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

Communications Letter

June 30, 2022

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

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

In planning and performing our audit of the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

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

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

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 18, 2022, on such statements.

This communication, which is an integral part of our audit, 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 18, 2022

Independent School District No. 877
Required Communication

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2022. Professional standards require that we advise you of the following matters related to our audit.

Our Responsibility in Relation to the Financial Statement Audit

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

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

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

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

Our responsibility with respect to the other information in documents containing the audited basic financial statements and auditor's report does not extend beyond the basic 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.

Our Responsibility in Relation to *Government Auditing Standards*

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

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

As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Planned Scope and Timing of the Audit

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

Compliance with All Ethics Requirements Regarding Independence

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

Significant Risks Identified

We have identified the following significant risks of material misstatement:

- Improper revenue recognition of state aids and property taxes - revenue recognition is considered a fraud risk on substantially all engagements as it generally has a significant impact on the results of the governments operations. In addition, complexities exist surrounding the calculation and recording of various revenue sources.
- Management override through journal entries - management override of internal control is considered a risk in substantially all engagements as management may be incentivized to produce better results.

Significant Risks Identified (Continued)

- Misappropriation of assets through payroll - if duties cannot be appropriately segregated within the accounting and finance department, there is a risk of unauthorized transaction and adjustments being made to the District's general ledger. In addition, generally this results in less review taking place as transactions are recorded in the financial statements.

Qualitative Aspects of the District's Significant Accounting Practices

Significant Accounting Policies
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in the notes to the basic financial statements. There have been no initial selection of accounting policies and no changes to significant accounting policies or their application during 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

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

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

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.

Qualitative Aspects of the District's Significant Accounting Practices (Continued)

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

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

Significant Difficulties Encountered during the Audit
We encountered no significant difficulties in dealing with management relating to the performance of the audit.

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

Management did not identify and we did not notify them of any uncorrected basic 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 basic 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 basic financial statements or the auditor's report. No such disagreements arose during the course of our audit.

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

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

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

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

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

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

We were not engaged to report on the other information accompanying the basic 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.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the basic financial statements.

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.

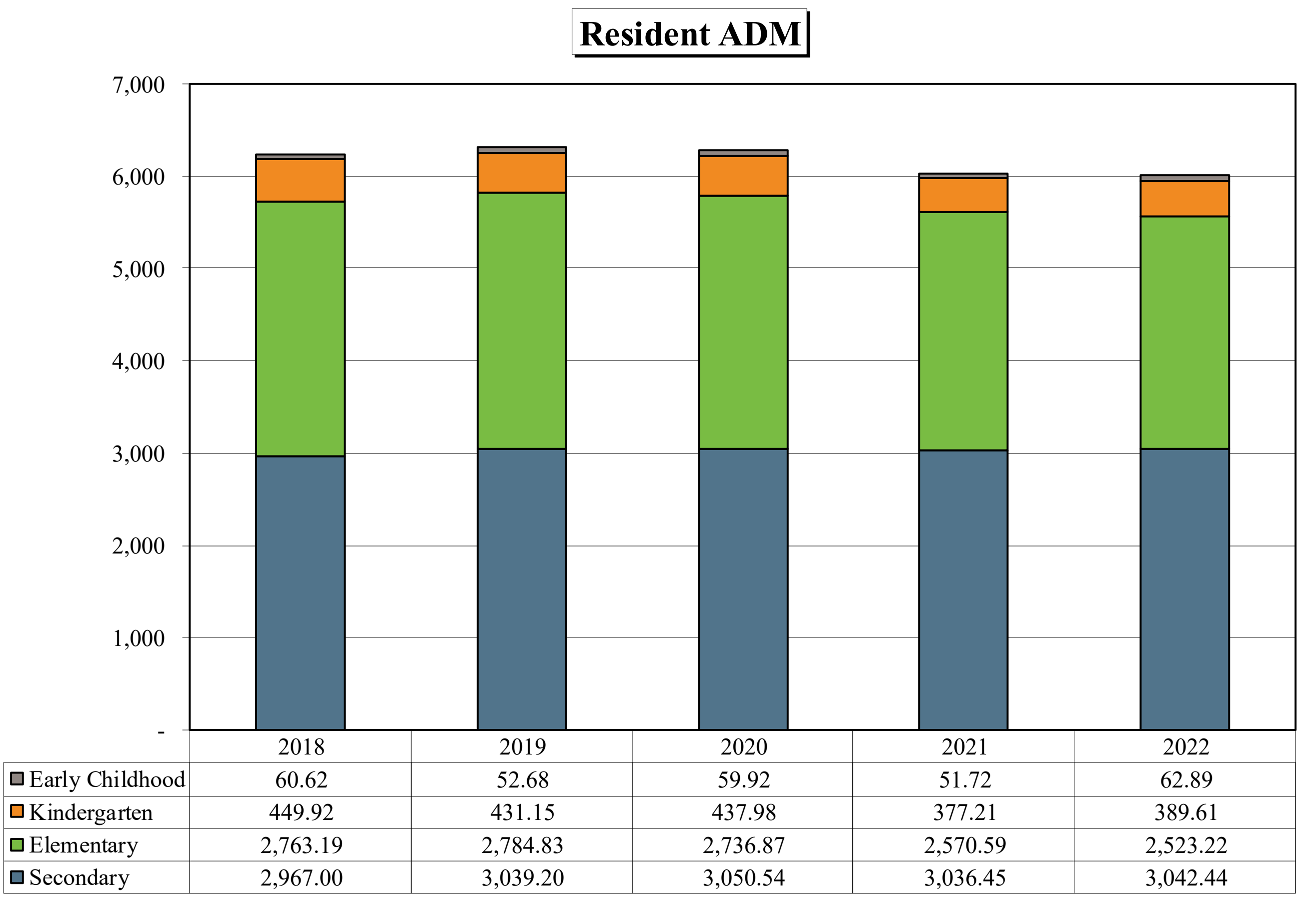
	General Education Aid Formula Allowance	
Year	Amount	Percent Increase
2013	$ 5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%
2022	6,728	2.5%
2023	6,863	2.0%

