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

Communications Letter

June 30, 2021

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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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 14, 2021, 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, 2021

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, 2021. Professional standards require that we advise you of the following matters related to our audit.

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

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

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

Generally accepted accounting principles provide for certain Required Supplementary Information (RSI) to supplement the 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 basic financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Our Responsibility in Relation to Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)
As communicated in our engagement letter, in accordance with the Uniform Guidance, we examined on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.
In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Planned Scope and Timing of the Audit
We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence
The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of Significant Accounting Practices

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

Qualitative Aspects of Significant Accounting Practices (Continued)

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

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

General Education and Special Education Aid – General Education Aid is an estimate until 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 basic financial statements taken as a whole and in relation to the applicable opinion units.

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

Significant Difficulties Encountered during the Audit

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

Uncorrected and Corrected Misstatements

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

Uncorrected and Corrected Misstatements (Continued)
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, operating, and regulatory conditions affecting the District, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditor.

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

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 Basic 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 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.

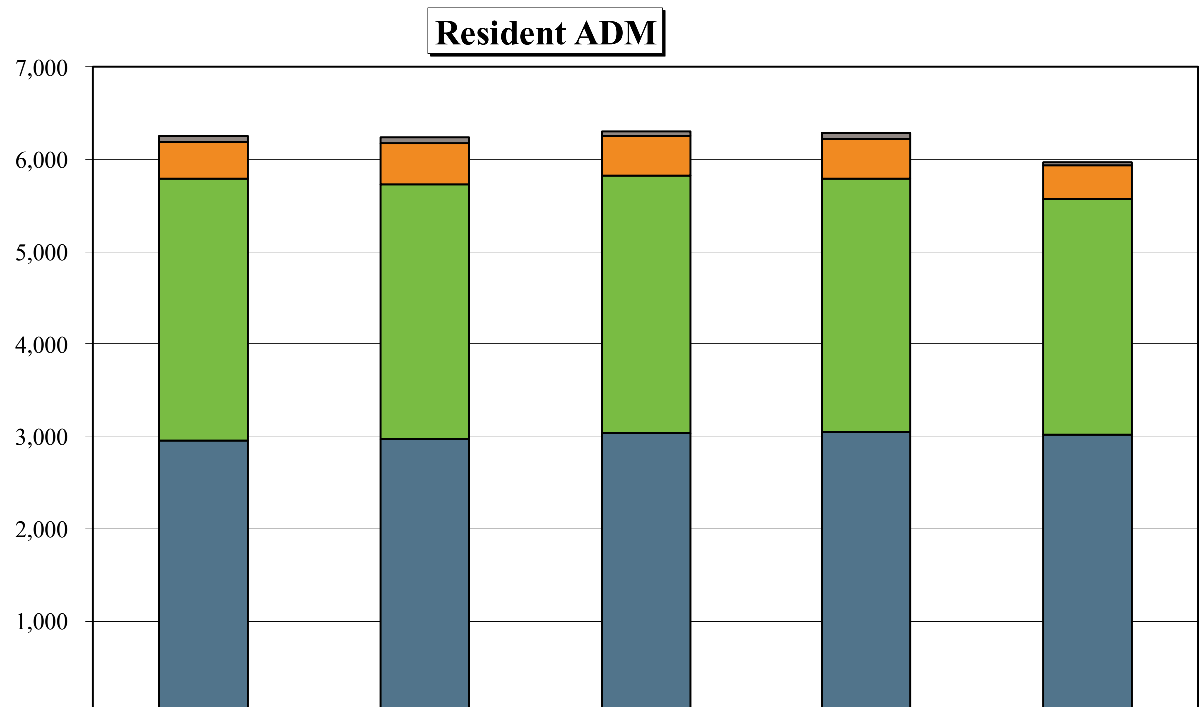
	General Education Aid Formula Allowance	
Year	Amount	Percent Increase
2012	$ 5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%
2019	6,312	2.0%
2020	6,438	2.0%
2021	6,567	2.0%
2022	6,728	2.5%

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

Resident Average Daily Membership and Pupil Units

Approximately 76% 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	2017	2018	2019	2020	2021*
Early Childhood	58.93	60.62	52.68	59.92	31.78
Kindergarten	404.11	449.92	431.15	437.98	365.03
Elementary	2,838.66	2,763.19	2,784.83	2,736.87	2,556.80
Secondary	2,949.50	2,967.00	3,039.20	3,050.54	3,011.14
Total Resident ADM	**6,251.20**	**6,240.73**	**6,307.86**	**6,285.31**	**5,964.75**



	2017	2018	2019	2020	2021*
Early Childhood	58.93	60.62	52.68	59.92	31.78
Kindergarten	404.11	449.92	431.15	437.98	365.03
Elementary	2,838.66	2,763.19	2,784.83	2,736.87	2,556.80
Secondary	2,949.50	2,967.00	3,039.20	3,050.54	3,011.14

* Estimate as of September 20, 2021

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 4.6% since 2017 and decreased 5.1% from 2020. The largest component of the decrease from 2017 was in elementary ADM, decreasing 281.86 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
2017-2021	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.

