

**BEMIDJI AREA SCHOOLS
BEMIDJI, MINNESOTA**

DATE: JANUARY 25, 2021
TO: BOARD OF EDUCATION, BEMIDJI ISD #31
FROM: KRISI L. FENNER, CPA, DIRECTOR OF BUSINESS SERVICES
SUBJECT: ANNUAL AUDIT – FY 2019-2020

COMMENTS:

The annual audit for FY 2019-2020 is complete and was presented earlier this evening by the accounting firm of Miller McDonald, Inc. of Bemidji.

ENROLLMENT

The most significant factor in operating a school district is enrollment. Enrollment drives most of the funding formulas, staffing allocations and building space needs. For FY 2020 our Average Weighted Average Daily Membership (ADM) was 5,569.34 (Page 79) which is an increase of 88.17 from the prior year. This change is less than two percent and represents a stable enrollment base for our school district. Stable enrollment had been projected for several more years, however, the COVID 19 pandemic has had a significant negative impact on our current year enrollment. It is unknown at this point what impact the pandemic will have on future enrollment.

GENERAL FUND (01) (Excludes Food Service, Community Ed, and Debt Service)

Our General Fund had operating revenues of \$70,672,592 (P59) compared to \$65,110,081 from the prior year. This change from the prior year is a compilation of several factors including a 2% increase in the state basic education formula, additional Special Education funding and a positive revenue adjustment imposed by the State Retirement Board due to their allocation of the State Pension liability to school districts. (Note 6 and P62.) Looking at revenue sources (P14) we see that 82% comes from state sources and 10% from local property taxes.

We had General Fund expenses of \$71,979,934 (P59) compared to \$66,613,245 from the prior year. This increase in expenses is a combination of large capital projects, contract settlements, and general inflation on the budget, as well as the same State Pension liability adjustment reflected in the revenue. We had an operating deficit of \$1,647,317. Looking at expenses by program (P15) we see that 77% was direct instruction and pupil support while the remaining 23% included building overhead and maintenance and administration and support. Looking at expenses another way, they are 80% salary and benefits and 20% other. This is typical of a school district as we are a people/services driven operation and our main function is to provide services to students.

FUND BALANCES

The Governmental Accounting Standards Board Statement #54 (GASB #54) has been adopted by the Bemidji School Board. (SBR #300-90-1) This policy recognizes various levels restricting or committing our General Fund Balance dollars. The authority and/or requirement to set aside funds comes from state and/or federal statutes and school board resolutions. The practice of restricting and committing funds recognizes that these dollars are not available to spend in an unrestricted fashion and that a school district should budget accordingly. The Bemidji School District has the following fund balance breakdowns: Non-Spendable, Restricted, Committed, Assigned and Unassigned. (P75)

Our Unassigned, Assigned, and Committed fund balances total \$1,888,353 or 3.3 % of related expenses compared to the 10% target set by School Board policy (P12). This is down from 5.4% last year and 9.5% two years ago.

The “Non-spendable” fund balance of \$474,401 is made up of pre-bought inventory in the warehouse and prepaid health insurance premiums for the month of July. Since these amounts are not available to be re-directed in the next year they are classified as non-spendable fund balance.

“Restricted Funds” are those whose purpose is directed by statute. Examples include Staff Development, Deferred Maintenance, Operating Capital, Alternative Programs, Gifted and Talented and Safe Schools. Our restricted fund balance total is \$5,519,504. (P75) This is down from the prior year by \$127,479.

The Total of all General Fund balances is \$7,882,258 compared to \$9,010,419 the prior year and \$10,420,656 two years ago. The budget will need to be balanced going forward to stop the deficit spending and begin to restore our fund balance in line with the 10% board target.

FOOD SERVICE FUND (02)

The Food Service Fund had an operating deficit of \$332,530 based on revenues of \$3,174,198 and expenses of \$3,506,728 resulting in a negative fund balance and a required operating transfer from the General Fund of \$339,975. (P74) This deficit represents an ongoing district wide shift from Free to Reduced price meal counts resulting in a lower federal reimbursement. We also continue to support a free breakfast program at the K-5 levels. A meal price increase was approved for the FY21 school year but other budget balancing steps will need to be taken in the future.

COMMUNITY SERVICE FUND (04)

The Community Service Fund had an operating deficit of \$347,452 based on revenues of \$2,187,373 and expenses of \$2,534,825. (P74) This resulted in a decrease in the Community Service Fund balance to \$923,099. As we move forward this fund balance will quickly erode due to the operational costs of the Paul Bunyan Center. Previously, these costs were included in the leasing of space at the Beltrami County Collaborative Center. This lease was paid for with a local tax levy that is no longer in effect.

CONSTRUCTION FUND (06)

The construction fund had revenues of \$6,260 and expenses of \$408,350 and an ending balance of \$241,790. (P74) As we finalize the project this fund balance will be spent down to zero.

DEBT SERVICE (07)

Our debt service fund had revenues of \$3,509,105 and expenses of \$3,185,850. (P75) The difference is due to our requirement to levy 105% of our debt payments and will be balanced in future levy years. Our ending fund balance stands at \$993,084.

ACTION:

The motion was offered by _____, seconded by _____ and the vote was _____ to approve the FY 2019-2020 annual audit as presented.