

Management Report

for

Special School District No. 6
South St. Paul, Minnesota

June 30, 2020

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PRINCIPALS

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To the School Board and Management of
Special School District No. 6
South St. Paul, Minnesota

We have prepared this management report in conjunction with our audit of Special School District No. 6's (the District) financial statements for the year ended June 30, 2020. We have organized this report into the following sections:

- Audit Summary
- Funding Public Education in Minnesota
- Financial Trends of Your District
- Legislative Summary
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the District, management, and those with responsibility for oversight of the District's financial reporting process comments resulting from our audit and information relevant to school district financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 7, 2020

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AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the School Board, administration, or those charged with governance of the District.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)*

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the District's financial statements for the year ended June 30, 2020:

- We have issued an unmodified opinion on the District's basic financial statements. Our report included a paragraph emphasizing the District's implementation of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities* during the year. Our opinion was not modified with respect to this matter. This change is further described in Note 1 to basic financial statements.
- In regard to the District's internal controls over financial reporting, we have reported one material weakness:
 - Due to the limited size of the District's office staff, the District has limited segregation of duties in several areas. An ideal system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from inception to completion. While we recognize that your organization may not be large enough to permit an adequate segregation of duties in all respects, it is important that you are aware of this condition.
- The results of our testing disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- The results of our tests indicate that the District has complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.

- We reported no deficiencies in the District’s internal controls over compliance that we considered to be material weaknesses with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.
- We reported no findings based on our testing of the District’s compliance with Minnesota laws and regulations.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Impact of Novel Coronavirus (COVID-19)

Starting in March 2020, the onset of the novel coronavirus (COVID-19) pandemic caused substantial volatility in economic conditions and tremendous disruption in the way schools, governments, businesses, and individuals function. Minnesota school districts may experience the impact of this pandemic in a myriad of financial areas, such as: declines in investment rates of return, cash flow issues, significant increases in the number and frequency of employees working remotely, challenges in processing general and payroll disbursements, disruption of prescribed internal control procedures, delays in internal and external financial reporting, and new compliance requirements attached to current and potential federal relief subsidies. As your District continues to adapt to the new normal of operating in a post-COVID-19 world, the assessment of and responses to new risks that may accompany operational changes will be critical to the safeguarding of resources and sound financial stewardship. We encourage management and governance to include a robust financial risk assessment process when planning responses to these challenges, and to reassess and adapt internal controls over financial transactions and reporting to align with significant changes made to daily operations, even those intended to be temporary.

Electronic Funds Transfer Fraud

As the use of electronic funds transfers and payment methods has become more prevalent, we have seen increases in both the incidences of fraud related to these transactions and the dollar amounts involved. Unfortunately, operational changes related to the COVID-19 pandemic, including greater reliance on technology and more employees working remotely, tend to increase risk in this area. We urge districts to carefully review controls over these transactions, and consider best practices to address this risk, such as:

- Ensuring segregation of duties over these transactions by involving more than one employee in the process.
- Requiring multi-factor authentication of requests for electronic payments from new vendors or for changes in wiring instructions for existing vendors. It is recommended that changes for existing vendors be verified with the vendor through trusted contact information used previously for that vendor, not as provided in the change request, to verify the accuracy of the change.
- Educate employees on the controls in place to protect the organization’s financial assets and ensure management is supportive and accepting of the processes in place. These scams are often initiated using the profile of a supervisor. Employees must be comfortable questioning unusual transactions or requests, and instructed not to circumvent internal control procedures regardless of whom they believe initiated the transaction.
- Recommended cyber security measures, such as limiting network access and requiring robust passwords that are changed regularly, should be implemented and followed by all district employees, not just those directly involved with financial transactions.
- Review insurance policies to understand the coverage provided for financial losses due to cybersecurity risks, and evaluate whether they provide adequate coverage based on management’s assessment of these risks.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 of the notes to basic financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2020. However, the District implemented the following governmental accounting standard during the fiscal year ended June 30, 2020:

- GASB Statement No. 84, *Fiduciary Activities*, which established criteria for identifying fiduciary activities of local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for the current fiscal year is not finalized until after the District has closed its financial records. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident district and also utilizing some estimates, particularly in the area of enrollment options.

Special education state aid includes an adjustment related to tuition billings to and from other school districts for special education services, which are computed using formulas derived by the Minnesota Department of Education (MDE). Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the District has closed its financial records. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the District.

The District has recorded a liability in the Statement of Net Position for severance benefits payable for which it is probable employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), the potential use of accumulated sick leave prior to termination, and the age at which such employees are likely to retire.

The District has recorded activity for other post-employment benefits (OPEB) and pension benefits. These obligations are calculated using actuarial methodologies primarily described in GASB Statement Nos. 68 and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

The depreciation of capital assets involves estimates pertaining to useful lives.

The District's self-insured activities require recording a liability for claims incurred, but not yet reported, which are based on estimates.

We evaluated the key factors and assumptions used by management to develop the estimates discussed above and on the previous page in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to OPEB and pension benefits are particularly sensitive due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated December 7, 2020.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis and the pension and OPEB-related required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplemental information, the Schedule of Expenditures of Federal Awards, and the Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table accompanying the financial statements, which are not RSI. With respect to this supplementary information, 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.

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

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FUNDING PUBLIC EDUCATION IN MINNESOTA

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. A summary of legislative changes affecting school districts included later in this report gives an indication of how complicated the funding system is. This section provides selected state-wide funding and financial trend information.

BASIC GENERAL EDUCATION REVENUE

The largest single funding source for Minnesota school districts is basic general education aid. Each year, the 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 average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

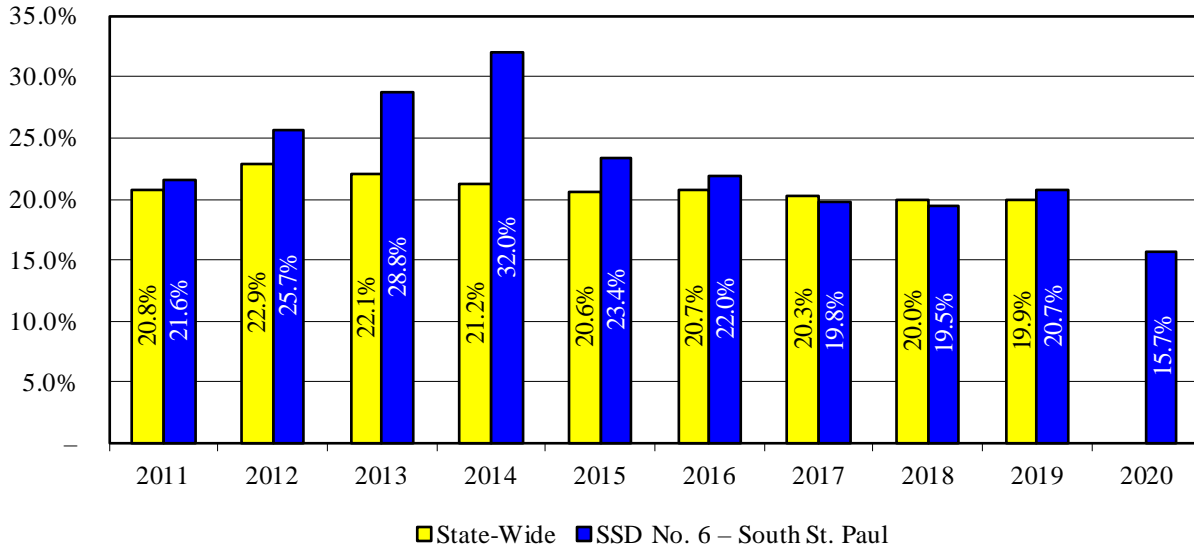
The table below presents a summary of the formula allowance for the past decade and as approved for the next year. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the “roll-in” of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual districts. The \$529 increase in 2015 was offset by changes to pupil weightings and the general education aid formula that resulted in an increase equivalent to approximately \$105, or 2.0 percent, state-wide.

