

Management Report

for

Independent School District No. 885  
St. Michael-Albertville Schools  
Albertville, Minnesota

June 30, 2021

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PRINCIPALS

Thomas A. Karnowski, CPA  
Paul A. Radosevich, CPA  
William J. Lauer, CPA  
James H. Eichten, CPA  
Aaron J. Nielsen, CPA  
Victoria L. Holinka, CPA/CMA  
Jaclyn M. Huegel, CPA  
Kalen T. Karnowski, CPA

To the School Board and Management of  
Independent School District No. 885  
Albertville, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 885's (the District) financial statements for the year ended June 30, 2021. 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  
November 23, 2021

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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, 2021. 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, 2021:

- We have issued an unmodified opinion on the District's basic financial statements.
- We reported no deficiencies in the District's internal control over financial reporting that we considered to be material weaknesses.
- 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 one matter involving the internal control over compliance and its operation that we consider to be a significant deficiency in our testing of major federal programs. The District's controls over suspension and debarment for its child nutrition cluster were inadequate. For three of four vendors tested, there was no documentation the District had performed checks of the vendors to ensure they are not suspended or debarred from participating in a contract involving federal funds. Based on our subsequent testing, no instances of noncompliance were reported.

- We reported two findings based on our testing of the District’s compliance with Minnesota laws and regulations:
  - One of twenty-five disbursements we tested were not paid within thirty-five days from the receipt of goods or services as required by Minnesota Statutes.
  - The District entered into a direct negotiated transportation contract that was not published at least 30 days prior to awarding the contract as required by Minnesota Statutes.

**FOLLOW-UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS**

As a part of our audit of the District’s financial statements for the year ended June 30, 2021, we performed procedures to follow-up on any findings and recommendations that resulted from our prior year audit. We reported the following findings that were corrected by the District in the current year:

- During our audit of the year ended June 30, 2020, we noted that the District had limited segregation of duties in several areas, due to turnover of District finance staff. Based on our testing in the current year, the District implemented adequate procedures to mitigate this prior year control deficiency.
- During our audit of the year ended June 30, 2020, we noted two material prior period adjustments to correct the balances of net capital assets and accrued payroll benefits reported in a previous year. Based on our testing in the current year, there was no similar finding.
- During our audit of the year ended June 30, 2020, we noted monthly cash reconciliations were not being completed in a timely manner, due to turnover of District finance staff. Based on our testing in the current year, the District implemented adequate procedures to correct this prior year finding.
- During our audit of the year ended June 30, 2020, we noted that the District did not have sufficient controls in place within its child nutrition cluster federal program to ensure compliance with federal procurement requirements, which resulted in reportable noncompliance. Based on our testing in the current year, the District implemented adequate procedures to correct this finding.
- During our audit of the year ended June 30, 2020, we noted that unclaimed property (general disbursement checks outstanding for more than three years, or one year for unpaid compensation) had not been reported and paid or delivered to the State Commissioner of Commerce as required. Based on our testing in the current year, there was no similar finding.

**OTHER OBSERVATIONS AND RECOMMENDATIONS**

**Payroll Withholding Documents**

During our audit testing of payroll withholding, it was noted that for some employees tested, the District was unable to provide complete payroll withholding source documents. We recommend the District review its controls to ensure complete payroll withholding documentation is retained by the District to support withholdings from employee paychecks.

## **Uniform Guidance Written Controls and Micro-Purchase Threshold**

Federal Uniform Guidance requires that nonfederal entities must have and use documented procurement procedures consistent with 2CFR § 200.317-320 for the acquisition of property or services required under a federal award or subaward. Effective August 31, 2020, the federal micro-purchase threshold, which is the threshold that allows for procurements without soliciting competitive price or rate quotations given certain conditions, was increased from \$3,500 to \$10,000 in the Federal Acquisition Regulations (FAR).

Effective November 12, 2020, the Uniform Guidance was also revised to allow nonfederal entities to establish a micro-purchase threshold higher than the \$10,000 threshold established in the FAR under certain circumstances. The nonfederal entity may self-certify a micro-purchase threshold up to \$50,000 if the requirements in 2CFR § 200.320(a)(1)(iv) are followed. Requirements include an *annual* self-certification and clear documentation of the justification to support the increase in the threshold. Acceptable reasons for justification must meet *one* of the following criteria:

- A qualification as a low-risk auditee, in accordance with the criteria in § 200.520 for the most recent audit,
- An annual internal institutional risk assessment to identify, mitigate, and manage financial risks, or,
- A higher threshold consistent with state law.

This flexibility would allow Minnesota local governments to increase and align their federal procurement procedures, specifically the micro-purchase threshold, with state law, which allows for procurements below \$25,000 to be made without competitive price or rate quotations.