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

Resident Average Daily Membership and Pupil Units

Approximately 75% 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	2018	2019	2020	2021	2022
Early Childhood	60.62	52.68	59.92	51.72	62.89
Kindergarten	449.92	431.15	437.98	377.21	389.61
Elementary	2,763.19	2,784.83	2,736.87	2,570.59	2,523.22
Secondary	2,967.00	3,039.20	3,050.54	3,036.45	3,042.44
Total Resident ADM	**6,240.73**	**6,307.86**	**6,285.31**	**6,035.97**	**6,018.16**



* Estimate as of September 29, 2022

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 decreased 3.6% since 2018 and decreased 0.3% from 2021. The largest component of the decrease from 2018 was in elementary ADM, decreasing 239.97 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
2018-2022	1.000	0.612/1.000	1.000	1.200

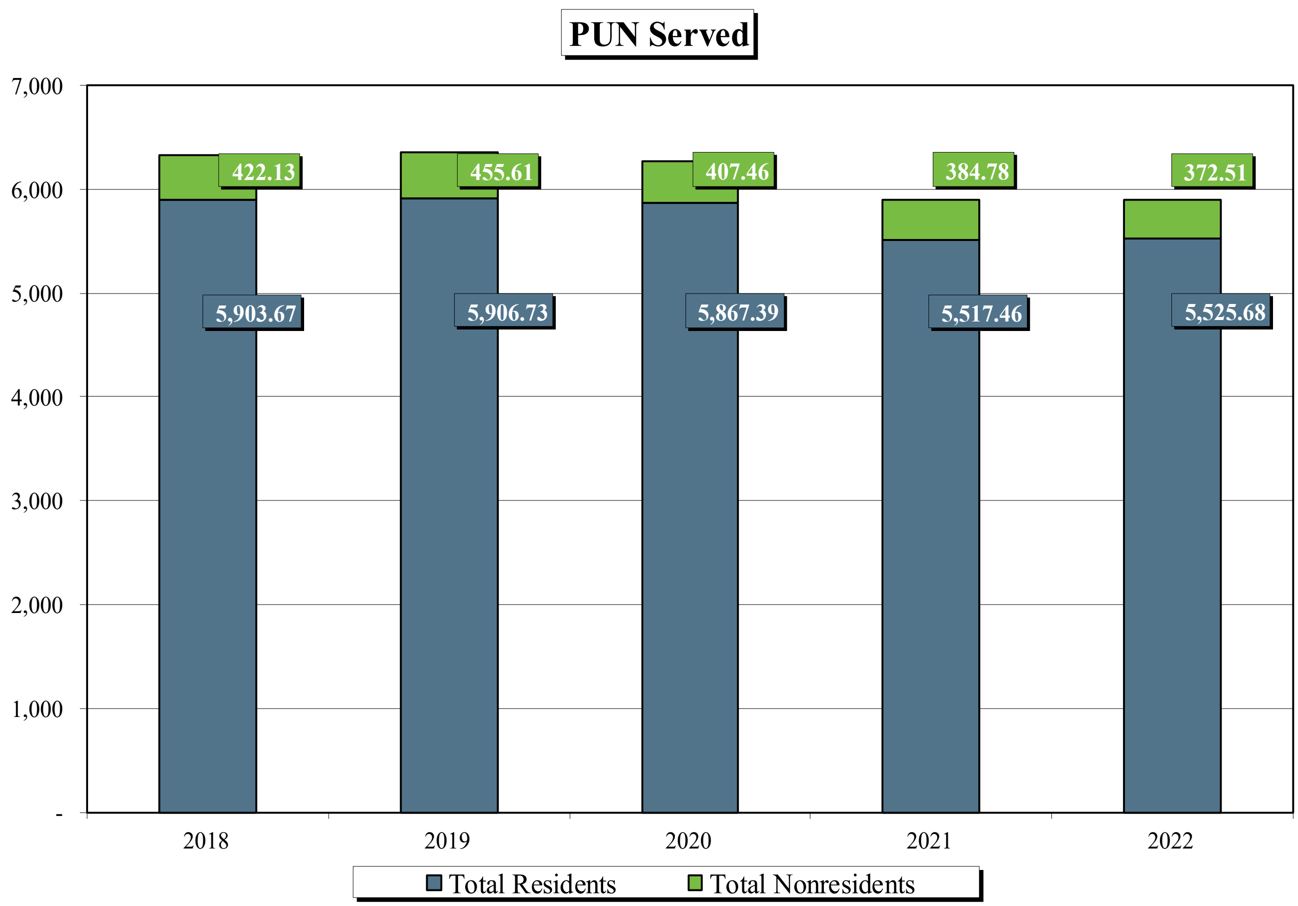
The pupil units weighting (PUN) served table below and graph on the following page, converts the resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

