Management Report

for

Independent School District No. 719
Prior Lake, Minnesota

June 30, 2020

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MMKR
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To the School Board and Management of
Independent School District No. 719,
Prior Lake-Savage Area Schools
Prior Lake, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 719, Prior Lake-Savage Area Schools' (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 who have responsibility for oversight of the financial reporting process comments resulting from our audit process 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
October 27, 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.

- We reported one deficiency in the District’s internal control over financial reporting. This finding was considered a material weakness.

Financial Statement Adjustments – Material Weakness

Management is responsible for establishing and maintaining effective internal controls over the financial reporting process to facilitate preparation of the annual financial statements in accordance with accounting principles generally accepted in the United States of America. During our audit, we identified material adjustments to both beginning balances and fiscal 2020 activity that were considered necessary to prevent the financial statements from being materially misstated. We identified material adjustments to fiscal 2020 activity in the areas of construction in progress, capital leases, and accrued interest receivable that were not initially recorded properly. Prior period adjustments were necessary for the accounting for other post-employment benefit liabilities and the related deferred inflows and outflows of resources in the Internal Service Fund, the amortization of discounts on bonds in the entity-wide financial statements, and accrued payroll liabilities in the governmental fund financial statements.

- 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 one reportable instance of noncompliance related to the types of compliance requirements that could have a direct and material effect on each of the District's major federal programs. We also reported two deficiencies in the District's internal controls over compliance that we considered to be significant deficiencies with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.

Internal Controls Over Compliance and Reportable Instances of Noncompliance With Federal Procurement Requirements

Uniform Guidance requires the District to establish and maintain effective internal control over compliance with requirements applicable to federal program expenditures, including procurement requirements applicable to the child nutrition cluster program. During our audit, we noted that the District did not have sufficient controls in place within its child nutrition cluster federal program to assure compliance with federal procurement requirements, which resulted in noncompliance. For 3 of 18 vendors tested, the District had not awarded a contract based on sealed bids or quotations as required by the Uniform Guidance.

Internal Control Over Compliance with Federal Suspension and Debarment Requirements

Uniform Guidance requires the District to establish and maintain effective internal control over compliance with requirements applicable to federal program expenditures, including suspension and debarment requirements applicable to the child nutrition cluster federal program. During our audit, we noted the District did not have sufficient controls in place within its child nutrition cluster federal program to assure that it was not contracting for goods or services with parties that are suspended or debarred, or whose principals are suspended or debarred from participating in contracts involving the expenditures of federal program funds. The District did not obtain the appropriate documentation for all six vendors we tested to ensure the vendor was not suspended or debarred from participation in federal program contracts.

- We reported two findings based on our testing of the District's compliance with Minnesota laws and regulations.

  Improper Uniform Financial and Reporting Standards (UFARS) Coding

  UFARS is used at the District for: (1) budgeting and budget projections; (2) financial management; and (3) reporting to district administrators, the School Board and the public. At the state level, the Minnesota Department of Education (MDE) requires information to be reported using this uniform reporting standard from school districts. UFARS requires revenue and expenditure account code structure to be multi-dimensional and that the District comply with this code structure. During our audit, we noted the District was not in compliance with UFARS coding structure for 5 of 31 disbursements and one of twenty-five receipts we tested during fiscal year 2020 audit.

  Withholding Affidavit

  Minnesota Statutes require that the District must obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minnesota Statutes (either a Commissioner of Revenue Form IC134 or a Contractor's Withholding Affidavit) before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor or subcontractors. The District did not obtain the required certificate for one of five contracts completed during fiscal 2020 until after the final payment had been made to the contractor.

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 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 compensated absences 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, 73, 74, 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 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. We reported audit adjustments 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 as noted in the separately issued schedule of finding and questioned costs.

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 October 27, 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, which accompany the financial statements, the separately issued Schedule of Expenditures of Federal Awards, and the UFARS Compliance Table, 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 statistical section, 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 some 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.