| Fiscal Year Ended June 30, | Formula Allowance | |
|-------------------------------|-------------------|---------------------|
| | Amount | Percent Increase |
| 2011 | \$ 5,124 | – % |
| 2012 | \$ 5,174 | 1.0 % |
| 2013 | \$ 5,224 | 1.0 % |
| 2014 | \$ 5,302 | 1.5 % |
| 2015 | \$ 5,831 | 2.0 % |
| 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 % |

STATE-WIDE SCHOOL DISTRICT FINANCIAL HEALTH

One of the most common and comparable statistics used to evaluate school district financial health is the unrestricted operating fund balance as a percentage of operating expenditures.

State-Wide Unrestricted Operating Fund Balance
as a Percentage of Operating Expenditures



Note: State-wide information is not available for fiscal 2020.

The calculation above reflects only the unrestricted fund balance of the General Fund, and the corresponding expenditures, which is the same method the state uses for the calculation of statutory operating debt. We have also included the comparable percentages for your district.

During the economic downturn that began in 2008, the average unrestricted fund balance as a percentage of operating expenditures maintained by Minnesota school districts increased, peaking at 22.9 percent at the end of fiscal 2012. This trend reflected districts' efforts to limit budget cuts, retain educational programs, and maintain adequate operating cash flow during a period of uncertain funding. As the state's economic condition improved and funding stabilized in subsequent years, this ratio decreased gradually to 19.9 percent at the end of fiscal 2019.

As of June 30, 2019, this ratio was 20.7 percent for the District, as compared to a state-wide average of 19.9 percent. The District's unrestricted operating fund balance as a percentage of operating expenditures was 15.7 percent at the end of the current year.

Having an appropriate fund balance is an important factor in assessing the District's financial health because a government, like any organization, requires a certain amount of equity to operate. It is important to review fund balance levels on an ongoing basis to ensure a sufficient equity reserve is available to support programs and cash flow of the District.

The table below shows a comparison of governmental fund revenue per ADM received by Minnesota school districts and your district. Revenues for all governmental funds are included, except for the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds. Other financing sources, such as proceeds from sales of capital assets, insurance recoveries, bond sales, loans, and interfund transfers, are also excluded.

| Governmental Funds Revenue per Student (ADM) Served | | | | | | | |
|--|------------------|------------------|------------------|------------------|----------------------------|------------------|------------------|
| | State-Wide | | Metro Area | | SSD No. 6 – South St. Paul | | |
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2020 |
| General Fund | | | | | | | |
| Property taxes | \$ 2,024 | \$ 2,140 | \$ 2,638 | \$ 2,796 | \$ 1,449 | \$ 1,909 | \$ 1,975 |
| Other local sources | 520 | 556 | 433 | 454 | 319 | 348 | 357 |
| State | 9,614 | 9,883 | 9,625 | 9,885 | 9,992 | 10,347 | 10,673 |
| Federal | 450 | 475 | 474 | 499 | 373 | 398 | 413 |
| Total General Fund | <u>12,608</u> | <u>13,054</u> | <u>13,170</u> | <u>13,634</u> | <u>12,133</u> | <u>13,002</u> | <u>13,418</u> |
| Special revenue funds | | | | | | | |
| Food Service | 559 | 559 | 554 | 556 | 567 | 592 | 619 |
| Community Service | 642 | 676 | 752 | 797 | 647 | 642 | 618 |
| Debt Service Fund | <u>1,128</u> | <u>1,229</u> | <u>1,120</u> | <u>1,287</u> | <u>716</u> | <u>709</u> | <u>787</u> |
| Total revenue | <u>\$ 14,937</u> | <u>\$ 15,518</u> | <u>\$ 15,596</u> | <u>\$ 16,274</u> | <u>\$ 14,063</u> | <u>\$ 14,945</u> | <u>\$ 15,442</u> |
| ADM served per MDE School District Profiles Report (current year estimated) | | | | | <u>3,574</u> | <u>3,477</u> | <u>3,338</u> |
| Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds. | | | | | | | |
| Source of state-wide and metro area data: School District Profiles Report published by the MDE | | | | | | | |

ADM used in the table above is based on enrollments consistent with those used in the MDE School District Profiles Report, which include extended time ADM, and may differ from ADM reported in other tables. Changes in enrollment also impact comparisons in the table above and on the next page when revenue and expenditures are based on fixed costs, such as debt levies and principal and interest on outstanding indebtedness.

The mix of local and state revenues vary from year to year primarily based on funding formulas and the state’s financial condition. The mix of revenue components from district to district varies, due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered, and countless other criteria.

The District’s revenues per ADM have been below both the metro area and state-wide averages in recent years.

The District earned \$51,544,738 in the governmental funds reflected above in fiscal 2020, a decrease of \$416,687 (0.8 percent) from the prior year, largely caused by declining enrollment. Total revenue per ADM served increased by \$497 (3.3 percent) per student, with declining enrollment. The increase in the basic formula allowance, as discussed earlier and improved special education funding, along with additional revenues for safe schools, contributed to the change in General Fund sources. Significant programming changes with the COVID-19 pandemic contributed to the adjustment in the Food Service Special Revenue Fund. The pandemic required a decrease in program participation resulting in a reduction in other local revenues in the Community Service Special Revenue Fund. A one-time inflow in other sources contributed to the increase in the Debt Service Fund.