PUN	2018	2019	2020	2021	2022
Residents	6,834.04	6,915.71	6,895.31	6,643.07	6,626.64
Resident PUN loss	(930.37)	(1,008.98)	(1,027.69)	(1,049.26)	(1,100.96)
Nonresident PUN gain	422.13	455.61	407.46	384.78	372.51
Total PUN Served	**6,325.80**	**6,362.34**	**6,275.08**	**5,978.59**	**5,898.19**

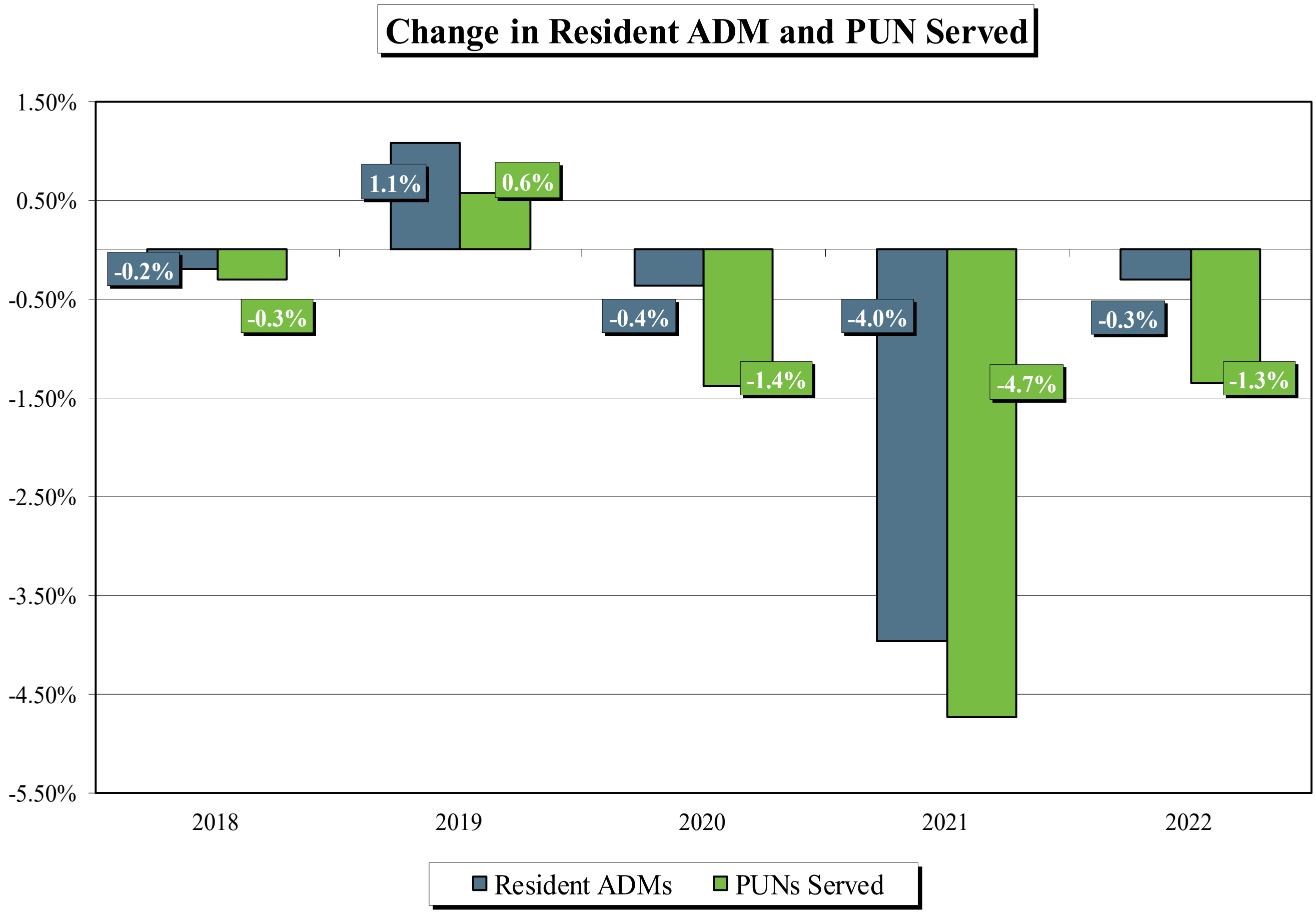
* Estimate as of September 29, 2022

Resident PUN decreased from 2021 by 16.43 units. PUN served has varied from year-to-year based on open enrollment. From 2021 to 2022, total PUN served decreased 80.40 units as a result of the decreases in resident PUN and increase in net loss on open enrollment.