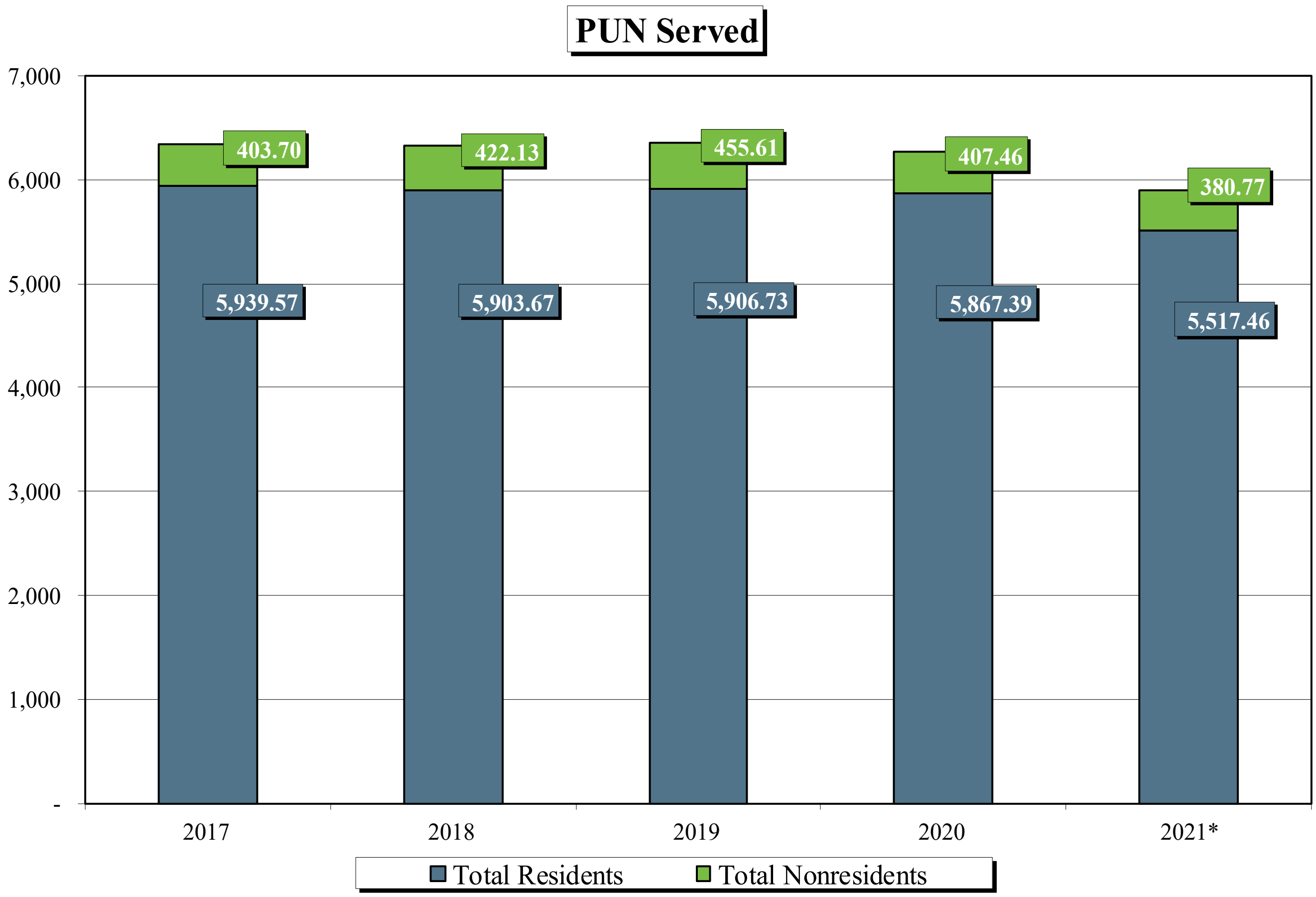
The pupil units weighting (PUN) served table below and graph on the following page, converts the resident ADM into weighted or adjusted pupil unit data for the past five years taking into consideration the above weighting factors and open enrollment.

