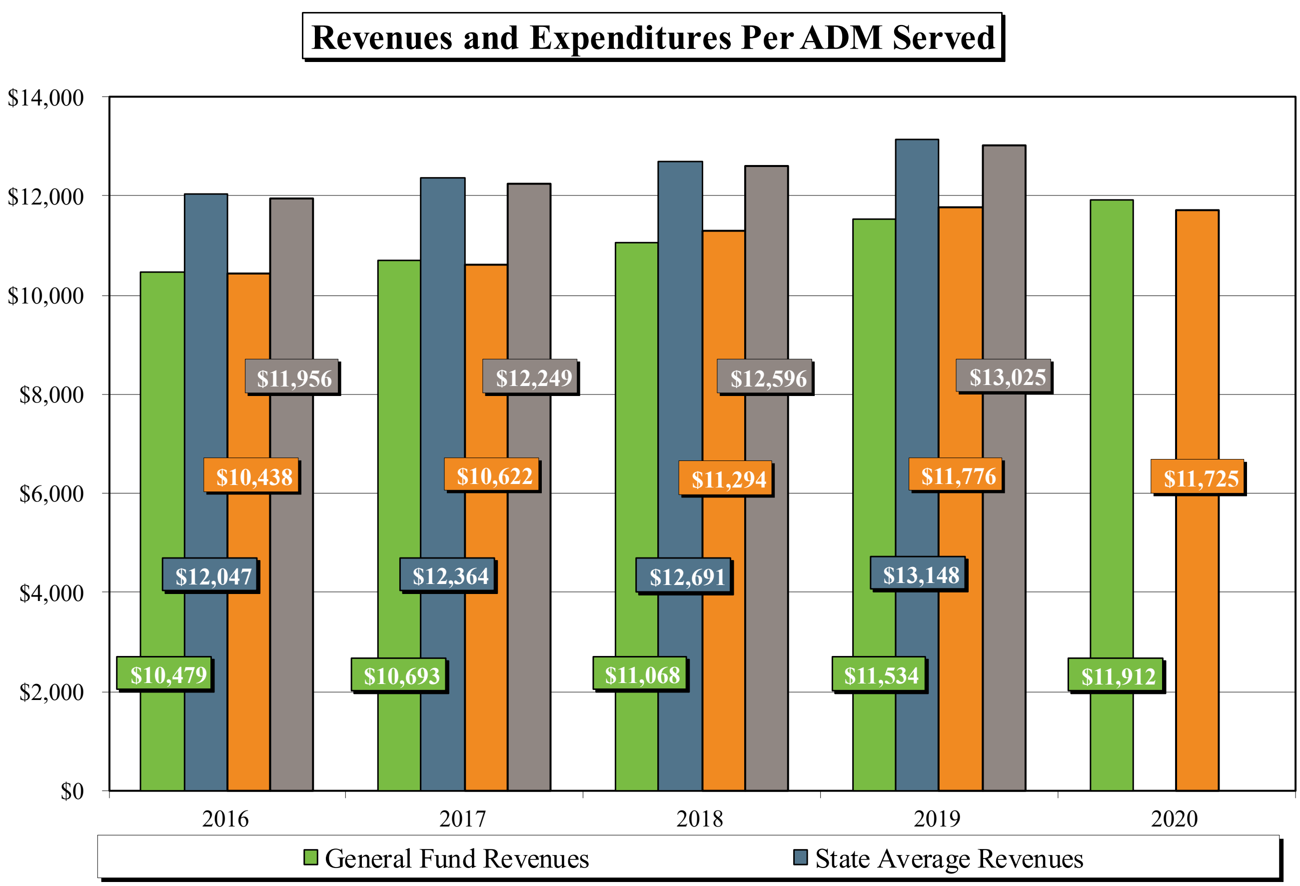
Revenues and Expenditures Per ADM Served

General Fund revenues per students (ADM) served, are summarized in the following table, and graph:

	2016	2017	2018	2019	2020
General Fund	$ 10,479	$ 10,693	$ 11,068	$ 11,534	$ 11,912
General Fund state average	12,047	12,364	12,691	13,148	N/A

General Fund expenditures per students (ADM) served are summarized in the following table, and graph.