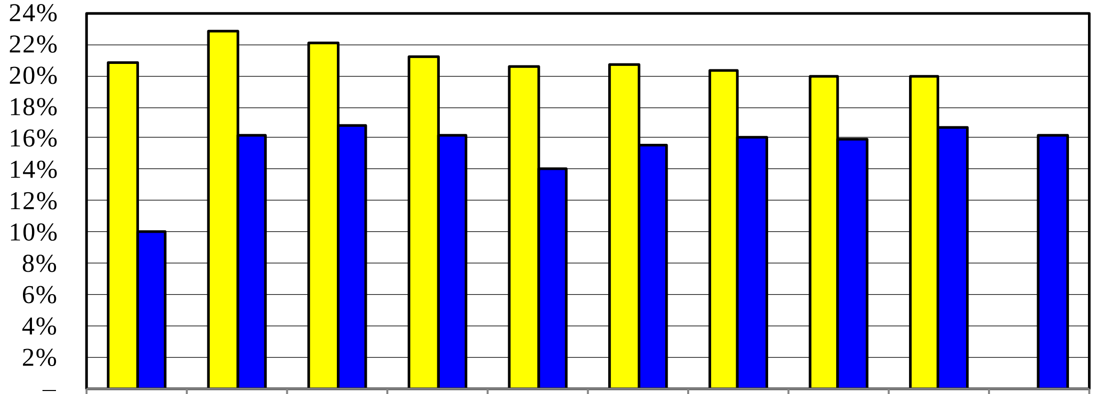
The table below presents a summary of the formula allowance for the past decade and as approved for the next two fiscal years. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the "roll-in" of aids that were previously funded separately, 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	Formula Allowance 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



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
State-Wide	20.8%	22.9%	22.1%	21.2%	20.6%	20.7%	20.3%	20.0%	19.9%	–
ISD No. 719	10.0%	16.1%	16.8%	16.2%	14.0%	15.6%	16.1%	16.0%	16.7%	16.2%

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.

The District's unrestricted operating fund balance as a percentage of operating expenditures was 16.2 percent at the end of the current year, as compared to 16.7 percent at June 30, 2019.

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		ISD No. 719 Prior Lake-Savage Area Schools		
	2018	2019	2018	2019	2018	2019	2020
General Fund							
Property taxes	$ 2,024	$ 2,140	$ 2,638	$ 2,796	$ 1,624	$ 1,941	$ 1,967
Other local sources	520	556	433	454	271	214	306
State	9,614	9,883	9,625	9,885	8,552	8,833	9,119
Federal	450	475	474	499	220	204	191
Total General Fund	12,608	13,054	13,170	13,634	10,667	11,192	11,583
Special revenue funds							
Food Service	559	559	554	556	544	556	570
Community Service	642	676	752	797	790	858	722
Debt Service Fund	1,128	1,229	1,120	1,287	1,529	1,759	1,787
Total revenue	$ 14,937	$ 15,518	$ 15,596	$ 16,274	$ 13,530	$ 14,365	$ 14,662
ADM served per MDE School District Profiles Report (current year estimated)					8,654	8,873	8,936

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.

The District's total governmental fund revenue per student was $14,662 in fiscal 2020. This compares to a metro area average of $16,274 for fiscal 2019 (most recent data available). Most of the difference is in the General Fund as property taxes and state aids are well below metro area averages. This is offset by higher than average Debt Service Fund revenues, mainly due to the recently approved building bond referendum.

The District earned approximately $131 million in the governmental funds reflected above in fiscal 2020, an increase of $3.5 million (2.8 percent) from the prior year. Total revenue per ADM served increased by $297 per student. General Fund tax revenue increased $26 per student. General Fund state aid revenues were $286 per student higher than last year, due to an increase in state special education aid, additional general education aid generated by an increase in the number of students served, and a 2.0 percent increase in the general education formula allowance. Conversely, revenue from General Fund federal sources was $13 per pupil less than last year. Community Service Special Revenue Fund revenue declined $136 per student as many of these programs were impacted by the closure of school facilities as a result of the pandemic toward the end of fiscal 2020.

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		ISD No. 719 Prior Lake-Savage Area Schools		
	2018	2019	2018	2019	2018	2019	2020
General Fund							
Administration and district support	$ 1,031	$ 1,065	$ 1,045	$ 1,078	$ 751	$ 756	$ 829
Elementary and secondary regular instruction	5,646	5,787	5,976	6,112	5,201	5,214	5,439
Career and technical instruction	170	180	154	165	79	59	71
Special education instruction	2,298	2,380	2,418	2,505	1,927	1,956	2,098
Instructional support services	658	669	748	751	691	772	728
Pupil support services	1,118	1,178	1,209	1,282	799	896	892
Sites, buildings, and other	936	960	896	907	859	900	951
Total General Fund – noncapital	11,857	12,219	12,446	12,800	10,307	10,553	11,008
General Fund capital expenditures	658	721	636	675	262	313	721
Total General Fund	12,515	12,940	13,082	13,475	10,569	10,866	11,729
Special revenue funds							
Food Service	553	561	545	556	513	548	548
Community Service	640	675	750	799	852	892	730
Debt Service Fund	1,308	1,313	1,230	1,308	1,451	1,731	1,774
Total expenditures	$ 15,016	$ 15,489	$ 15,607	$ 16,138	$ 13,385	$ 14,037	$ 14,781
ADM served per MDE School District Profiles Report (current year estimated)					8,654	8,873	8,936

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 been well below the metro area average in recent years, mainly in General Fund instructional areas, including elementary, secondary, and special education. Pupil support services, which includes transportation and administration and district support services, are also well below these averages.