Pupil Units Weighting Served



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	$ 12,223,346	$ 12,221,260	$ 12,456,766	$ 235,506
Other local revenues	2,177,914	2,357,008	2,384,594	27,586
Revenue from state sources	55,133,493	55,651,101	55,452,983	(198,118)
Revenue from federal sources	2,313,419	3,305,173	3,497,363	192,190
Sales and other conversion of assets	22,000	22,000	28,102	6,102
Total revenues	71,870,172	73,556,542	73,819,808	263,266
Expenditures				
Administration	1,927,748	1,915,290	1,872,795	(42,495)
District support services	1,808,788	1,701,032	1,648,411	(52,621)
Regular instruction	32,525,384	32,387,365	32,857,667	470,302
Vocational instruction	1,894,741	2,110,933	2,070,931	(40,002)
Special education instruction	13,380,254	13,684,099	13,291,312	(392,787)
Instructional support services	5,431,130	5,192,776	5,593,497	400,721
Pupil support services	7,103,146	7,225,878	6,793,780	(432,098)
Sites and buildings	8,137,324	7,710,662	7,906,187	195,525
Fiscal and other fixed cost programs	272,690	276,881	92,563	(184,318)
Debt service	166,750	166,750	267,605	100,855
Total expenditures	72,647,955	72,371,666	72,394,748	23,082
Excess of revenues over (under) expenditures	$ (777,783)	$ 1,184,876	$ 1,425,060	$ 240,184

The District approved a final General Fund revenue budget of $73,556,542. With actual revenues coming in at $73,819,808, the final budget produced a variance of $263,266. The largest variance was in revenues from local property taxes which were primarily over budget due increased current tax collection rate.

In total, General Fund expenditures were over budget 0.03% or $23,082. Regular instruction salaries were over budget due to salary increases across the board and leave of absences. Special Education expenditures were under budget due to open positions that could not be filled. Instructional expenditures were over budget due to spending grant from emergency connectivity fund donation. Pupil support services expenditures were under budget due changes in plans and timing.

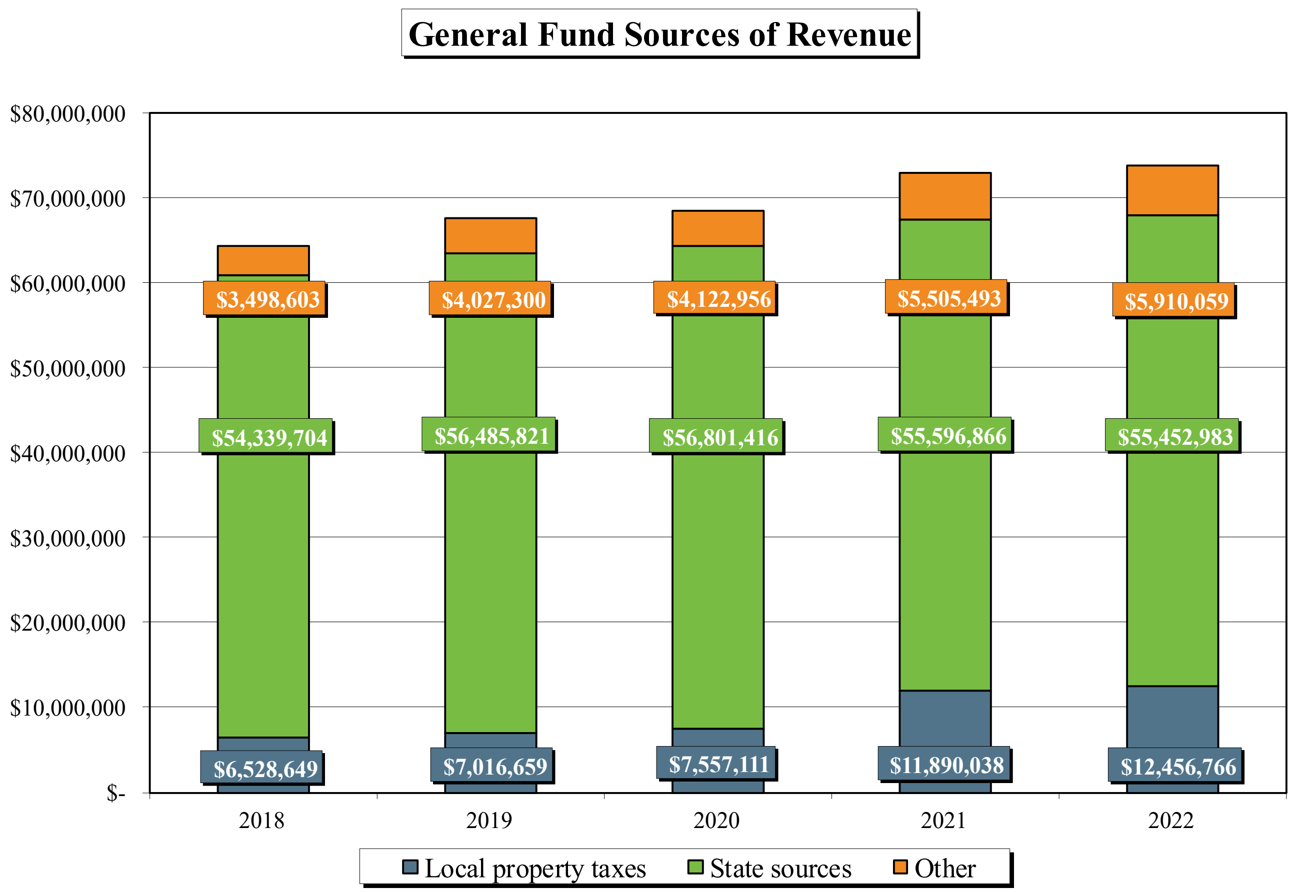
Independent School District No. 877
Financial Analysis