We recommend that the District review its current federal procurement policy. If the micro-purchase threshold in your currently adopted policy is below the allowable FAR limit of \$10,000, you would need to make a one-time amendment to the policy to adopt the \$10,000 FAR limit before using it. If you prefer to increase your federal micro-purchase threshold to \$25,000 to align it with state law, in addition to amending your federal procurement policy, you would need to annually certify the higher threshold and the justification for using the higher threshold.

## **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, 2021.

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 activity for other post-employment benefits (OPEB) and pension benefits. These obligations are calculated using actuarial methodologies primarily described in Governmental Accounting Standards Board (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.

We evaluated the key factors and assumptions used by management to develop the estimates discussed above 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.

## **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.

## **DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

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

## **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 November 23, 2021.

## **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 (MD&A) 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, 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, which accompanies the financial statements, but is 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.

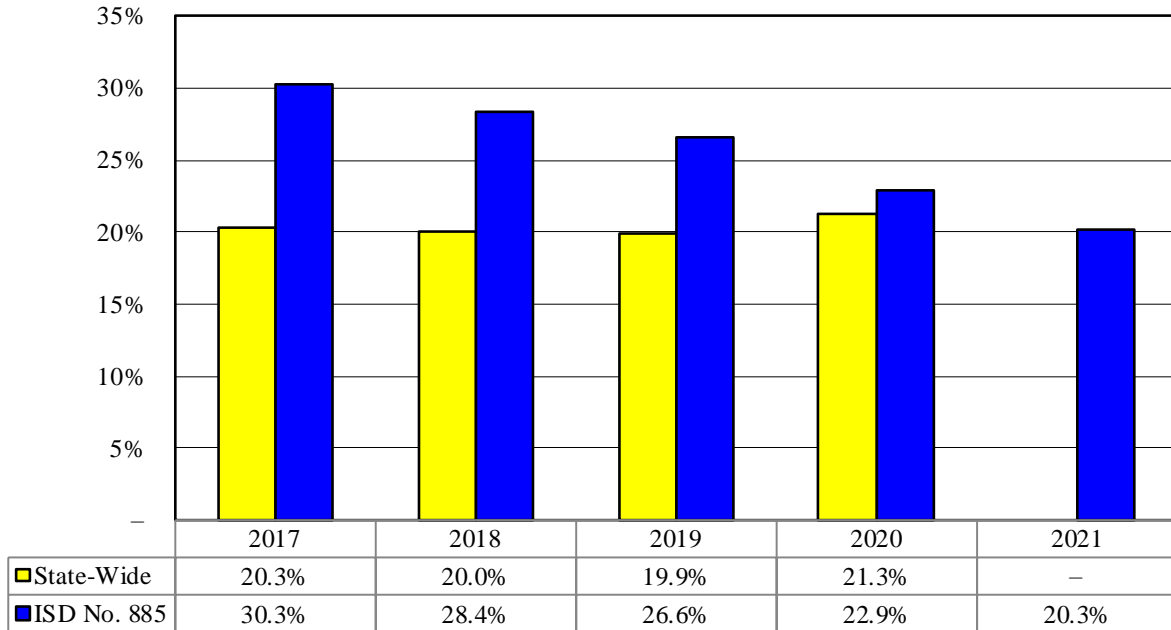
The table below presents a summary of the formula allowance for the past decade and as approved for the next two fiscal years. The 2021 Legislature approved per pupil increases of \$161 for fiscal 2022 and \$135 for fiscal 2023. The amount of the formula allowance and the percentage change from year-to-year 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
2012	\$ 5,174	1.00 %
2013	\$ 5,224	1.00 %
2014	\$ 5,302	1.50 %
2015	\$ 5,831	2.00 %
2016	\$ 5,948	2.00 %
2017	\$ 6,067	2.00 %
2018	\$ 6,188	2.00 %
2019	\$ 6,312	2.00 %
2020	\$ 6,438	2.00 %
2021	\$ 6,567	2.00 %
2022	\$ 6,728	2.45 %
2023	\$ 6,863	2.00 %

## 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 2021.

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.

The average unrestricted fund balance as a percentage of operating expenditures maintained by Minnesota school districts decreased gradually from 22.9 percent at the end of fiscal 2012 to 19.9 percent at the end of fiscal 2019, a period of relative stability in the state’s economic condition and school funding. This ratio increased back up to 21.3 percent at the end of fiscal 2020, the highest level since 2014.

The District’s unrestricted operating fund balance as a percentage of operating expenditures was 20.3 percent at the end of the current year, as compared to 22.9 percent at June 30, 2020.

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 the 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.