The District spent approximately $132 million in the governmental funds reflected above in fiscal 2020, an increase of $7.5 million (6.0 percent) from the prior year. On a per student basis, this represents an increase of $744. General Fund operating expenditures (excluding capital) increased $455 per student, mainly in elementary and secondary regular instruction ($225 per pupil) and special education instruction ($142 per pupil). General Fund capital expenditures increased $408 per pupil, mainly due to increased spending for sites and buildings during the year. Community Service Special Revenue Fund expenditures declined $162, as many of these programs were impacted by the closure of school facilities as a result of the COVID-19 pandemic toward the end of fiscal 2020.

SUMMARY

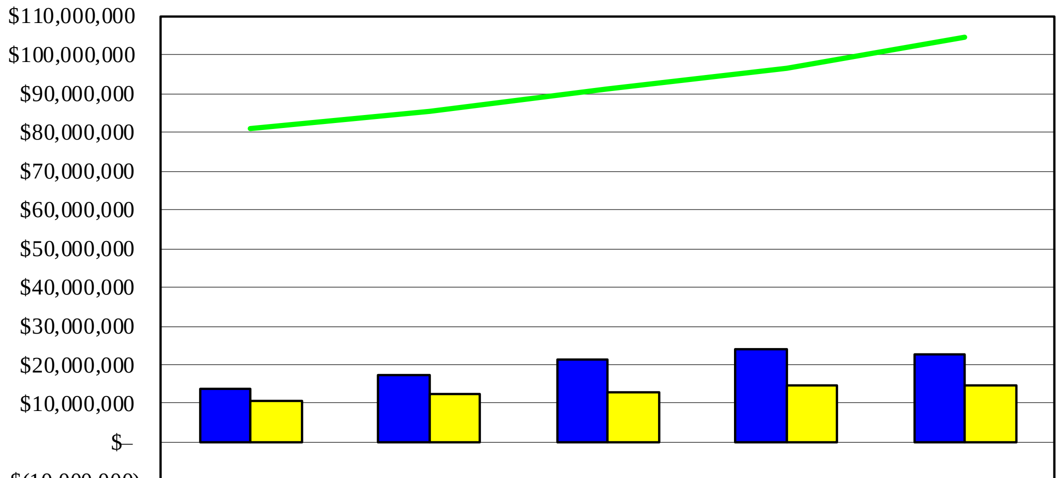
Funding for Minnesota school districts generally has not kept pace with inflation and an increasing need for services, despite recent enhancements to the basic general education state aid formula and other categorical aids. This has increased reliance on local revenue sources like voter-approved operating 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.

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.

General Fund Financial Position
Year Ended June 30,



	2016	2017	2018	2019	2020
Cash and Investments	$13,566,018	$17,135,628	$21,211,200	$23,934,006	$22,516,044
Unrestricted Fund Balance	$10,839,022	$12,214,276	$12,841,489	$14,475,987	$14,834,171
Expenditures	$80,911,482	$85,304,837	$91,461,824	$96,414,815	$104,817,156

The District ended fiscal year 2020 with a General Fund cash balance of $22,516,044, a decrease of $1,417,962 from the previous year. Unrestricted fund balance (consisting of any committed, assigned, or unassigned fund balances) at year-end totaled $14,834,171, an increase of $358,184.

In total, General Fund expenditures were more than revenue and other financing sources by $579,383. This compares to a budget that projected a decline in fund balance of $3,827,096. Revenues exceeded budget projections by $1,716,033, while other financing sources were over budget by $735,200 relating to the issuance of a capital lease in the current year. Expenditures were less than budget by $796,480.

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	$ 260,373	$ 276,573	$ 313,933	$ 106,188	$ 159,225
Restricted fund balances (1)	1,504,264	2,998,143	3,181,737	4,691,131	4,189,108
Unrestricted fund balances					
Assigned	3,377,026	3,591,010	3,521,068	3,684,813	5,196,415
Unassigned	7,461,996	8,623,266	9,320,421	10,791,174	9,637,756
Total fund balance	$ 12,603,659	$ 15,488,992	$ 16,337,159	$ 19,273,306	$ 19,182,504
Unrestricted fund balances as a percentage of expenditures	13.4%	14.3%	14.0%	15.0%	14.2%
Unassigned fund balances as a percentage of expenditures	9.2%	10.1%	10.2%	11.2%	9.2%

(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.