General Fund Sources of Revenue

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

	2018	2019	2020	2021	2022
Local property taxes	$6,528,649	$7,016,659	$7,557,111	$11,890,038	$ 12,456,766
State sources	54,339,704	56,485,821	56,801,416	55,596,866	55,452,983
Other	3,498,603	4,027,300	4,122,956	5,505,493	5,910,059
Total	**$ 64,366,956**	**$ 67,529,780**	**$ 68,481,483**	**$ 72,992,397**	**$ 73,819,808**

Total general fund revenue increased $827,411 or 1.1%. Local property taxes increased by $566,728 with an increase in the levy and collections. Other sources increased $404,566 due to an increase in student activities and starting the Pride Transitions program through SW metro. State revenue sources, which make up approximately 75.1% of total revenues, decreased by $143,883 as a result of the decrease in ADM served.



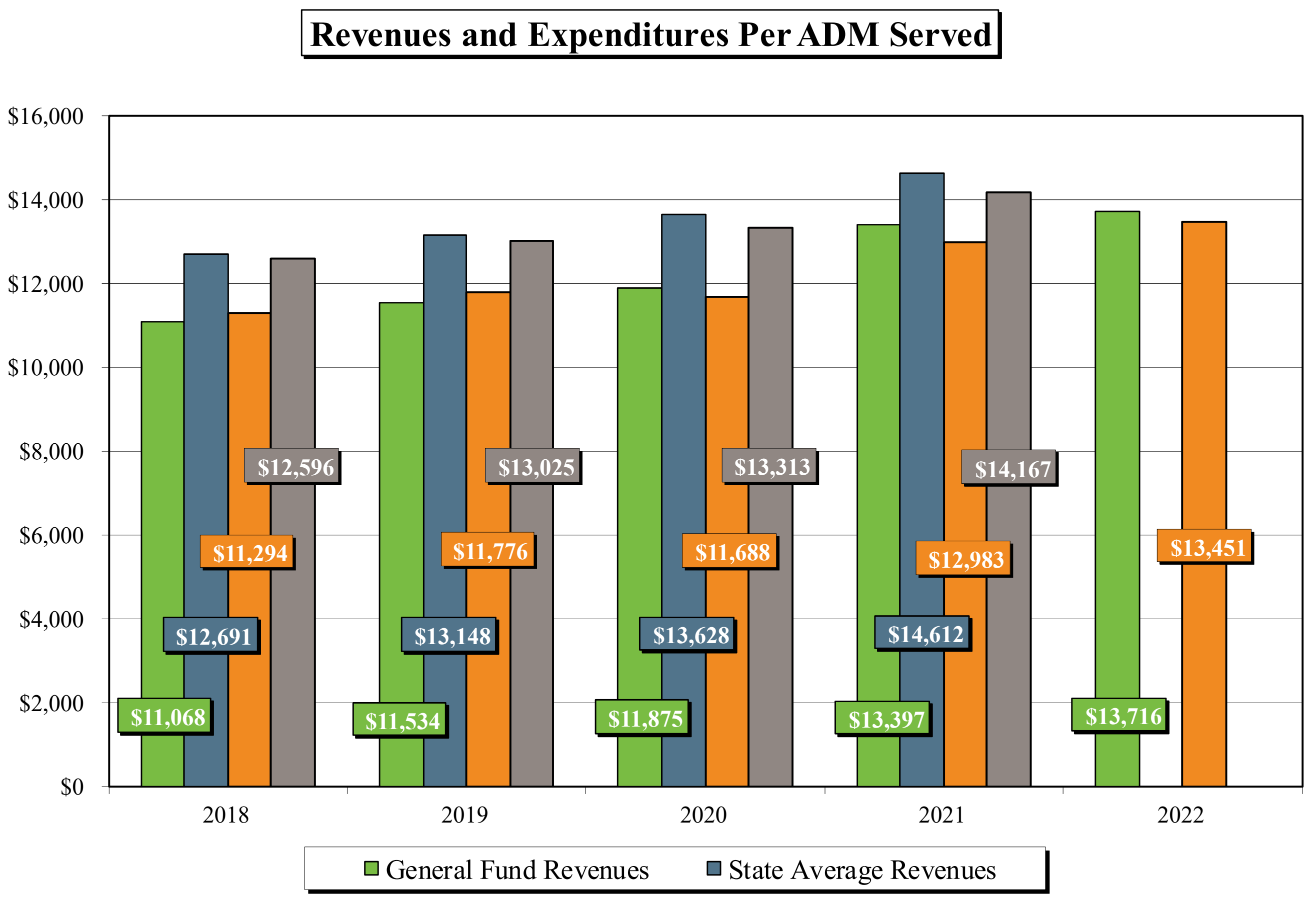
Independent School District No. 877
Financial Analysis

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

	2018	2019	2020	2021	2022
General Fund	$ 11,068	$ 11,534	$ 11,875	$ 13,397	$ 13,716
General Fund state average	12,691	13,148	13,628	14,612	N/A