	2016	2017	2018	2019	2020
General Fund	$ 10,438	$ 10,622	$ 11,294	$ 11,776	$ 11,725
General Fund state average	11,956	12,249	12,596	13,025	N/A

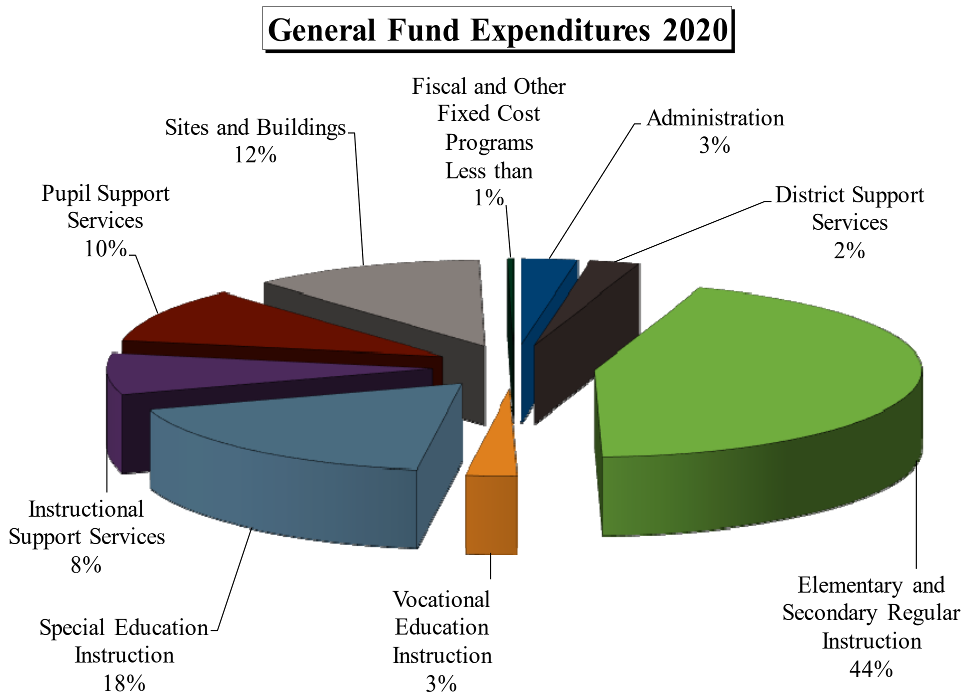


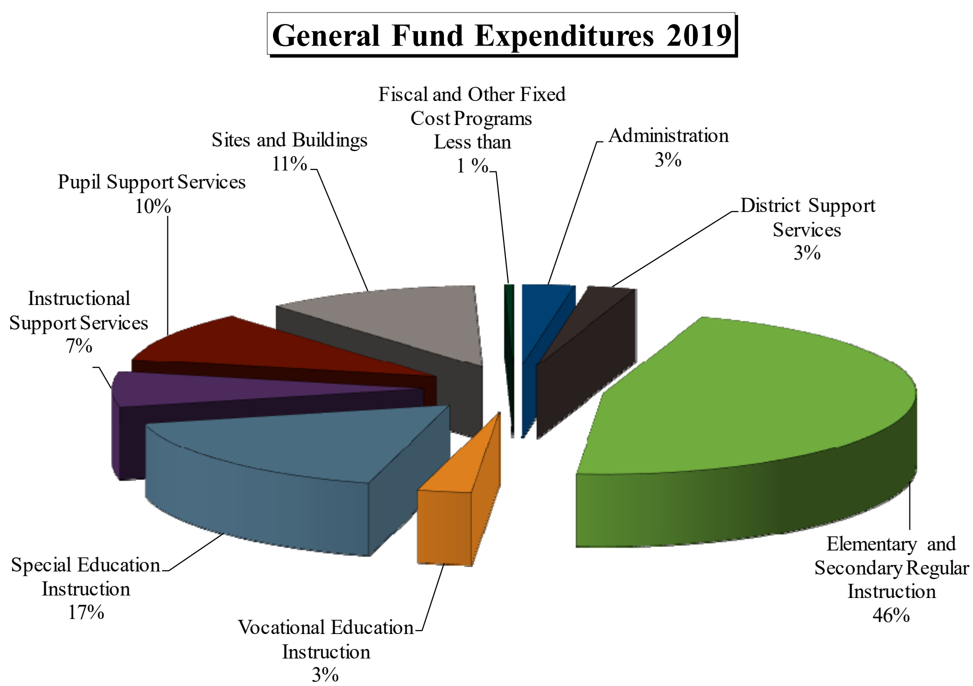
Revenues per ADM have consistently been below the state average, the largest variance is in property tax revenue per ADM. The District also receives less General Education Aid and federal aids per ADM. In relation to this, as a result of bringing in less revenue per ADM, the District is spending less per ADM than the state average.

Independent School District No. 877
Financial Analysis

General Fund Expenditures

The graphs below depict the percentage of expenditures by function in the General Fund for years 2019 and 2020. Expenditures decreased by $1,531,248, or 2.2%, from 2019 to 2020, and the allocation of expenditures remained very consistent. Education programs and instructional support made up 73% of the District's expenditures, for 2020 and 2019. Only 5% and 6% of expenditures were attributable to Administration and District support services, respectively for 2020 and 2019.