PUN	2017	2018	2019	2020	2021*
Residents	6,840.28	6,834.04	6,915.71	6,895.31	6,566.77
Resident PUN loss	(900.71)	(930.37)	(1,008.98)	(1,027.69)	(1,049.31)
Nonresident PUN gain	403.70	422.13	455.61	407.46	380.77
Total PUN Served	**6,343.27**	**6,325.80**	**6,362.34**	**6,275.08**	**5,898.23**

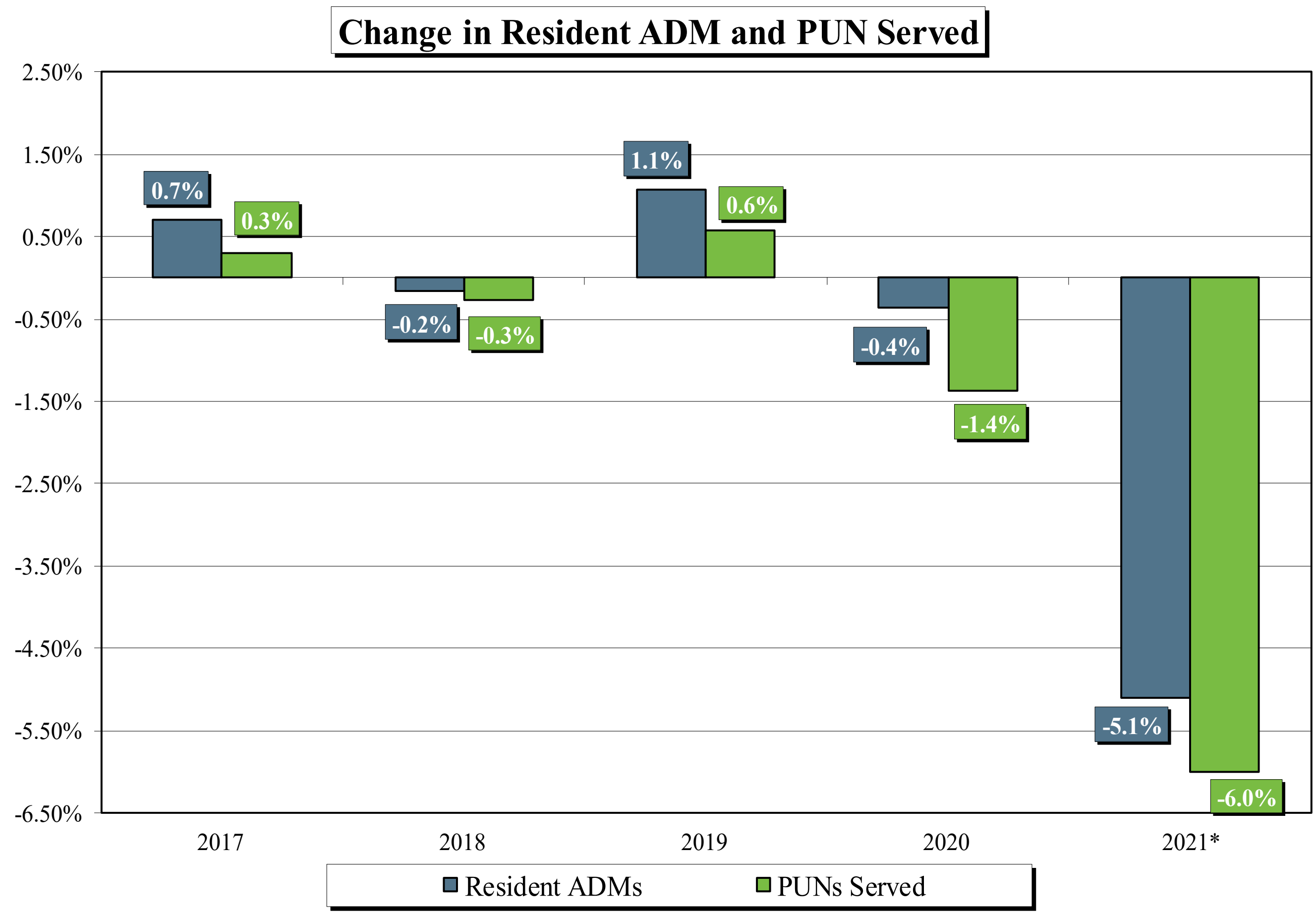
* Estimate as of September 20, 2021

Resident PUN decreased from 2020 by 328.54 units. PUN served has varied from year-to-year based on open enrollment. From 2020 to 2021, total PUN served decreased 376.85 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	$ 11,864,957	$ 11,925,955	$ 11,890,038	$ (35,917)
Other local revenues	1,824,729	1,147,548	1,201,745	54,197
Revenue from state sources	58,036,612	56,471,942	55,596,866	(875,076)
Revenue from federal sources	2,163,388	4,335,236	4,294,003	(41,233)
Sales and other conversion of assets	24,312	22,000	9,745	(12,255)
Total revenues	73,913,998	73,902,681	72,992,397	(910,284)
Expenditures				
Administration	1,916,315	1,852,385	1,889,847	37,462
District support services	1,776,418	1,694,997	1,629,046	(65,951)
Regular instruction	32,418,207	32,047,488	31,631,321	(416,167)
Vocational instruction	1,824,915	1,715,309	1,575,772	(139,537)
Special education instruction	12,601,642	12,650,984	12,356,919	(294,065)
Instructional support services	5,720,188	6,916,422	6,297,166	(619,256)
Pupil support services	7,332,721	6,698,541	6,753,137	54,596
Sites and buildings	8,129,188	9,162,389	8,012,433	(1,149,956)
Fiscal and other fixed cost programs	281,040	276,125	464,917	188,792
Debt service	202,080	202,080	202,081	1
Total expenditures	72,202,714	73,216,720	70,812,639	(2,404,081)
Excess of revenues over expenditures	$ 1,711,284	$ 685,961	$ 2,179,758	$ 1,493,797