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

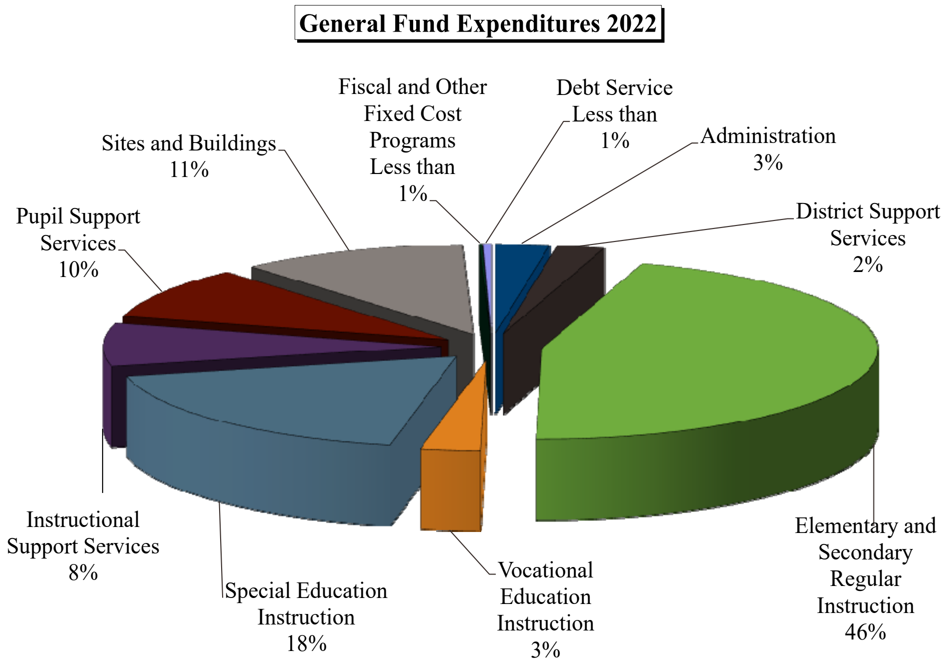
	2018	2019	2020	2021	2022
General Fund	$ 11,294	$ 11,776	$ 11,688	$ 12,983	$ 13,451
General Fund state average	12,596	13,025	13,313	14,167	N/A

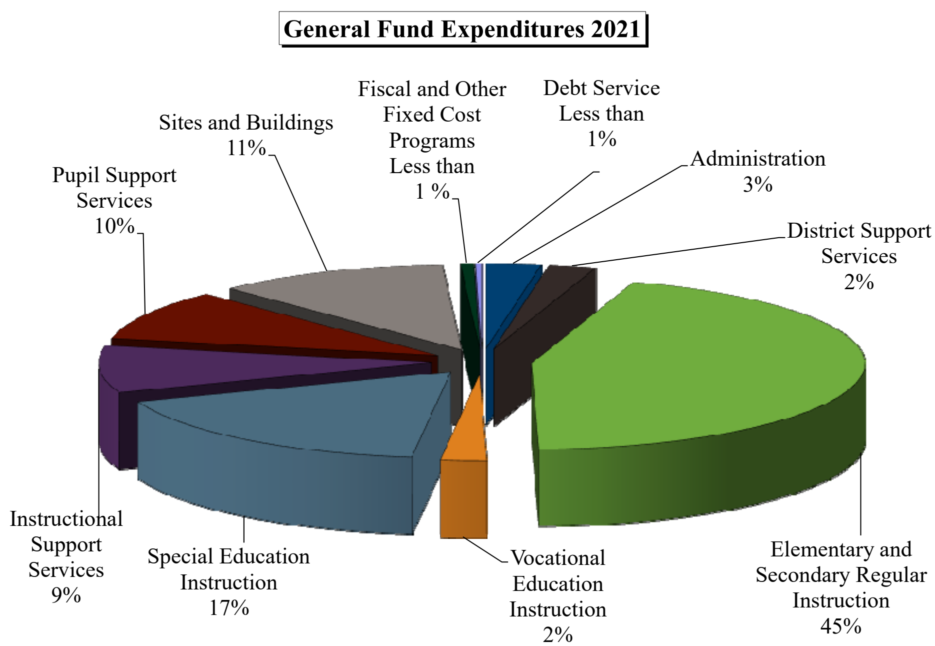


Revenues per ADM have consistently been below the state average, receiving less in property tax revenue per ADM as well as less state and federal aids per ADM. In relation to this, as a result of bringing in less revenue per ADM, the District is spending less per ADM than the state average.

General Fund Expenditures

The graphs below depict the percentage of expenditures by function in the General Fund for years 2021 and 2022. Expenditures increased by $1,582,109, or 2.2%, from 2021 to 2022, and the allocation of expenditures remained very consistent. Education programs and instructional/pupil support made up 84% and 83% of the District's expenditures, for 2022 and 2021, respectively. Only 5% of expenditures were attributable to administration and district support services for 2022 and 2021.