Independent School District No. 877
Financial Analysis

General Fund Operations

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

	2016	2017	2018	2019	2020
Revenues	$ 60,918,688	$ 62,462,603	$ 64,366,956	$ 67,529,780	$ 68,481,483
Expenditures	60,679,186	62,888,607	65,672,883	68,940,965	67,409,717
Excess of revenues over (under) expenditures	239,502	(426,004)	(1,305,927)	(1,411,185)	1,071,766
Transfers/other financing sources and uses	105,637	840,233	4,701	7,964	616
Change in accounting principle	-	-	-	-	28,484
Fund balance, July 1	16,611,595	16,956,734	17,370,963	16,069,737	14,666,516
Fund Balance, June 30	$ 16,956,734	$ 17,370,963	$ 16,069,737	$ 14,666,516	$ 15,767,382

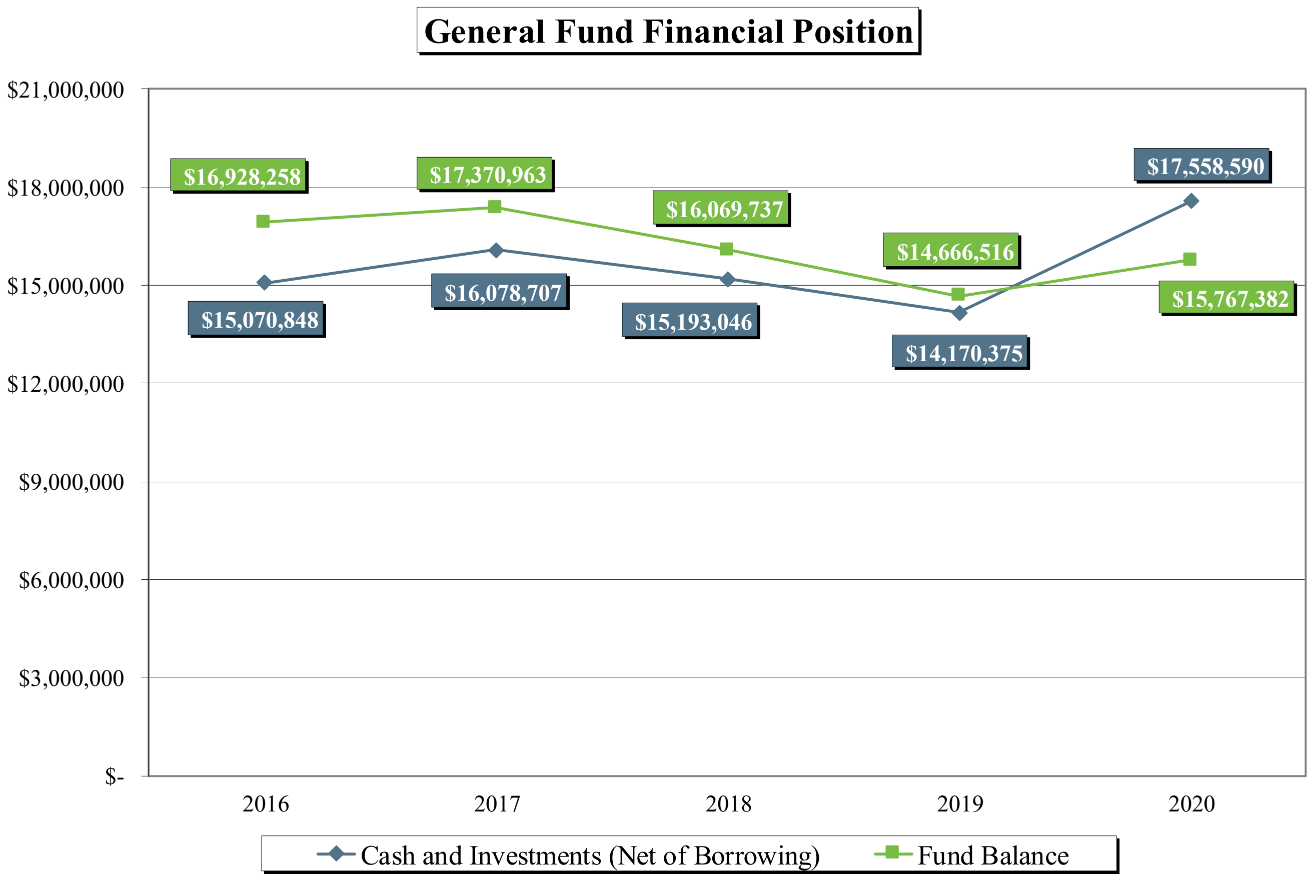
Components					
Unassigned	$ 9,739,003	$ 9,973,930	$ 8,430,222	$ 6,136,605	$ 7,850,572
Nonspendable	262,877	369,130	504,349	574,149	559,231
Reserved/restricted for					
Student activities	-	-	-	-	26,151
Staff development	62,695	10,569	-	-	-
Teacher development and evaluations	103,247	103,247	103,247	103,096	-
Operating capital	614,500	698,826	734,140	733,445	1,015,094
Health and safety	(64,860)	(16,495)	-	-	-
Long-term facility maintenance	-	104,729	(150,913)	(71,833)	(115,278)
Medical assistance	-	89,096	124,412	217,324	308,929
Committed/assigned for					
Separation benefits	4,165,436	3,495,768	3,420,225	3,340,760	2,615,036
Student activities	356,604	399,325	360,854	389,589	403,592
3rd party special education	560,353	560,353	560,353	560,353	-
Q Comp	-	-	-	66,719	105,022
Capital	654,758	1,058,630	1,459,667	1,833,715	1,833,715
Carryover	355,597	342,530	301,525	587,621	904,295
Dental insurance	146,524	181,325	221,656	194,973	261,023
Total	$ 16,956,734	$ 17,370,963	$ 16,069,737	$ 14,666,516	$ 15,767,382