The District approved a final General Fund revenue budget of $73,902,681. With actual revenues coming in at $72,992,397, the final budget produced a variance of $910,284. The largest variance was in revenues from state sources which were primarily under budget due to declines in student counts and general education aid.

In total, General Fund expenditures were under budget 3.3% or $2,404,081. Regular instruction salaries and benefits were under budget with staff taking leaves of absence due to COVID and supplies were under budget as result of not purchasing the textbooks budgeted. Instructional support service expenditures were under budget as the district didn't need all the typical supplies due to hybrid and distance learning. Expenditures in sites and buildings were under budget $1,149,956. Utilities and repairs and maintenance were under budget with the change in learning models and the tennis court project was budgeted here but actual costs were coded to the construction fund.

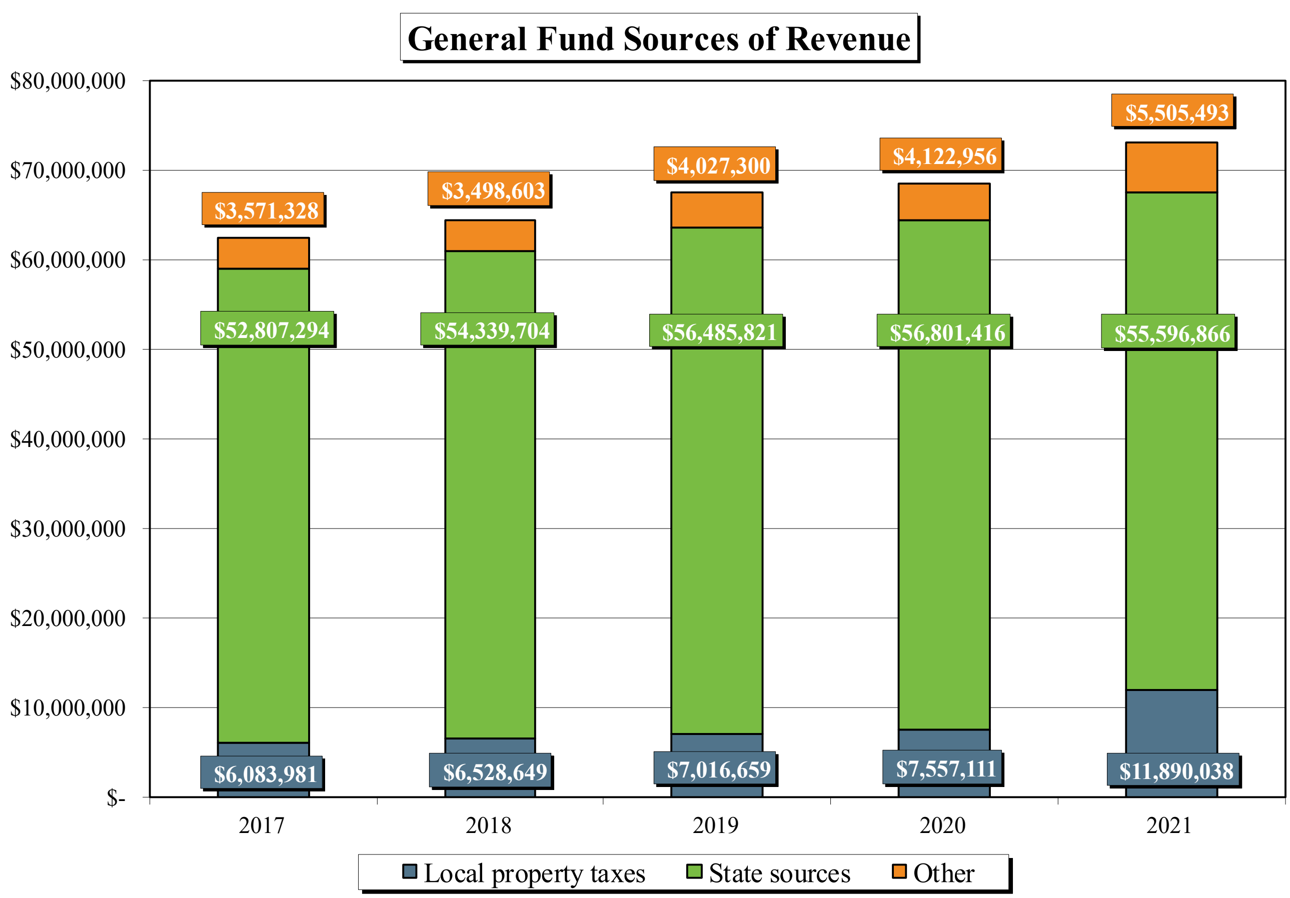
Independent School District No. 877
Financial Analysis