The following table reflects similar comparative data available from the MDE for all governmental fund expenditures, excluding the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds. Other financing uses, such as bond refundings and transfers, are also excluded.

| Governmental Funds Expenditures per Student (ADM) Served | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|----------------------------|-----------------|-----------------|
| | State-Wide | | Metro Area | | SSD No. 6 – South St. Paul | | |
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2020 |
| General Fund | | | | | | | |
| Administration and district support | \$ 1,031 | \$ 1,065 | \$ 1,045 | \$ 1,078 | \$ 808 | \$ 878 | \$ 919 |
| Elementary and secondary regular instruction | 5,646 | 5,787 | 5,976 | 6,112 | 5,785 | 6,087 | 6,558 |
| Vocational education instruction | 170 | 180 | 154 | 165 | 50 | 52 | 48 |
| Special education instruction | 2,298 | 2,380 | 2,418 | 2,505 | 2,163 | 2,320 | 2,557 |
| Instructional support services | 658 | 669 | 748 | 751 | 1,029 | 1,135 | 1,240 |
| Pupil support services | 1,118 | 1,178 | 1,209 | 1,282 | 745 | 866 | 1,005 |
| Sites, buildings, and other | 936 | 960 | 896 | 907 | 1,075 | 1,099 | 1,244 |
| Total General Fund – noncapital | 11,857 | 12,219 | 12,446 | 12,800 | 11,655 | 12,437 | 13,571 |
| General Fund capital expenditures | 658 | 721 | 636 | 675 | 556 | 573 | 552 |
| Total General Fund | <u>12,515</u> | <u>12,940</u> | <u>13,082</u> | <u>13,475</u> | <u>12,211</u> | <u>13,010</u> | <u>14,123</u> |
| Special revenue funds | | | | | | | |
| Food Service | 553 | 561 | 545 | 556 | 557 | 617 | 679 |
| Community Service | 640 | 675 | 750 | 799 | 682 | 689 | 650 |
| Debt Service Fund | <u>1,308</u> | <u>1,313</u> | <u>1,230</u> | <u>1,308</u> | <u>673</u> | <u>689</u> | <u>721</u> |
| Total expenditures | <u>\$15,016</u> | <u>\$15,489</u> | <u>\$15,607</u> | <u>\$16,138</u> | <u>\$14,123</u> | <u>\$15,005</u> | <u>\$16,173</u> |
| ADM served per MDE School District Profiles Report (current year estimated) | | | | | <u>3,574</u> | <u>3,477</u> | <u>3,338</u> |
| Note: Excludes the Capital Projects – Building Construction and Post-Employment Benefits Debt Service Funds. | | | | | | | |
| Source of state-wide and metro area data: School District Profiles Report published by the MDE | | | | | | | |

Expenditure patterns also vary from district to district for various reasons. Factors affecting the comparison include the growth cycle or maturity of the District, average employee experience, availability of funding, population density, and even methods of allocating costs.

The District’s expenditures per ADM have also been below the averages presented above in recent years.

The District spent \$53,981,851 in the governmental funds reflected above in fiscal 2020, an increase of \$1,806,986 (3.5 percent) from the prior year. On a per student basis, this represents an increase of \$1,168 (7.8 percent). General Fund expenditures increased \$1,113 per student, with growth in most program areas. The largest changes were in elementary and secondary regular instruction and special education instruction, which increased by \$471 and \$237 per ADM, respectively. As previously mentioned, the decline in enrollment also impacted the expenditures on a per student basis, with increases in Food Service and the Debt Service Fund. Community service was down, consistent with the decrease in revenues with fewer program offerings, due to the ongoing pandemic.

SUMMARY

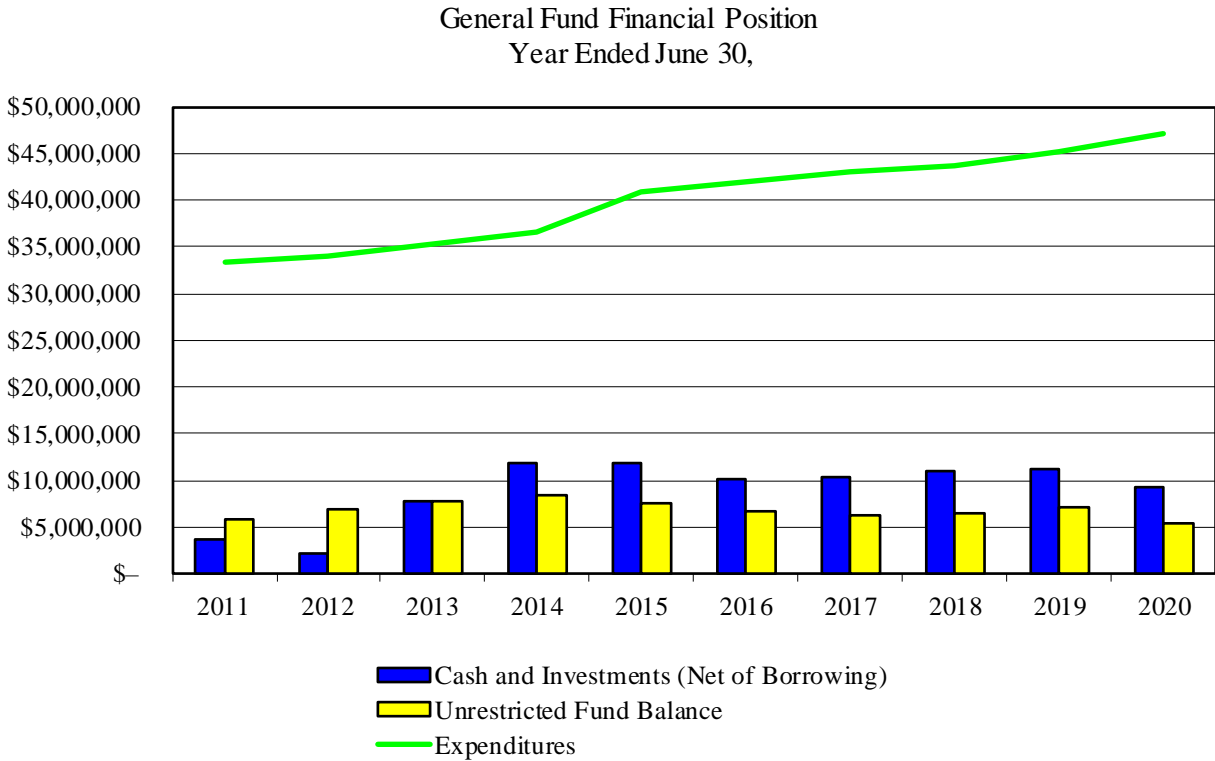
Funding for Minnesota school districts generally has not kept pace with inflation and an increasing need for services, despite recent enhancements to the basic general education state aid formula and other categorical aids. This has increased reliance on local revenue sources like voter-approved operating referenda and user fees to maintain district programs. The recent COVID-19 pandemic has and will continue to create additional financial challenges, as districts struggle to provide a safe and effective learning experience for their students under unprecedented circumstances.