Total General Fund revenue increased 1.4% from 2019 to 2020 as previously discussed.

Total General Fund expenditures decreased 2.2% from 2019 to 2020. This decrease was mostly due to the large decrease in expenditures for textbooks and supplies.

Revenues exceeded expenditures during 2020, increasing fund balance by $1,071,766.

General Fund Operations (Continued)



This graph outlines the cash and investments (net of borrowing) and the fund balance for the General Fund for the past five years. A healthy fund balance allows the District to maintain a positive operating cash position when expenditures are timed prior to the receipt of significant revenues, including state aid and local property tax levies. At year-end when expenditure needs are significant and revenue receipts are delayed until subsequent to year-end, an increased positive fund balance position reduces the reliance on short-term borrowing.

The state pays out 90% of its aids during the fiscal year, with the remaining 10% coming after year-end.

Independent School District No. 877
Financial Analysis

Food Service Fund

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

For the Year Ended June 30,	2016	2017	2018	2019	2020
Revenues	$ 3,073,403	$ 3,160,305	$ 2,992,988	$ 3,055,039	$ 3,431,084
Expenditures, excluding OPEB	2,841,565	2,860,199	3,078,905	2,910,459	3,122,854
Excess of revenues over (under) expenditures	231,838	300,106	(85,917)	144,580	308,230
Transfers/other financing sources	-	-	-	5,575	453
Fund balance, July 1	25,560	257,398	557,504	471,587	621,742
Fund Balance, June 30	$ 257,398	$ 557,504	$ 471,587	$ 621,742	$ 930,425

In 2020, revenues exceeded expenditures by $308,230. Revenues increased $376,045; a result of increases in the summer food service program due to COVID and the stay at home order. Expenditures increased $212,395 from the prior year due to increased food costs.

Community Service Fund

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

For the Year Ended June 30,	2016	2017	2018	2019	2020
Revenues	$ 3,700,202	$ 3,830,996	$ 3,719,931	$ 3,687,299	$ 3,380,387
Expenditures, excluding OPEB	3,836,358	3,955,606	3,679,358	3,444,580	3,472,360
Excess of revenues over (under) expenditures	(136,156)	(124,610)	40,573	242,719	(91,973)
Fund balance, July 1	(55,909)	(192,065)	(316,675)	(276,102)	(33,383)
Fund Balance, June 30	$ (192,065)	$ (316,675)	$ (276,102)	$ (33,383)	$ (125,356)
Components					
Unreserved/unassigned	$ (22,059)	$ (38,646)	$ (44,723)	$ (44,476)	$ (50,506)
Nonspendable	7,572	15,623	5,969	390	5,168
Restricted/reserved for					
ECFE	(27,519)	28,167	86,893	122,452	114,542
Community education	(124,082)	(325,599)	(300,928)	(115,528)	(226,840)
School readiness	(38,190)	(8,565)	(35,658)	(8,566)	19,935
Adult basic education	12,213	12,345	12,345	12,345	12,345
Total	$ (192,065)	$ (316,675)	$ (276,102)	$ (33,383)	$ (125,356)

Expenditures exceeded revenues for the third time in the five years presented, causing a decrease in fund balance of $33,383. Revenues decreased $306,912 as a result of less participation in programs due to COVID and the stay at home order. Expenditures increased $27,780, a result of Kidcare providing services to essential workers during the stay at home orders.

Independent School District No. 877
Legislative Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Early childhood screening aid for fiscal years 2020 and 2021 will be calculated using the formula amounts set in 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.

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

Independent School District No. 877
Legislative Summary

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

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

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

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

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

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

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

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

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

Independent School District No. 877
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 updates. 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 June 15, 2021. Earlier application is encouraged.

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