General Fund Sources of Revenue

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

	2017	2018	2019	2020	2021
Local property taxes	$6,083,981	$6,528,649	$7,016,659	$7,557,111	$ 11,890,038
State sources	52,807,294	54,339,704	56,485,821	56,801,416	55,596,866
Other	3,571,328	3,498,603	4,027,300	4,122,956	5,505,493
Total	**$ 62,462,603**	**$ 64,366,956**	**$ 67,529,780**	**$ 68,481,483**	**$ 72,992,397**

Total general fund revenue increased $4,510,914 or 6.6%. Local property taxes increased by $4,332,927 with an increase in the levy and other sources increased $1,382,537 due to the extra federal grants received relating to COVID. Included in other revenues are local, county, and federal revenues. State revenue sources, which make up approximately 76.2% of total revenues, decreased by $1,204,550 as a result of the decrease in ADM served.



Independent School District No. 877
Financial Analysis

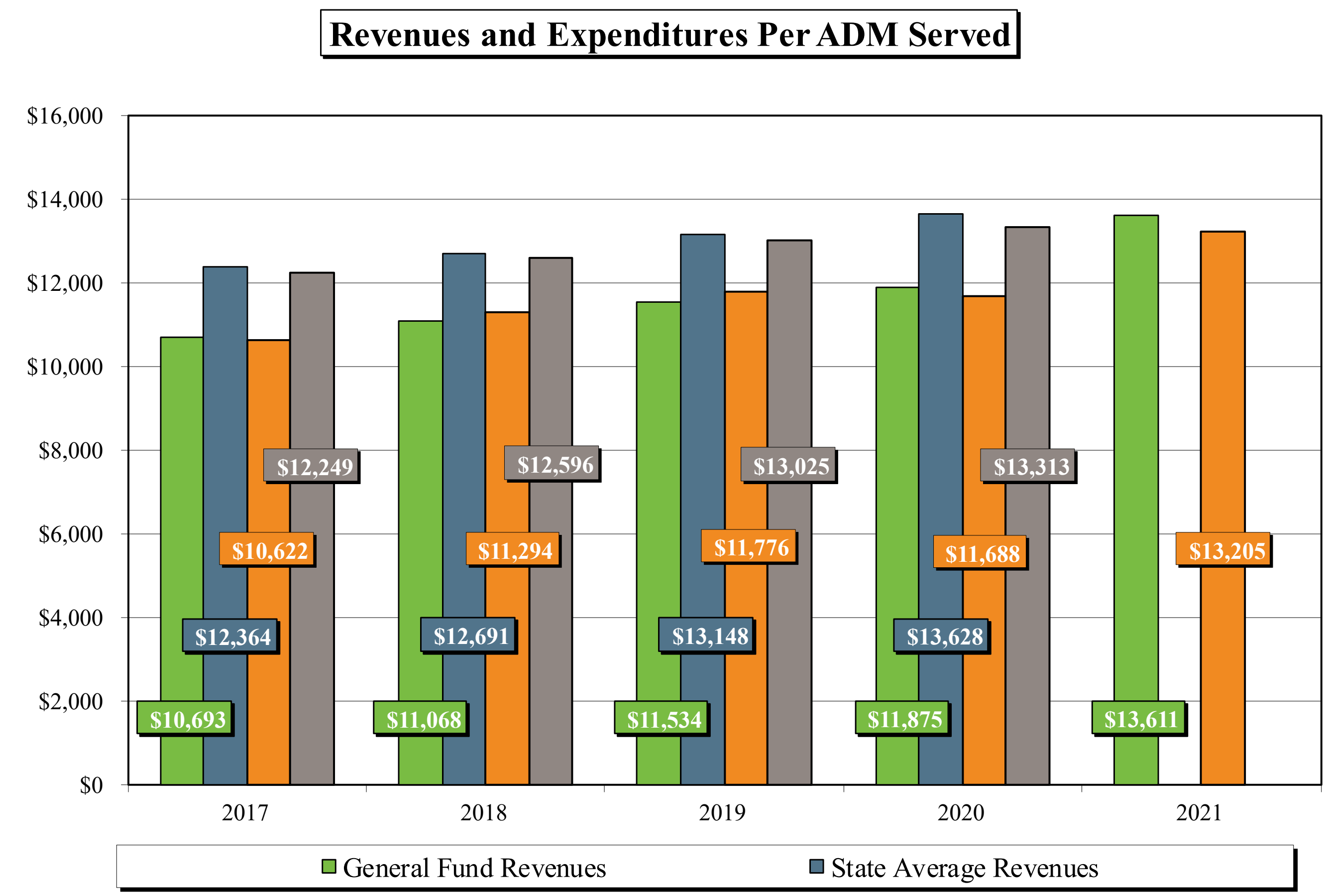
Revenues and Expenditures Per ADM Served