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:

	2018	2019	2020	2021	2022
Revenues	$ 64,366,956	$ 67,529,780	$ 68,481,483	$ 72,992,397	$ 73,819,808
Expenditures	65,672,883	68,940,965	67,409,717	70,812,639	72,394,748
Excess of revenues over (under) expenditures	(1,305,927)	(1,411,185)	1,071,766	2,179,758	1,425,060
Transfers/other financing sources and uses	4,701	7,964	616	86,919	136,728
Change in accounting principle	-	-	28,484	-	-
Fund balance, July 1	17,370,963	16,069,737	14,666,516	15,767,382	18,034,059
Fund Balance, June 30	$ 16,069,737	$ 14,666,516	$ 15,767,382	$ 18,034,059	$ 19,595,847

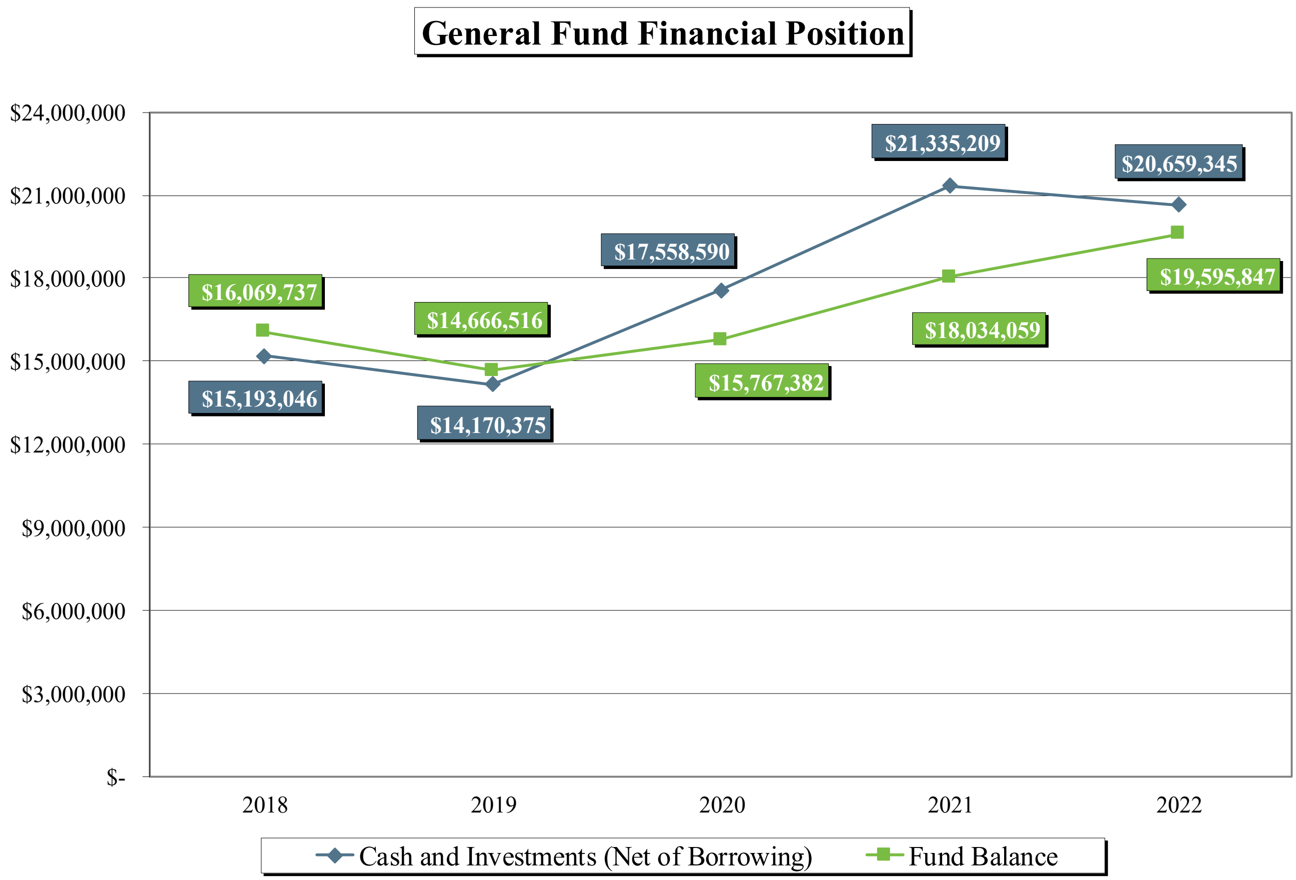
Components					
Unassigned	$ 8,430,222	$ 6,136,605	$ 7,850,572	$ 10,013,894	$ 10,750,570
Nonspendable	504,349	574,149	559,231	607,010	808,200
Reserved/restricted for					
Student activities	-	-	26,151	21,121	38,012
Teacher development and evaluations	103,247	103,096	-	-	-
Operating capital	734,140	733,445	1,015,094	1,182,366	1,497,207
Long-term facility maintenance	(150,913)	(71,833)	(115,278)	347,494	624,421
Medical assistance	124,412	217,324	308,929	482,065	488,888
Committed/assigned for					
Separation benefits	3,420,225	3,340,760	2,615,036	2,187,804	2,374,820
Student activities - fund 9	360,854	389,589	403,592	383,104	351,218
3rd party special education	560,353	560,353	-	-	-
Q Comp	-	66,719	105,022	37,353	133,344
Technology capital	1,459,667	1,833,715	1,833,715	1,385,317	1,030,697
Carryover	301,525	587,621	904,295	1,201,806	1,421,168
Dental insurance	221,656	194,973	261,023	184,725	77,302
Total	$ 16,069,737	$ 14,666,516	$ 15,767,382	$ 18,034,059	$ 19,595,847

Total General Fund revenue increased 1.1% from 2021 to 2022 as previously discussed.