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FINANCIAL TRENDS OF YOUR DISTRICT

GENERAL FUND FINANCIAL POSITION

The following graph displays the District’s General Fund trends of financial position and changes in the volume of financial activity. Unrestricted fund balance and cash balance are two indicators of financial health, while annual expenditures are often used to measure the size of the operation.



The District ended fiscal year 2020 with a General Fund cash and investments balance of \$9,177,308 (net of borrowing), a decrease of \$2,112,600 from the previous year. Unrestricted fund balance (consisting of any assigned and unassigned fund balances) at year-end totaled \$5,472,004, a decrease of \$1,631,514. Total fund balance of the General Fund decreased by \$2,445,882, compared to a decrease of \$3,548,575 approved in the final budget.

The District also reported a change in accounting principle in the current year, as previously discussed, which increased beginning fund balance by \$31,729.

Legislatively-approved changes in the metering of state aid payments to school districts and in the tax shift significantly impacted cash and investment balances in certain years presented in the graph above.

GENERAL FUND COMPONENTS OF FUND BALANCE

The following table presents the components of the General Fund balance for the past five years:

| | June 30, | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Nonspendable fund balances | \$ 585,063 | \$ 498,225 | \$ – | \$ – | \$ – |
| Restricted fund balances (1) | 1,091,763 | 1,522,587 | 1,457,515 | 1,288,366 | 505,727 |
| Unrestricted fund balances | | | | | |
| Assigned | 2,601,398 | 2,387,848 | 1,888,230 | 2,669,807 | 2,213,778 |
| Unassigned | 4,094,477 | 3,883,649 | 4,667,938 | 4,433,711 | 3,258,226 |
| Total fund balances | \$8,372,701 | \$8,292,309 | \$8,013,683 | \$8,391,884 | \$5,977,731 |
| Unrestricted fund balances as a percentage of total expenditures | 16.0% | 14.6% | 15.0% | 15.7% | 11.6% |
| Unassigned fund balances as a percentage of total expenditures | 9.8% | 9.0% | 10.7% | 9.8% | 6.9% |
| (1) Includes deficits in restricted fund balance accounts allowed to accumulate deficits under UFARS, which are part of unassigned fund balance on the accounting principles generally accepted in the United States of America-based financial statements. | | | | | |

The table above reflects the total General Fund unrestricted fund balance and percentages, which differs from those used in the previous discussion of state-wide fund balances, which are based on a state formula.

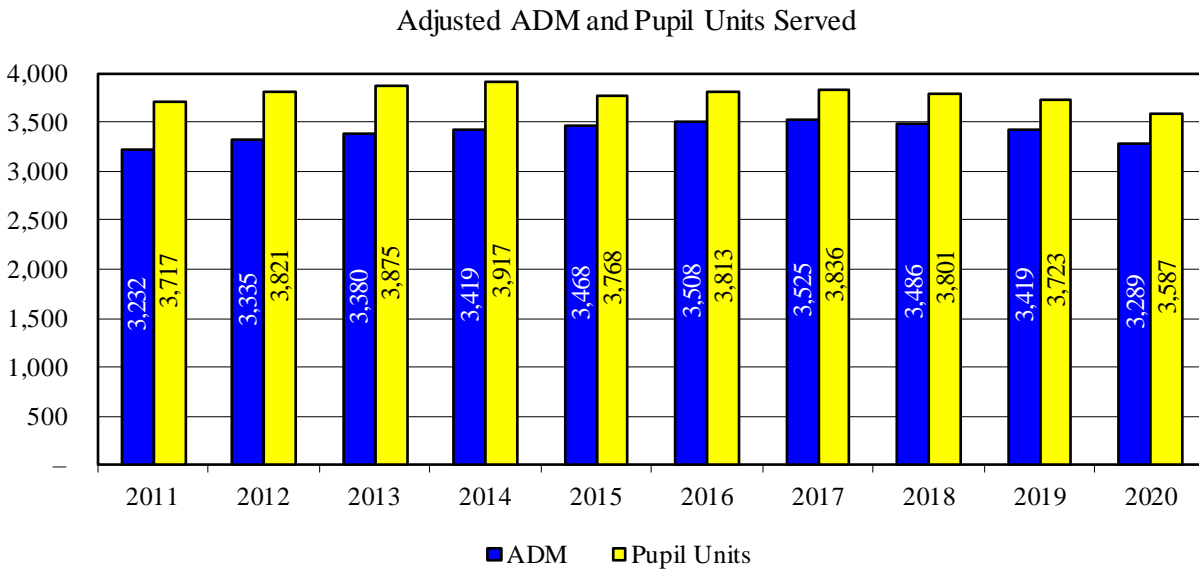
The resources represented by this fund balance are critical to a district's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls.

The School Board has formally adopted a fund balance policy regarding the minimum unrestricted fund balance for the General Fund. The policy establishes that the District will strive to maintain a minimum unrestricted General Fund balance of 12.0 percent of the annual budget.

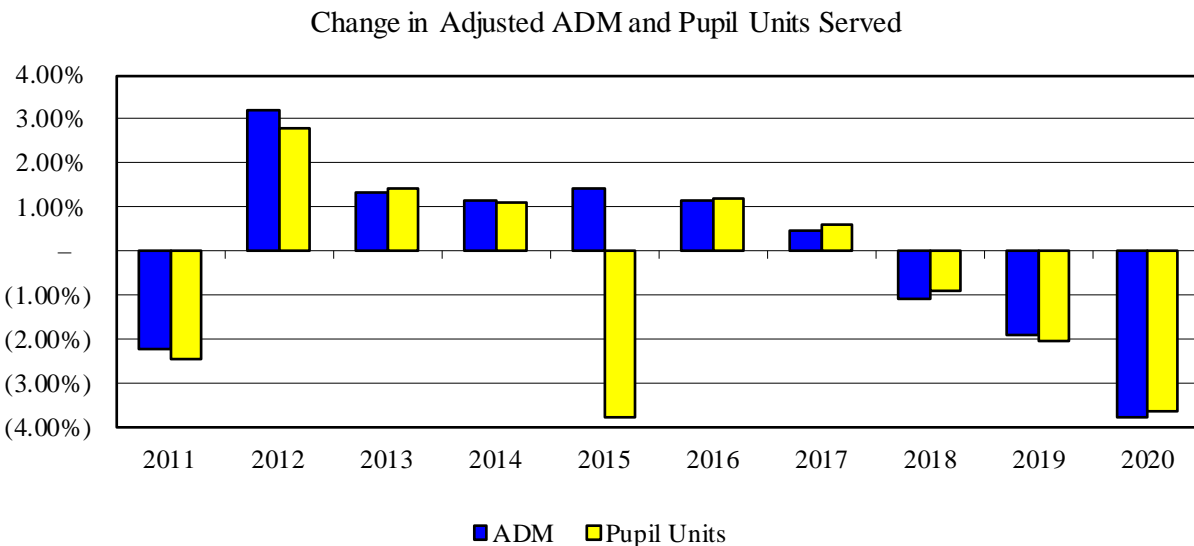
At June 30, 2020, unrestricted fund balance in the General Fund represented 11.6 percent of annual expenditures, or about six weeks of operations, assuming level spending throughout the year.