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

	2017	2018	2019	2020	2021
General Fund	$ 10,693	$ 11,068	$ 11,534	$ 11,875	$ 13,611
General Fund state average	12,364	12,691	13,148	13,628	N/A

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

	2017	2018	2019	2020	2021
General Fund	$ 10,622	$ 11,294	$ 11,776	$ 11,688	$ 13,205
General Fund state average	12,249	12,596	13,025	13,313	N/A

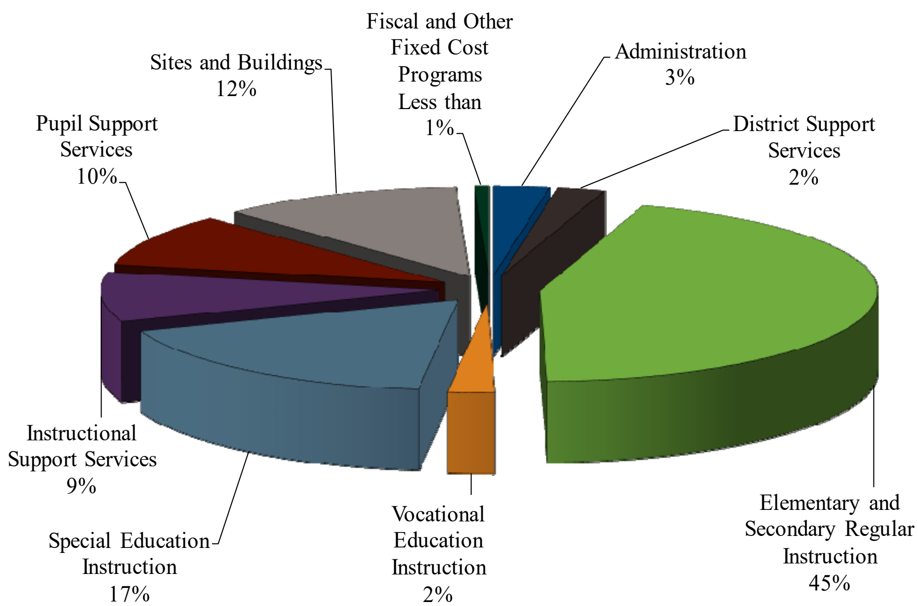


Revenues per ADM have consistently been below the state average, the largest variance is in property tax revenue per ADM. The District also receives less federal aids per ADM. In relation to this, as a result of bringing in less revenue per ADM, the District is spending less per ADM than the state average.

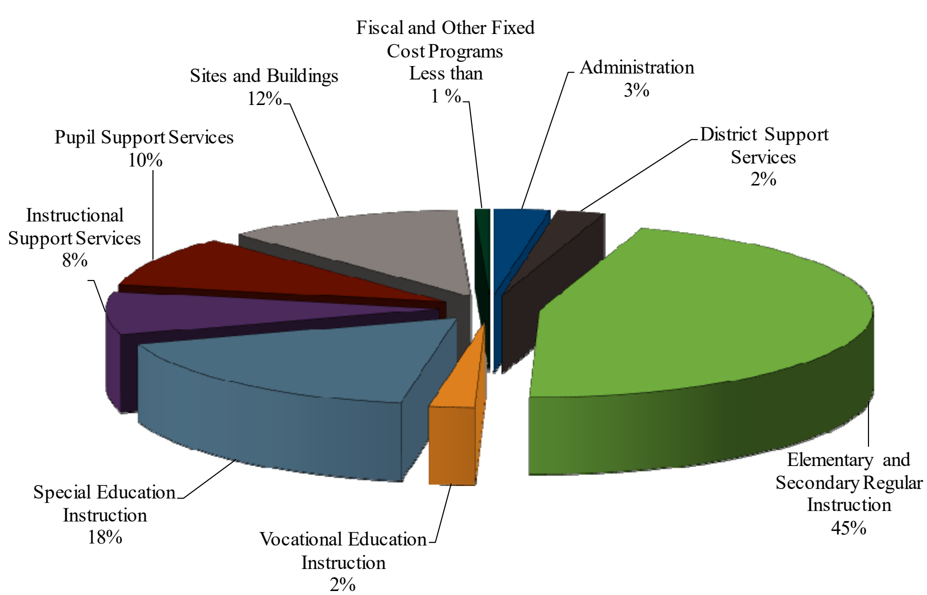
General Fund Expenditures

The graphs below depict the percentage of expenditures by function in the General Fund for years 2020 and 2021. Expenditures increased by $3,402,922, or 5.1%, from 2020 to 2021, and the allocation of expenditures remained very consistent. Education programs and instructional support made up 74% and 75% of the District's expenditures, for 2021 and 2020, respectively. Only 5% of expenditures were attributable to Administration and District support services for 2021 and 2020.