<b>Governmental Funds Revenue per Student (ADM) Served</b>								
	State-Wide		Metro Area		ISD No. 885 – STMA			
	2019	2020	2019	2020	2019	2020	2021	
<b>General Fund</b>								
Property taxes	\$ 2,140	\$ 2,345	\$ 2,796	\$ 3,100	\$ 738	\$ 824	\$ 875	
Other local sources	556	538	454	417	515	457	284	
State	9,883	10,144	9,885	10,127	8,875	9,071	9,506	
Federal	475	480	499	499	78	72	491	
Total General Fund	<u>13,054</u>	<u>13,507</u>	<u>13,634</u>	<u>14,143</u>	<u>10,206</u>	<u>10,424</u>	<u>11,156</u>	
<b>Special revenue funds</b>								
Food Service	559	554	556	539	514	450	468	
Community Service	676	632	797	732	806	681	606	
Debt Service Fund	<u>1,229</u>	<u>1,322</u>	<u>1,287</u>	<u>1,385</u>	<u>2,250</u>	<u>2,333</u>	<u>2,524</u>	
Total revenue	<u>\$ 15,518</u>	<u>\$ 16,015</u>	<u>\$ 16,274</u>	<u>\$ 16,799</u>	<u>\$ 13,776</u>	<u>\$ 13,888</u>	<u>\$ 14,754</u>	
ADM served per MDE School District Profiles Report (current year estimated)					<u>6,455</u>	<u>6,451</u>	<u>6,248</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.

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.

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 District earned \$92,187,042 in the governmental funds reflected above in fiscal 2021, an increase of \$2,593,609 (2.9 percent), which coupled with a decline in enrollment due to COVID-19, produced an increase of \$866 per ADM from the prior year. Increases in the District’s general property tax levy, state funding for special education, and several new federal awards related to COVID-19 relief contributed to a \$732 per ADM overall increase in General Fund revenue. Revenues from other local sources in the General Fund (down \$173 per ADM), along with community service revenues (down \$75 per ADM), decreased from last year, due primarily to the impact of COVID-19 on program fees, activities, and admissions. Debt service revenue, which is primarily from property taxes, increased \$191 per ADM, due to increases in scheduled debt levies and debt equalization state aid.

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.

<b>Governmental Funds Expenditures per Student (ADM) Served</b>							
	State-Wide		Metro Area		ISD No. 885 – STMA		
	2019	2020	2019	2020	2019	2020	2021
<b>General Fund</b>							
Administration and district support	\$ 1,065	\$ 1,093	\$ 1,078	\$ 1,100	\$ 509	\$ 541	\$ 607
Elementary and secondary regular instruction	5,787	5,881	6,112	6,231	5,131	5,262	5,609
Career and technical instruction	180	186	165	171	131	191	267
Special education instruction	2,380	2,481	2,505	2,626	1,304	1,421	1,542
Instructional support services	669	683	751	787	930	948	1,159
Pupil support services	1,178	1,203	1,282	1,316	736	751	752
Sites, buildings, and other	960	952	907	910	1,156	1,152	1,079
Total General Fund – noncapital	<u>12,219</u>	<u>12,479</u>	<u>12,800</u>	<u>13,141</u>	<u>9,897</u>	<u>10,266</u>	<u>11,015</u>
General Fund capital expenditures	721	748	675	717	319	357	194
Total General Fund	<u>12,940</u>	<u>13,227</u>	<u>13,475</u>	<u>13,858</u>	<u>10,216</u>	<u>10,623</u>	<u>11,209</u>
<b>Special revenue funds</b>							
Food Service	561	556	556	548	560	478	433
Community Service	675	661	799	774	800	788	704
Debt Service Fund	1,313	1,360	1,308	1,379	2,300	2,363	2,506
Total expenditures	<u>\$ 15,489</u>	<u>\$ 15,804</u>	<u>\$ 16,138</u>	<u>\$ 16,559</u>	<u>\$ 13,876</u>	<u>\$ 14,252</u>	<u>\$ 14,852</u>
ADM served per MDE School District Profiles Report (current year estimated)					<u>6,455</u>	<u>6,451</u>	<u>6,248</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 spent \$92,795,429 in the governmental funds reflected above in fiscal 2021, an increase of \$855,732 (1.0 percent) from the prior year. On a per student basis, this represents an increase of \$600. General Fund operating expenditures (excluding capital) increased \$749 per student, mainly in elementary and secondary regular instruction (\$347 per ADM), instructional support services (\$211 per ADM), and special education (\$121 per ADM). General Fund capital expenditures decreased \$163 per ADM, due to the timing of projects and use of capital resources in this fund. Food service expenditures decreased \$45 per ADM and community service expenditures decreased \$84 per ADM, both due to the impact of COVID-19. Debt service expenditures increased \$143 per pupil, mainly due to changes in scheduled bond principal repayment.