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

The following graph presents the District's ADM and resulting pupil units served for the past 10 years:



The following graph shows the rate of change in ADM served by the District from year-to-year, along with the change in the resulting pupil units:



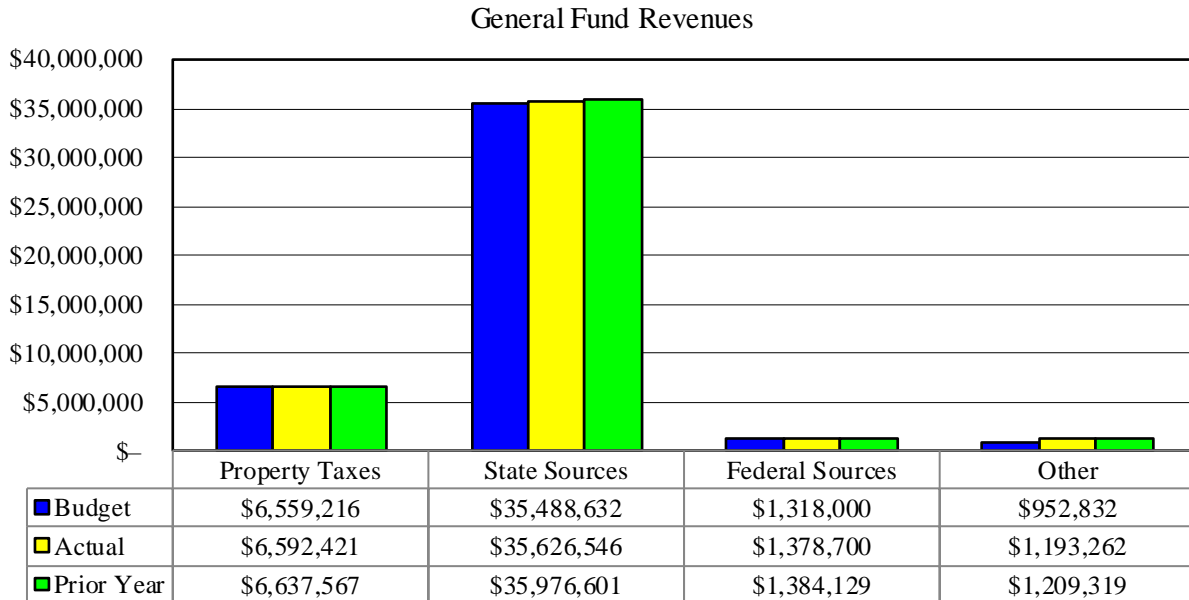
The change in pupil units for 2015 includes the effect of legislative reductions to pupil units.

ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes, the impact of the prior year final adjustments which affect this year's revenue, and also the final adjustments caused by open enrollment gains and losses.

The District served an estimated ADM of 3,289 in 2020, a decrease of 130 ADM (about 3.8 percent) from the prior year.

GENERAL FUND REVENUES

The following graph presents the District's General Fund revenues for 2020:



Total General Fund revenues were \$44,790,929 for the year ended June 30, 2020, which was \$472,249 (1.1 percent) over the final budget, and \$416,687 (0.9 percent) less than the prior year.

As mentioned in the previous paragraph, revenues were close to amounts anticipated in the final budget. The variance was spread across each category above with favorable variances in each funding source.

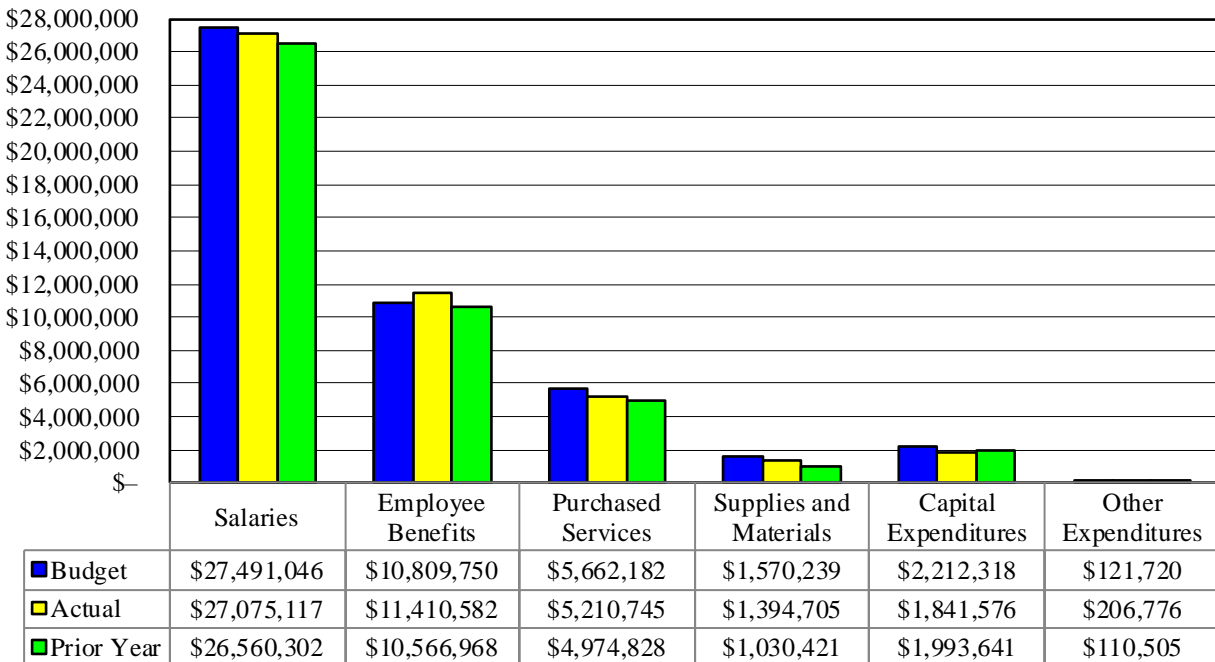
Increases in funding formulas were more than offset by the impact of declining enrollment in the current year. The decrease was primarily in state sources, which were \$350,055 less than the prior year.

The graph above reflects the concentration of state sources (79.5 percent), followed by property taxes (14.7 percent) recognized to finance General Fund operations.

GENERAL FUND EXPENDITURES

The following graph presents the District's General Fund expenditures for 2020:

General Fund Expenditures



Total General Fund expenditures were \$47,139,501 for the year ended June 30, 2020, which was \$727,754 (1.5 percent) under the final budget and \$1,902,836 (4.2 percent) more than the prior year.