General Fund Expenditures 2021



General Fund Expenditures 2020



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:

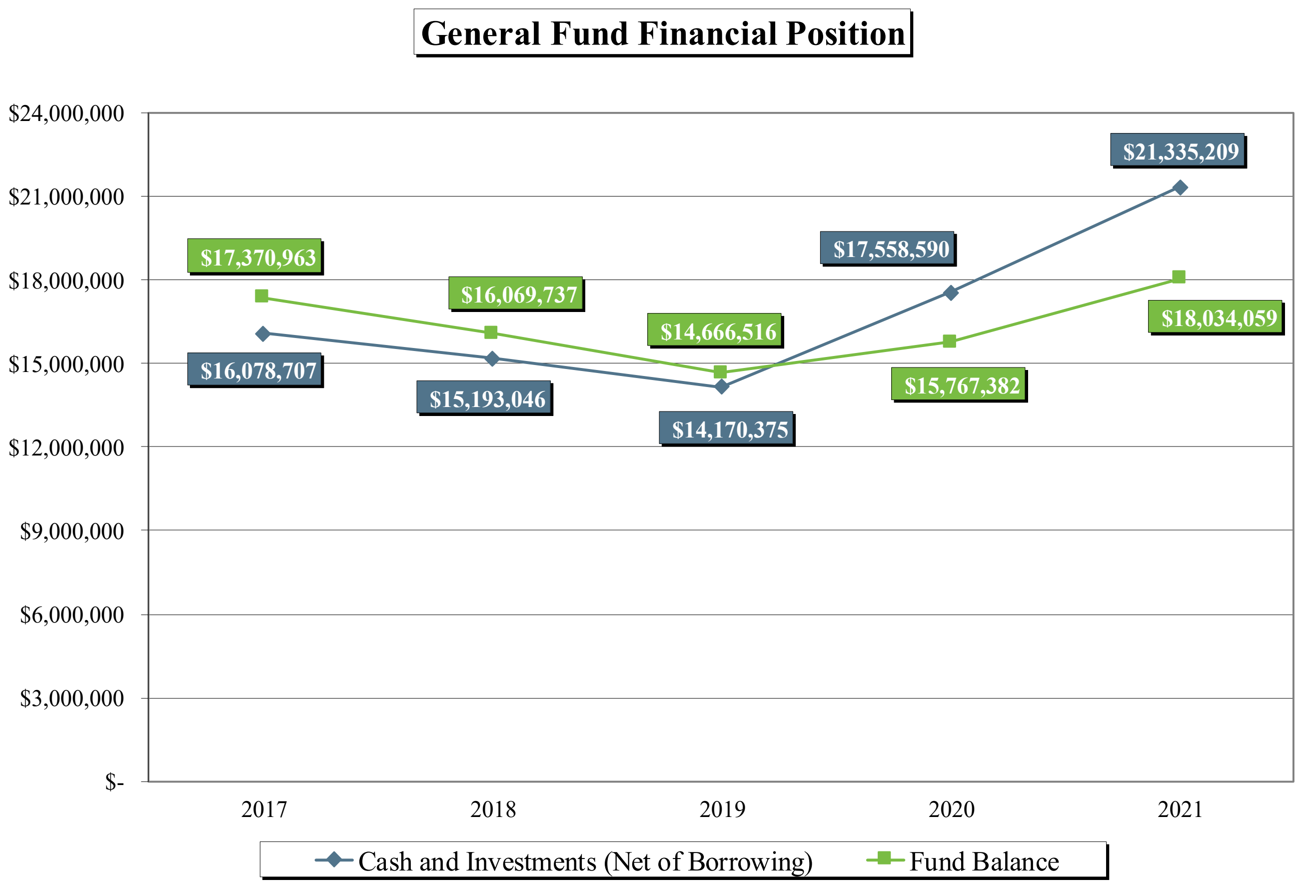
	2017	2018	2019	2020	2021
Revenues	$ 62,462,603	$ 64,366,956	$ 67,529,780	$ 68,481,483	$ 72,992,397
Expenditures	62,888,607	65,672,883	68,940,965	67,409,717	70,812,639
Excess of revenues over (under) expenditures	(426,004)	(1,305,927)	(1,411,185)	1,071,766	2,179,758
Transfers/other financing sources and uses	840,233	4,701	7,964	616	86,919
Change in accounting principle	-	-	-	28,484	-
Fund balance, July 1	16,956,734	17,370,963	16,069,737	14,666,516	15,767,382
Fund Balance, June 30	$ 17,370,963	$ 16,069,737	$ 14,666,516	$ 15,767,382	$ 18,034,059
Components					
Unassigned	$ 9,973,930	$ 8,430,222	$ 6,136,605	$ 7,850,572	$ 10,013,894
Nonspendable	369,130	504,349	574,149	559,231	607,010
Reserved/restricted for					
Student activities	-	-	-	26,151	21,121
Staff development	10,569	-	-	-	-
Teacher development and evaluations	103,247	103,247	103,096	-	-
Operating capital	698,826	734,140	733,445	1,015,094	1,182,366
Health and safety	(16,495)	-	-	-	-
Long-term facility maintenance	104,729	(150,913)	(71,833)	(115,278)	347,494
Medical assistance	89,096	124,412	217,324	308,929	482,065
Committed/assigned for					
Separation benefits	3,495,768	3,420,225	3,340,760	2,615,036	2,187,804
Student activities	399,325	360,854	389,589	403,592	383,104
3rd party special education	560,353	560,353	560,353	-	-
Q Comp	-	-	66,719	105,022	37,353
Capital	1,058,630	1,459,667	1,833,715	1,833,715	1,385,317
Carryover	342,530	301,525	587,621	904,295	1,201,806
Dental insurance	181,325	221,656	194,973	261,023	184,725
Total	$ 17,370,963	$ 16,069,737	$ 14,666,516	$ 15,767,382	$ 18,034,059