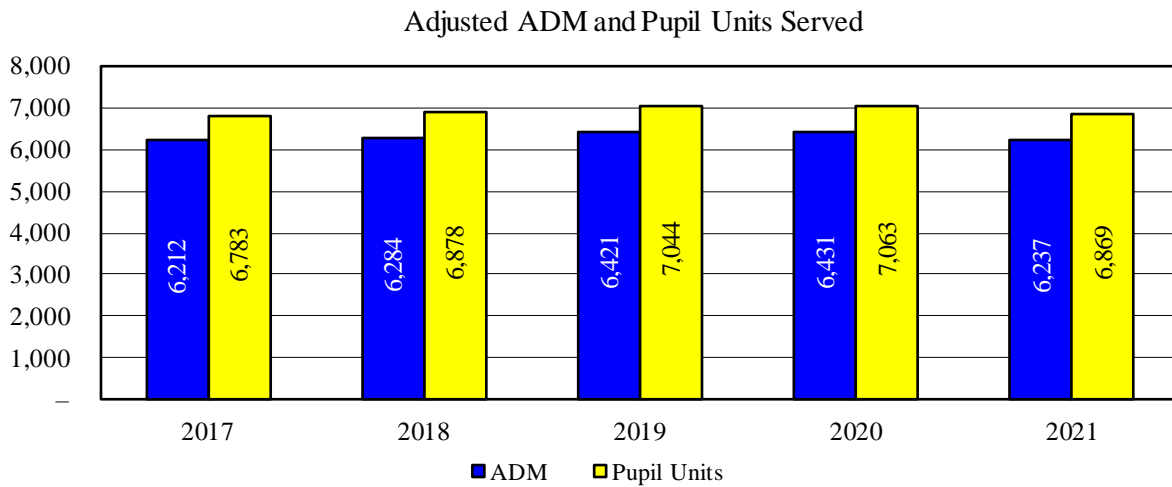
## SUMMARY

The COVID-19 pandemic caused numerous financial and operational challenges for districts in fiscal 2021; creating instability in student populations, requiring numerous shifts in the delivery of educational services, and resulting in substantial new and unfamiliar federal revenue streams, to name a few. Such challenges are expected to continue into the foreseeable future, as districts strive to provide a safe and effective learning experience for their students in this uncertain and unprecedented environment.

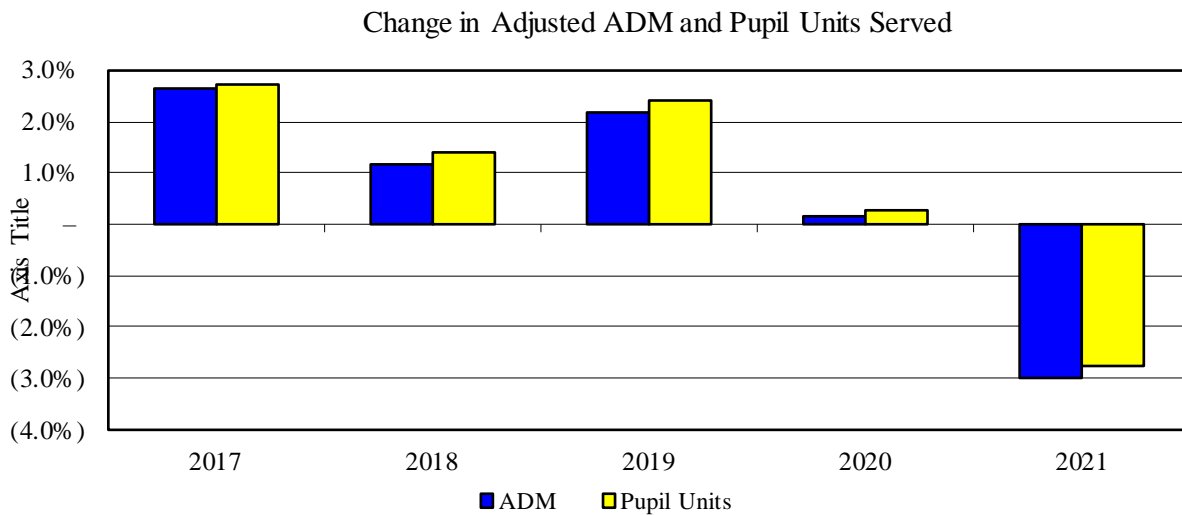
## FINANCIAL TRENDS OF YOUR DISTRICT

### AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

The following graph presents the District’s adjusted ADM and pupil units served for the past 5 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:

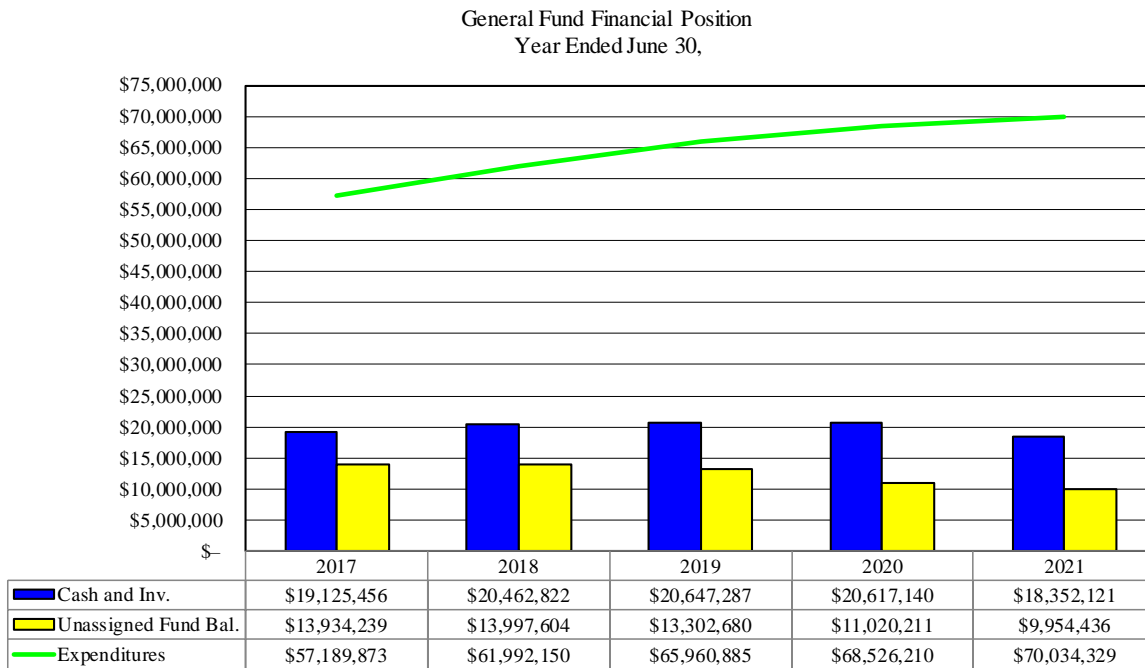


ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts 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.

Changes in the District learning model and mandates caused by the pandemic resulted in a decline of ADMs in fiscal 2021. The District served an estimated adjusted ADM of 6,237 in 2021, a decrease of 194 from the previous year. The number of pupil units served by the District for fiscal 2021 was 6,869, a decrease of 194 from the prior year.

## 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 2021 with a General Fund cash balance of \$18,352,121, a decrease of \$2,265,019 from the previous year. Total fund balance at year-end was \$15,383,615, a decrease of \$333,163, compared to a budgeted decrease of \$4,115,158.

Unassigned fund balance at year-end, as shown in the graph above, totaled \$9,954,436, a decrease of \$1,065,775 from the prior year.

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 above graph.

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

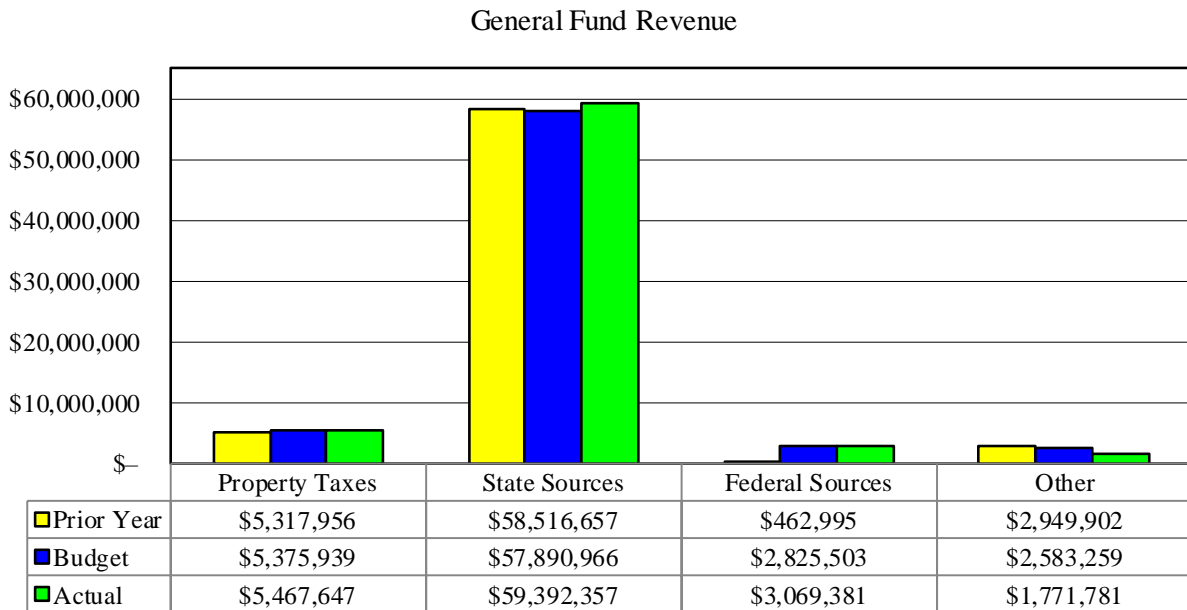
	June 30,				
	2017	2018	2019	2020	2021
Nonspendable fund balances	\$ 81,378	\$ 83,903	\$ 89,141	\$ 104,732	\$ 101,264
Restricted fund balances (1)	2,173,033	2,262,010	2,212,770	2,422,024	3,208,716
Unrestricted fund balances					
Committed	33,250	41,000	49,375	-	-
Assigned	671,006	642,355	1,288,183	2,169,811	2,119,199
Unassigned	13,934,239	13,997,604	13,302,680	11,020,211	9,954,436
<b>Total fund balance</b>	<b><u>\$ 16,892,906</u></b>	<b><u>\$ 17,026,872</u></b>	<b><u>\$ 16,942,149</u></b>	<b><u>\$ 15,716,778</u></b>	<b><u>\$ 15,383,615</u></b>
Unrestricted fund balances as a percentage of expenditures	<u>25.6%</u>	<u>23.7%</u>	<u>22.2%</u>	<u>19.2%</u>	<u>17.2%</u>
Unassigned fund balances as a percentage of expenditures	<u>24.4%</u>	<u>22.6%</u>	<u>20.2%</u>	<u>16.1%</u>	<u>14.2%</u>
(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.