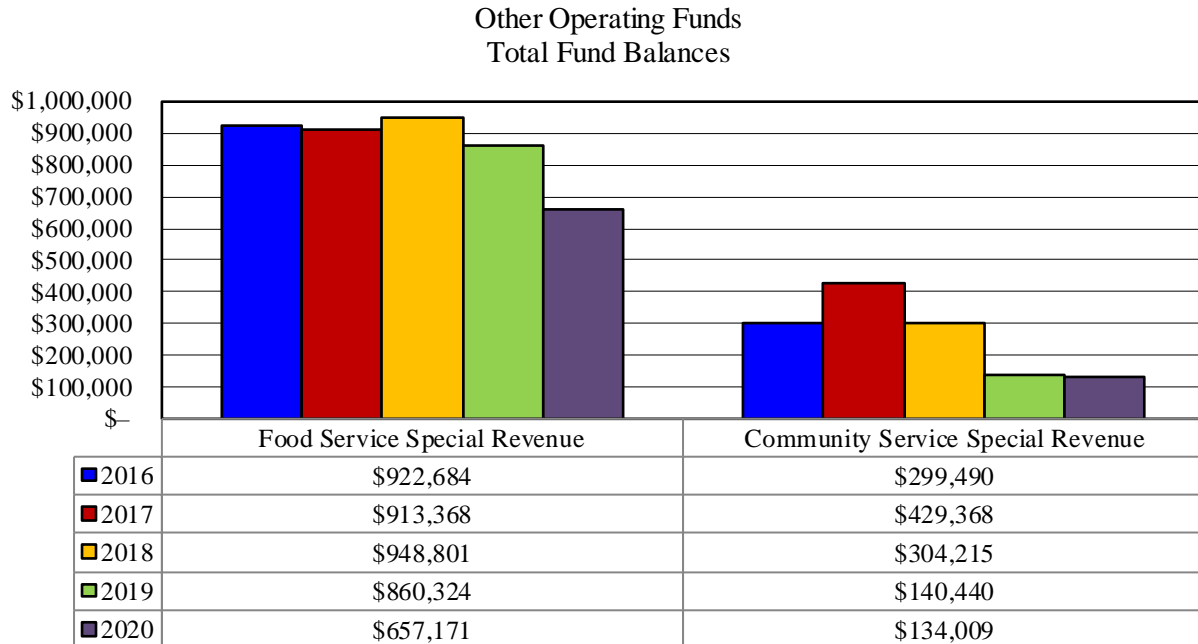
As presented in the graph above, expenditures variances to budget were both favorable and unfavorable and spread across all district programs. General Fund spending variances were within 1.5 percent of total budgeted appropriations. Conservative budgeting and spending delays, due to the COVID-19 pandemic, contributed to the budget savings presented in the above graph.

Expenditure increases were primarily due to planned program enhancements and contractual salary and benefit increases.

Salary and employee benefits, which account for 81.6 percent of General Fund spending, were \$1,358,429 (3.7 percent) over the prior year and \$184,903 (0.5 percent) over budget.

OTHER FUNDS OF THE DISTRICT

The following graph shows what is referred to as the other operating funds. The remaining nonoperating funds are only included in narrative form below, since their level of fund balance can fluctuate significantly, due to such things as issuing and spending the proceeds of refunding or building bonds and, therefore, the trend of fund balance levels are not necessarily a key indicator of financial health. It does not mean that these funds cannot experience financial trouble or that their fund balances are unimportant.



Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended the year with a decrease in fund balance of \$203,153 in 2020, compared to a budgeted decrease of \$171,713. Revenues were \$60,723 under budget, while expenditures were under budget by \$29,283. The Food Service Special Revenue Fund had a year-end fund balance of \$657,171, representing 29.0 percent of annual expenditures totaling \$2,268,103. The District planned for an increase in capital spending that reduced fund balance in the current year. The ongoing COVID-19 pandemic also significantly impacted the operations of the Food Service Special Revenue Fund in the current year.

This operation has maintained a healthy fund balance for several years and has also been able to assist in funding a portion of several capital improvements to food service facilities in recent years. The District should continue reviewing upcoming capital needs of the operation and incorporate that information in establishing an optimal level of fund balance that is also within state and federal fund balance limits.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended the year with a decrease in fund balance of \$6,431, compared to a budgeted decrease of \$37,421. Revenues were \$140,360 over budget, while expenditures were over budget by \$9,370. The Community Service Special Revenue Fund had a year-end fund balance of \$134,009, representing 6.2 percent of annual expenditures totaling \$2,169,135. This fund reported a transfer from the General Fund in the current year of \$100,000, to support programming.

The Community Service Special Revenue Fund, like the Food Service Special Revenue Fund, needs to be self-sustaining. In addition to cost controls, financial analysis of the costs of providing programs, including overhead, is important. Fees and tuition charges should be sufficient to cover these costs, as well as potential funding shortfalls from state, federal, or property tax sources.

Capital Projects – Building Construction Fund

The activity of this fund is largely controlled by various debt issues used for the acquisition, construction, or improvement of major capital facilities. Total fund balance increased by \$2,386,500, with revenues and other financing sources exceeding spending for capital outlay in the current year. At year-end, this fund reported \$2,386,500 restricted for projects funded by certificates of participation.

Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. It is important to remember that resources of the Debt Service Fund are restricted to the payment of outstanding debt obligations of the District. As of June 30, 2020, the District has \$967,956 available for the payment of debt.

Internal Service Funds

Dental Self-Insurance

The District established an internal service fund to account for the District's self-insured dental plan. As of June 30, 2020, net position totaled \$187,472, an increase of \$71,104 over the prior year.

Medical Self-Insurance

The District established an internal service fund to account for the District's self-insured medical plan. As of June 30, 2020, net position totaled \$4,012,810, an increase of \$1,939,459 over the prior year.

Other Post-Employment Benefits

In fiscal year 2010, the District established an internal service fund to finance the costs of retiree health (other post-employment benefits [OPEB]) as they accrue. The proceeds of the District's \$5.4 million OPEB bonds were contributed into this fund from the District's governmental funds. The assets in this fund are being held in a revocable trust account the District established to finance its OPEB liabilities, and can only be used to pay OPEB costs. However, because the District elected to make the trust revocable (meaning that under certain specific and very restrictive circumstances, the District may take the assets back out of the trust and use them for other purposes), these assets must be accounted for in the internal service funds, which are included in the District's government-wide financial statements.