Total General Fund expenditures increased 2.2% from 2021 to 2022. This increase was mostly due to increase in regular instruction and special education salaries and purchased services relating to hiring special education services in place of open positions.

Revenues exceeded expenditures during 2022, increasing fund balance by $1,561,788.

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,	2018	2019	2020	2021	2022
Revenues	$ 2,992,988	$ 3,055,039	$ 3,431,084	$ 3,574,635	$ 4,844,434
Expenditures, excluding OPEB	3,078,905	2,910,459	3,122,854	3,133,990	3,533,402
Excess of revenues over (under) expenditures	(85,917)	144,580	308,230	440,645	1,311,032
Transfers/other financing sources	-	5,575	453	1,310	14,116
Fund balance, July 1	557,504	471,587	621,742	930,425	1,372,380
Fund Balance, June 30	$ 471,587	$ 621,742	$ 930,425	$ 1,372,380	$ 2,697,528

In 2022, revenues exceeded expenditures by $1,311,032. Revenues increased $1,269,799; increase in reimbursement rates and meals served. Expenditures increased $399,412; increase due to higher meal counts and higher 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,	2018	2019	2020	2021	2022
Revenues	$ 3,719,931	$ 3,687,299	$ 3,380,387	$ 3,014,480	$ 3,794,664
Expenditures, excluding OPEB	3,679,358	3,444,580	3,472,360	3,098,360	3,467,083
Excess of revenues over (under) expenditures	40,573	242,719	(91,973)	(83,880)	327,581
Fund balance, July 1	(316,675)	(276,102)	(33,383)	(125,356)	(209,236)
Fund Balance, June 30	$ (276,102)	$ (33,383)	$ (125,356)	$ (209,236)	$ 118,345

Components					
Unreserved/unassigned	$ (44,723)	$ (44,476)	$ (50,506)	$ (50,687)	$ (73,462)
Nonspendable	5,969	390	5,168	2,037	10,244
Restricted/reserved for					
ECFE	86,893	122,452	114,542	196,617	225,808
Community education	(300,928)	(115,528)	(226,840)	(438,776)	(122,940)
School readiness	(35,658)	(8,566)	19,935	44,612	78,695
Adult basic education	12,345	12,345	12,345	36,961	-
Total	$ (276,102)	$ (33,383)	$ (125,356)	$ (209,236)	$ 118,345

Revenues exceeded expenditures for the third time in the five years presented, causing an increase in fund balance of $327,581. Revenues increased $780,184 and expenditures increased $368,723, a result increased programming for afterschool care, preschool and other activities.

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 2022 is set at $6,728 and for 2023, the formula allowance is set at $6,863.

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

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

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

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

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

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

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

Independent School District No. 877
Legislative Summary

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

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

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

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

Independent School District No. 877
Emerging Issues

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(s) include(s):

- **Accounting Standard Update – GASB Statement No. 96 – Subscription-Based Information Technology Arrangements**
  GASB has issued GASB Statement No. 96 relating to accounting and financial reporting for subscription-based information technology arrangements. The requirements of this Statement will improve financial reporting by establishing a definition for subscription-based information technology arrangements and providing uniform guidance for accounting and financial reporting for transactions that meet that definition.
- **Accounting Standard Update – GASB Statement No. 100 – Accounting Changes and Error Corrections**
  GASB has issued GASB Statement No. 100 relating to accounting and financial reporting for accounting changes and error corrections. The requirements of this Statement will improve the clarity of the accounting and financial reporting requirements for accounting changes and error corrections, which will result in greater consistency in application in practice. In turn, more understandable, reliable, relevant, consistent, and comparable information will be provided to financial statement users for making decisions or assessing accountability.
- **Accounting Standard Update – GASB Statement No. 101 – Compensated Absences**
  GASB has issued GASB Statement No. 101 relating to accounting and financial reporting for compensated absences. The unified recognition and measurement model in this Statement will result in a liability for compensated absences that more appropriately reflects when a government incurs an obligation. In addition, the model can be applied consistently to any type of compensated absence and will eliminate potential comparability issues between governments that offer different types of leave.

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

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

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

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

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

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

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

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

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

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

Accounting Standard Update – GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements* (Continued)
If a SBITA contract contains multiple components, a government should account for each component as a separate SBITA or nonsubscription component and allocate the contract price to the different components. If it is not practicable to determine a best estimate for price allocation for some or all components in the contract, a government should account for those components as a single SBITA.

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

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

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

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

Accounting Standard Update – GASB Statement No. 100 – *Accounting Changes and Error Corrections – an Amendment of GASB Statement No. 62*
The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

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

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

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

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

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

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

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

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

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

Accounting Standard Update – GASB Statement No. 101 – *Compensated Absences* (Continued)
This Statement requires that a liability for certain types of compensated absences – including parental leave, military leave, and jury duty leave – not be recognized until the leave commences. This Statement also requires that a liability for specific types of compensated absences not be recognized until the leave is used.

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

With respect to financial statements prepared using the current financial resources measurement focus, this Statement requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.

This Statement amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

GASB Statement No. 101 is effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged.

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