At June 30, 2021, unrestricted fund balances (consisting of any committed, assigned, or unassigned fund balances) in the General Fund represented 17.2 percent of annual expenditures, or about nine weeks of operations assuming level spending throughout the year.

## GENERAL FUND REVENUES

The following graph summarizes the District's General Fund revenue for 2021:



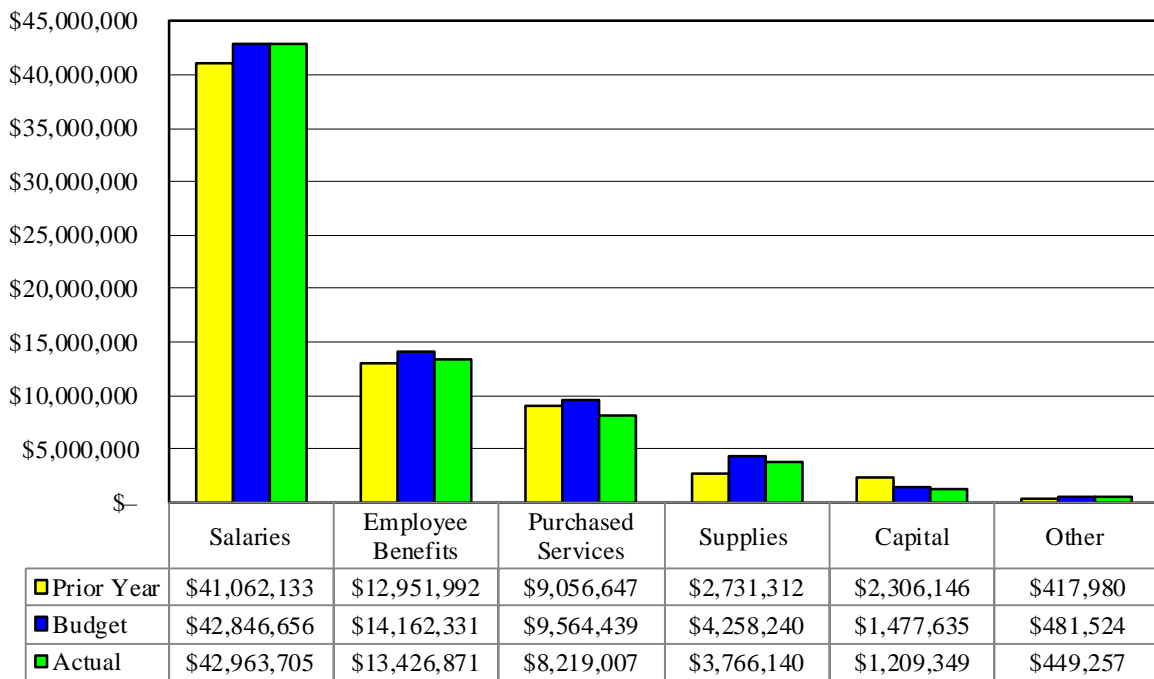
Total General Fund revenues were \$69,701,166 for the year ended June 30, 2021, which was \$1,025,499 (1.5 percent) over the final budget. State revenues were over budget by \$1,501,391, primarily in special education aid, due to the District budgeting based off of the prior year's entitlement. Revenues from other local sources (including gifts, bequests, tuition, activity fees, admissions, rental, and investment income) were \$811,478 under budget, mainly due to the impact of COVID-19 restrictions.

General Fund total revenues were \$2,453,656 higher than the previous year. Revenue from state sources increased by \$875,700, mainly due to an increase in state funding for special education. Revenue from federal sources was \$2,606,386 higher than the prior year, primarily due to a number of new COVID-19-related federal awards available to the District in the current year. Revenue from other sources, as shown above, was \$1,178,121 less than last year, primarily due to decreased investment earnings, Medical Assistance, admissions, and activity fees, due to the COVID-19 pandemic.