The District's Other Post-Employment Benefits Internal Service Fund ended the year with cash and investments of \$4,933,980 available to pay future OPEB benefits. Net position decreased from the prior year deficit balance of \$4,094,106 as previously reported, to a net position deficit of \$4,423,969 at the end of the current year. This is a decrease of \$329,863 from current year activity.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the District's current assets to finance its current liabilities. The governmental reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the District as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents district resources available for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, this statement divides net position into three components: net investment in capital assets, restricted, and unrestricted. The following table presents a summarized reconciliation of the District's governmental fund balances to net position, and the separate components of net position for the last two years:

| | June 30, | | Change |
|--|------------------------|------------------------|-----------------------|
| | 2020 | 2019 | |
| Net position – governmental activities | | | |
| Total fund balances – governmental funds | \$ 10,123,367 | \$ 10,139,807 | \$ (16,440) |
| Total capital assets, net of depreciation | 41,859,830 | 39,429,525 | 2,430,305 |
| Bonds payable and certificates of participation (including unamortized premium) | (35,000,579) | (31,547,059) | (3,453,520) |
| Capital lease payable | (327,842) | (406,750) | 78,908 |
| Pension adjustments | (42,436,733) | (39,725,526) | (2,711,207) |
| Other adjustments | (974,583) | (2,579,655) | 1,605,072 |
| Total net position – governmental activities | <u>\$ (26,756,540)</u> | <u>\$ (24,689,658)</u> | <u>\$ (2,066,882)</u> |
| Net position | | | |
| Net investment in capital assets | \$ 9,925,751 | \$ 9,232,466 | \$ 693,285 |
| Restricted | 2,352,453 | 2,620,176 | (267,723) |
| Unrestricted | <u>(39,034,744)</u> | <u>(36,542,300)</u> | <u>(2,492,444)</u> |
| Total net position | <u>\$ (26,756,540)</u> | <u>\$ (24,689,658)</u> | <u>\$ (2,066,882)</u> |

Some of the District's fund balances translate into restricted net position by virtue of external restrictions (statutory restrictions) or by the nature of the fund they are in (e.g. Food Service Special Revenue Fund balance can only be spent for food service program costs). The unrestricted net position category consists mainly of the General Fund unrestricted fund balances, offset against noncapital long-term obligations, such as vacation payable, severance payable, net pension, and net OPEB liabilities.

Total net position decreased by \$2,066,882 during fiscal 2020, which includes a change in accounting principle of \$31,729, as previously discussed. The District's net investment in capital assets increased \$693,285 this year. The change in this category of net position typically depends on the relationship between the rate at which the District's capital assets are being depreciated, and how that compares to the rate at which the District is repaying the debt issued to purchase or construct those assets.

The restricted portion of the District's net position decreased, primarily in amounts restricted for capital asset acquisition, food service, community service, and for other state funding restrictions. The change in unrestricted net position includes changes in the District's proportionate share of the Public Employees Retirement Association and the Teachers Retirement Association pension plan liabilities and related deferments. The operating results of the General Fund, as previously discussed, also contributed to the change in unrestricted net position.

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LEGISLATIVE SUMMARY

The 2020 Minnesota Legislature session was expected to be short and focused on making tweaks to the biennial budget. By early March, it became clear the session would unfold differently than anyone could have predicted. As the novel coronavirus (COVID-19) spread reached Minnesota, Governor Walz issued an Executive Order declaring a peacetime emergency. The declaration was enacted, which allowed his administration to quickly impose measures aimed at mitigating the COVID-19 health threat. These measures, which were issued through dozens of executive orders over the months that would follow, included: closing schools and requiring instruction be provided through distance learning; allowing schools to offer summer programs and extended school year services through distance learning or a hybrid model; requiring districts to deliver meals and instructional materials; requiring districts to provide childcare for essential workers, and authorizing fund transfers and flexibility in the use of revenues for districts to cover school-age care, transportation, and other COVID-19 related costs.

The following is a brief summary of specific legislative changes from the 2020 regular and special sessions or previous legislative sessions impacting Minnesota school districts in future years.

Coronavirus Aid, Relief, and Economic Security (CARES) Act – The CARES Act provides federal economic relief to protect the American people from the public health and economic impacts of COVID-19.

This CARES funding includes an Education Stabilization Fund, which in turn contains two major sources of funding for schools that may be used for expenditures incurred from March 13, 2020 through September 30, 2022:

1. Governor’s Emergency Education Relief (GEER) Fund

These funds were allocated to support efforts in getting children back to school in the fall, while prioritizing the safety of students and staff. These funds support operational costs, such as: cleaning supplies and disinfectant sprayers, screening supplies, personal protective equipment, and increased transportation costs associated with transporting students in a socially distant manner. These funds also support student, family, and educator needs, such as technology devices and internet access, technology training, tutors or mentors to address learning loss, translation services, school-age care for essential workers, and professional development focused on learning models. To spend funds from this source, an expenditure must be a reasonably necessary expense that is directly related to the COVID-19 pandemic, and the expenditure must not be one that was planned for in the current school year budget.

2. Elementary and Secondary School Emergency Relief (ESSER) Fund

These funds are divided into two streams: a formula-based allocation and state-directed grants. The formula-based allocation to districts and charter schools is based on their allocations under Title I, Part A of the Elementary and Secondary Education Act (ESEA). These funds can be used for a wide range of expenses to meet local needs.

State-directed grants, provided to districts and charter schools that do not receive a formula-based allocation, districts and charter schools that receive less than \$10,000 from their formula-based allocation, and districts and charter schools whose share of students from historically underserved populations is more than their share of other ESSER funds, can be used for a combination of supplementing GEER funds for summer school programming, supporting mental health, and meeting the needs of historically underserved populations.

The CARES Act also provided funding through the Coronavirus Relief Fund (CRF). These funds were allocated to districts and charter schools based on a two-part formula: 1) 60 percent for operating costs based on average daily membership (ADM) as reported for the 2018–2019 school year, and 2) 40 percent for student, family and staff support costs allocated based 40 percent on ADM and 60 percent on the historically underserved population of students each district or charter school serves. The expenditure of these funds is not required to match the 60 percent/40 percent allocation breakdown, and may be used for costs incurred between July 1, 2020 and December 31, 2020.

General Education Revenue – The Legislature had previously approved annual increases of 2 percent to the basic general education formula allowance for the fiscal year (FY) 2020–2021 biennium. The per pupil allowance will increase \$129 to \$6,567 for FY 2021.

Compensatory Revenue – The requirement to reserve a portion of compensatory revenue for extended time programming is eliminated beginning in FY 2021.