Total General Fund revenue increased 6.6% from 2020 to 2021 as previously discussed.

Total General Fund expenditures increased 5.1% from 2020 to 2021. This increase was mostly due increases in salaries and benefits and expenditures relate to the COVID grants.

Revenues exceeded expenditures during 2021, increasing fund balance by $2,179,758.

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,	2017	2018	2019	2020	2021
Revenues	$ 3,160,305	$ 2,992,988	$ 3,055,039	$ 3,431,084	$ 3,574,635
Expenditures, excluding OPEB	2,860,199	3,078,905	2,910,459	3,122,854	3,133,990
Excess of revenues over (under) expenditures	300,106	(85,917)	144,580	308,230	440,645
Transfers/other financing sources	-	-	5,575	453	1,310
Fund balance, July 1	257,398	557,504	471,587	621,742	930,425
Fund Balance, June 30	$ 557,504	$ 471,587	$ 621,742	$ 930,425	$ 1,372,380

In 2021, revenues exceeded expenditures by $440,6445. Revenues increased $143.551; a result of increases in the summer food service program due to COVID. Expenditures increased $11,136 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,	2017	2018	2019	2020	2021
Revenues	$ 3,830,996	$ 3,719,931	$ 3,687,299	$ 3,380,387	$ 3,014,480
Expenditures, excluding OPEB	3,955,606	3,679,358	3,444,580	3,472,360	3,098,360
Excess of revenues over (under) expenditures	(124,610)	40,573	242,719	(91,973)	(83,880)
Fund balance, July 1	(192,065)	(316,675)	(276,102)	(33,383)	(125,356)
Fund Balance, June 30	$ (316,675)	$ (276,102)	$ (33,383)	$ (125,356)	$ (209,236)

Components					
Unreserved/unassigned	$ (38,646)	$ (44,723)	$ (44,476)	$ (50,506)	$ (50,687)
Nonspendable	15,623	5,969	390	5,168	2,037
Restricted/reserved for					
ECFE	28,167	86,893	122,452	114,542	196,617
Community education	(325,599)	(300,928)	(115,528)	(226,840)	(438,776)
School readiness	(8,565)	(35,658)	(8,566)	19,935	44,612
Adult basic education	12,345	12,345	12,345	12,345	36,961
Total	$ (316,675)	$ (276,102)	$ (33,383)	$ (125,356)	$ (209,236)

Expenditures exceeded revenues for the third time in the five years presented, causing a decrease in fund balance of $83,880. Revenues decreased $365,907 and expenditures decreased $374,000, a result of less participation and program offerings as a result of COVID.

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

Special Education

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

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

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

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

Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act

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

American Rescue Plan (ARP) Act

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

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

Independent School District No. 877
Legislative Summary

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

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

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

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

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

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

Independent School District No. 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 update. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss this issue with you further and their applicability to your District.

Accounting Standard Update – GASB Statement No. 87 – *Leases*
The objective of this Statement is to better meet the information needs of basic financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' basic financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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

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

Accounting Standard Update – GASB Statement No. 87 – *Leases (Continued)*
A lessee should recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease asset should be measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessee should reduce the lease liability as payments are made and recognize an outflow of resources (for example, expense) for interest on the liability. The lessee should amortize the lease asset in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset. The notes to basic financial statements should include a description of leasing arrangements, the amount of lease assets recognized, and a schedule of future lease payments to be made.

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

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

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