## GENERAL FUND EXPENDITURES

The following graph presents the District's General Fund expenditures for 2021:

General Fund Expenditures

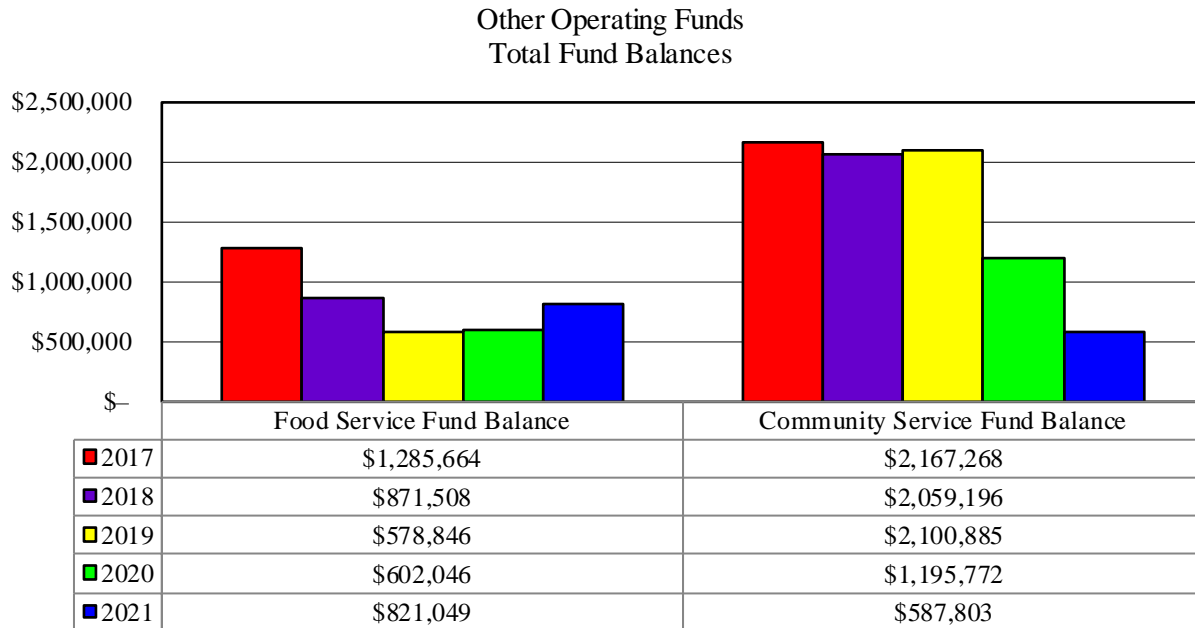


Total General Fund expenditures were \$70,034,329 for the year ended June 30, 2021, which was \$2,756,496 (3.8 percent) under the final budget, but an increase of \$1,508,119 over the prior year.

Salary and benefit-related charges, which account for 80.5 percent of the General Fund expenditures, increased by \$2,376,451 from the prior year, but were \$618,411 under amounts planned in the budget, with the variance spread across a number of programs. Purchased services and supplies were less than anticipated in the budget, mainly due to a spending freeze implemented by the District. In addition, transportation services (reported in the pupil support service program area) were under budget, due to changes in the District learning model and mandates caused by the pandemic. Capital spending was less than anticipated in the budget by \$268,286, primarily in sites and buildings. This will fluctuate from year-to-year, depending on the timing of approved projects to be financed with capital resources of the General Fund.

## 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 is 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 fiscal 2021 with a fund balance increase of \$219,003, compared to a budgeted decrease of \$764,273. Food service revenue was \$2,925,519, which was over budget by \$519,822, mainly in federal sources, due to the District operating a Summer Food Service Program for Children in fiscal 2021, which provided federally funded free meals to all students. Expenditures were \$2,706,516, under budget by \$463,454, mainly in supplies and materials and salaries. The ending fund balance of \$821,049 in this fund represents 30.3 percent of current year expenditures.

### Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended fiscal 2021 with a fund balance decrease of \$607,969, compared to a budgeted decrease of \$1,328,197. Revenues were \$3,787,587, which was \$190,994 over budget, due to program fees and tuition not decreasing as much as anticipated. Expenditures were \$4,395,556, under budget by \$529,234, mainly in salaries and benefits. The ending fund balance of \$587,803 in this fund represents 13.4 percent of current year expenditures.

Over the years, we have emphasized to our clients that food service and community service operations should be self-sustaining, and should not become an additional burden on general education funds. The District has been able to maintain healthy, stable fund balances in both funds.

### Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. Resources of the Debt Service Fund are dedicated to payment of outstanding debt obligations of the District and were used to retire \$9,925,000 of outstanding bonds in fiscal 2021. The Debt Service Fund has a year-end fund balance of \$3,352,958 available for future principal and interest debt service payments.