Special Education Revenue – The Legislature had previously approved enhancements to special education funding designed to hold the state average cross subsidy per pupil constant at the FY 2019 level of \$82 per ADM for FY 2021. The changes included:

- Establishing a new component of the state special education funding formula, known as cross subsidy reduction aid. Cross subsidy reduction aid will equal a percentage of each district’s “initial cross subsidy” for the prior fiscal year, with the percentages set at 6.43 percent for 2021. Initial cross subsidy is defined as the district’s nonfederal special education costs, including transportation, less state special education aid after tuition adjustments and general education aid attributable to students receiving special education services outside of the regular classroom for at least 60.00 percent of the school day. Charter schools are not eligible for cross subsidy reduction aid.
- Updating the pupil-driven portion of the initial special education aid formula to use FY 2018 data beginning in FY 2021, rather than continuing to use 2011 data adjusted for inflation.
- Phasing out the special education aid cap over two years, with the cap eliminated for FY 2021 and beyond.
- Reducing the tuition rate paid by the resident school district for open enrolled special education students served by another district or charter school from 90.00 percent of unfunded costs to 80.00 percent for FY 2021 and later. Charter schools will be eligible for additional special education aid from the state to fully offset the impact of the tuition rate change.
- Reducing the hold harmless guarantee by changing the formula to reduce reliance on the FY 2016 base year so that schools where special education expenditures have fallen or grown slowly since FY 2016 do not benefit disproportionately from the hold harmless guarantee compared to other schools. The percentage of FY 2019 regular program costs used to calculate the hold harmless will decrease to 85.00 percent for FY 2021, 80.00 percent for FY 2022, and 75.00 percent for FY 2023. In addition, the annual inflation adjustment used to calculate the hold harmless will be reduced by 0.20 percent annually from the 4.60 percent factor used in FY 2019 until the adjustment reaches 2.00 percent.
- The 2020 Legislature added that for FY 2020, expenditures for employees and contracted services that would have been eligible for state aid in the absence of school closure due to COVID-19 must be included as eligible expenditures for calculation of aid and for tuition billing, regardless of whether special education services were actually provided during the closure.

Achievement and Integration Revenue – School districts are authorized to carry over any unspent balance of their approved achievement and integration budget from FY 2020 into FY 2021. If spent for approved purposes in FY 2021, the districts would generate additional FY 2021 revenue over and above the regular formula limitations.

Operating Referendum/Local Optional Revenue – Effective for the tax levy payable in FY 2021, the operating referendum and local optional revenue (LOR) levies were simplified by transferring \$300 per pupil unit (PU) of referendum revenue to LOR, thereby eliminating the board-approved referendum levy and increasing the LOR levy authority to \$724 per PU. The referendum cap is reduced by the \$300 per PU transferred to LOR. The annual recalculation of referendum allowances approved prior to FY 2014 based on the amount of LOR a district opts to receive is also eliminated. Inflation adjusted referendum authority transferred to LOR will continue to be adjusted for the life of the referendum. This change is revenue neutral for all districts.

Operating Referendum Equalization – Effective for the tax levy payable in FY 2021, the equalizing factor for Tier 2 of the referendum (New Tier 1) is increased from \$510,000 to \$567,000. This is expected to provide \$9.4 million of property tax relief to taxpayers, and result in \$600,000 of additional referendum state aid for charter schools.

Fund Transfers – For fiscal years 2020 and 2021 only, a school district, charter school, or a cooperative unit may transfer any funds not already assigned or encumbered by staff salary and benefits, or otherwise encumbered by federal law, from any accounts or operating fund to the undesignated balance in any other operating fund. A fund transfer is allowed if the transfer meets the following criteria from Minnesota Laws 2020, Chapter 116/House File 4415 Article 3 Section 8:

1. The transfer does not increase state aid obligations to the district or school or result in additional property tax authority for the district.
2. A transfer is limited to the operating funds of a school district, charter school, or cooperative unit.
3. A school board must approve any fund or account transfer before the reporting deadline for the respective fiscal year.
4. A school district, charter school, or cooperative unit must maintain accounting records for the purposes of this section that are sufficient to document both the specific funds transferred and use of those funds. The accounting records are subject to auditor review.
5. Any execution of this flexibility must not interfere with or jeopardize funding per federal requirements.
6. Any transfer must not interfere with the equitable delivery of distance learning or social distancing models.

Debt Service Payments – For FY 2021 only, a school district unable to make a required debt service payment due to a delay in property tax receipts may apply for modified cash flow payments from the state under Minnesota Statutes, Section 127A.45.

Pension Benefit Reforms – The 2018 pension bill included a number of reforms to the various defined benefit pension plans across the state. Employer contribution rates were increased for the Teachers Retirement Association (TRA) plan (a total increase of 1.25 percent phased in over a 6-year period beginning in FY 2019) and the St. Paul Teachers Retirement Fund Association (SPTRFA) plan (a total increase of 2.50 percent phased in over a 6-year period beginning in FY 2019). Employee contribution rates were also increased by 0.25 percent beginning in FY 2024 for the TRA plan and beginning in FY 2023 for the SPTRFA plan. The pension adjustment component of the general education aid formula was increased by an amount equal to the product of the salaries paid to members of these two plans times the district's pension adjustment rate for the fiscal year to help offset the cost of the employer contribution increases.

Workers' Compensation Claims – COVID-19 Presumption – The Legislature added several provisions to state unemployment statutes related to COVID-19, including a presumption that an employee who contracts COVID-19 has an occupational disease arising out of and in the course of employment if the employee works in one of the specified occupations and has a confirmed case of COVID-19. Covered occupations include nurses, healthcare workers, and workers required to provide childcare for first responders and healthcare workers under Executive Orders 20-02 and 20-19.

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ACCOUNTING AND AUDITING UPDATES

The following is a summary of GASB standards expected to be implemented in the next few years. Due to the COVID-19 pandemic, the GASB has delayed the original implementation dates of these and other standards as described below.

GASB STATEMENT NO. 87, *LEASES*

A lease is a contract that transfers control of the right to use another entity's nonfinancial 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.

Governments enter into leases for many types of assets. Under the previous guidance, leases were classified as either capital or operating depending on whether the lease met any of the four tests. In many cases, the previous guidance resulted in reporting lease transactions differently than similar nonlease financing transactions.

The goal of this statement is to better meet the information needs of users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement increases the usefulness of 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.

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.

To reduce the cost of implementation, this statement includes an exception for short-term leases, 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. The requirements of this statement are effective for fiscal years beginning after June 15, 2021.

GASB STATEMENT NO. 92, *OMNIBUS 2020*

The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other post-employment benefit (OPEB) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for post-employment benefits

- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to post-employment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

The requirements of this statement are effective for fiscal years beginning after June 15, 2021. Earlier application is encouraged.

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.

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. Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

This statement provides an exception for short-term SBITAs with a maximum possible term under the SBITA contract of 12 months, 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.

The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB STATEMENT NO. 97, CERTAIN COMPONENT UNIT CRITERIA, AND ACCOUNTING AND FINANCIAL REPORTING FOR INTERNAL REVENUE CODE SECTION 457 DEFERRED COMPENSATION PLANS—AN AMENDMENT OF GASB STATEMENT NO. 14 AND NO. 84, AND A SUPERSESSION OF GASB STATEMENT NO. 32

The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this statement that (1) exempt primary governments that perform the duties that a government board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans, and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this statement.

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