## 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
	2021	2020	
Net position – governmental activities			
Total fund balances – governmental funds	\$ 20,145,425	\$ 20,753,812	\$ (608,387)
Total capital assets, net of depreciation	141,332,096	148,114,264	(6,782,168)
Total long-term debt	(156,587,640)	(167,685,879)	11,098,239
Pension adjustments	(61,422,835)	(57,128,383)	(4,294,452)
Compensated absences	(264,990)	(278,399)	13,409
OPEB adjustments	(3,649,294)	(3,493,667)	(155,627)
Other adjustments	220,104	235,864	(15,760)
Total net position – governmental activities	<u>\$ (60,227,134)</u>	<u>\$ (59,482,388)</u>	<u>\$ (744,746)</u>
Net position			
Net investment in capital assets	\$ (13,397,188)	\$ (17,545,042)	\$ 4,147,854
Restricted	5,708,390	5,029,553	678,837
Unrestricted	<u>(52,538,336)</u>	<u>(46,966,899)</u>	<u>(5,571,437)</u>
Total net position	<u>\$ (60,227,134)</u>	<u>\$ (59,482,388)</u>	<u>\$ (744,746)</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, pension, and OPEB liabilities.

Total net position decreased \$744,746 in fiscal 2021.

The District's net investment in capital assets increased \$4,147,854. This change generally relates to the relationship between the rate capital assets are being added and depreciated, and the rate at which the District is repaying the debt issued to purchase or construct those assets. Restricted net position increased \$678,837, primarily due to an increase in amounts restricted for operating capital and long-term facilities maintenance in the General Fund. The unrestricted net position decreased \$5,571,437, mainly due to changes in funding levels of the state-wide Public Employees Retirement Association and Teachers Retirement Association pension plans.

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## LEGISLATIVE SUMMARY

In a typical year, the primary focus of the 2021 Minnesota legislative session would have been the development of the state's fiscal year (FY) 2022–2023 biennial budget. However, given the significant events of the preceding year, including the COVID-19 pandemic and death of George Floyd while in police custody, the focus of the regular session shifted to legislation responding to the pressing issues that resulted from these events. The business of setting a biennial budget and passing an education finance bill were ultimately not addressed until a June special session.

There was positive news on the state's budget outlook entering the session. A May 2020 special pandemic budget projection had predicted the state would finish the FY 2020–2021 biennium with a \$2.4 billion shortfall. By the regular budget and economic forecast in February 2021, the state's fiscal outlook had improved, projecting a positive budgetary variance of \$940 million at the end of the biennium, reducing the threat of potential funding cuts to local government programs. The resulting education finance bill passed and signed by the Governor on June 30, 2021, included appropriation increases of approximately \$554 billion for the FY 2022–2023 biennium, and \$669 billion for the FY 2024–2025 biennium.

The following is a brief summary of specific legislative changes from the 2021 Legislature impacting Minnesota school districts in future years.

**General Education Revenue** – The Legislature approved annual increases of 2.45 percent and 2.00 percent to the basic general education formula allowance for the FY 2022–2023 biennium. The per pupil allowance will increase \$161 to \$6,728 for FY 2022, and another \$135 to \$6,863 for FY 2023.

**English Learner Cross Subsidy Aid** – Approved annual appropriations of \$2 million to provide English learner cross-subsidy aid for FY 2022 through FY 2025. This new funding will be allocated annually to school districts and charter schools based on their proportionate share of English learner and concentration revenue from the preceding fiscal year, and must be used and accounted for within the basic skills program.

**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, which 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. The 2021 Legislature approved an additional appropriation of \$10.425 million to fund a one-time increase to cross-subsidy for FY 2022, which is estimated to increase the percentage funded by 1.24 percent to a total of 7.67 percent. Charter schools are not eligible for cross-subsidy reduction aid.

**Voluntary Pre-Kindergarten (VPK) and School Readiness Plus (SRP)** – The Legislature approved continued funding for FY 2022 and FY 2023 to maintain 4,000 state-wide VPK and SRP seats set to expire after FY 2021. The Local Optional Revenue (LOR) second tier equalization factor was increased for FY 2023 only to offset the state-wide impact of levy changes for the VPK/SRP continuation, which should result in a levy increase for VPK/SRP districts and a levy decrease for most other districts.

**Hiring Bonuses** – Districts or schools are authorized to offer a hiring or retention bonus of \$2,500–\$5,000 to attract teachers who are American Indians or persons of color, or \$4,000–\$8,000 to meet staffing needs in shortage areas and to attract teachers who are American Indians or persons of color.

**Sales Tax Exemption** – A previous sales tax exemption for sales made by school-associated student groups for funding extracurricular student activities, that was eliminated by the 2019 omnibus education bill, was restored.

**Staff Development** – Teacher mentorship was added as an eligible use of general education aid restricted for staff development as part of a mandate for districts to develop teacher mentoring programs.

**Lunch Shaming Prohibited** – Students approved for free or reduced-price meal status must be served reimbursable meals irrespective of any outstanding individual student lunch account debt. Districts are required to post this policy.

## 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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