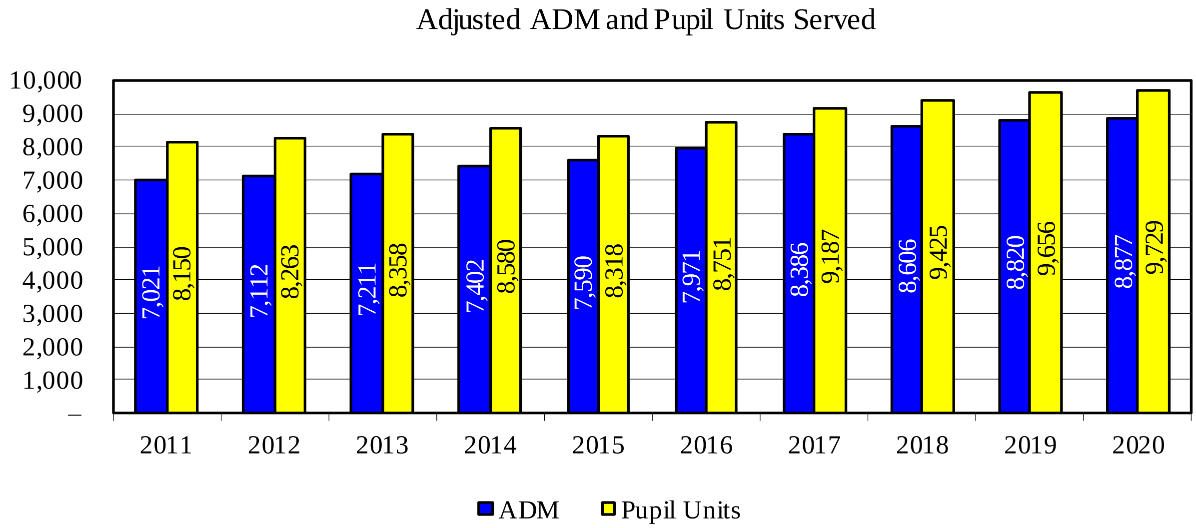
Minimum Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding maintaining a minimum fund balance for the General Fund. The policy states that the District will strive to maintain a minimum total unassigned and assigned General Fund balance of 8.0 to 12.0 percent of the annual budget (4–6 weeks of operating expenses).

At June 30, 2020, the total assigned and unassigned fund balance of the General Fund was 14.2 percent of the fiscal 2020 General Fund expenditures.

AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS

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

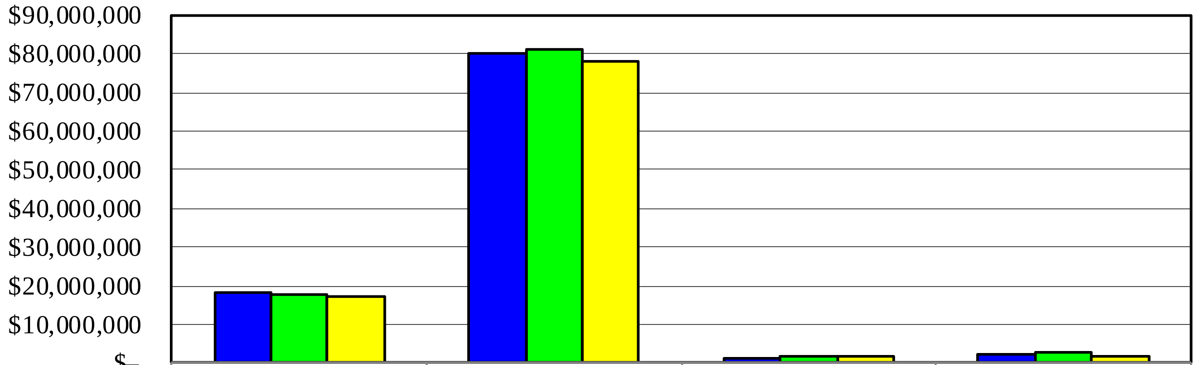


ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts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

GENERAL FUND REVENUES

The following graph summarizes the District's General Fund revenue for 2020:

General Fund Revenue



	Property Taxes	State Sources	Federal Sources	Other
Budget	$18,233,552	$80,328,344	$1,216,672	$2,007,972
Actual	$17,573,033	$81,484,180	$1,710,552	$2,734,808
Prior Year	$17,224,663	$78,378,274	$1,812,714	$1,896,179

Total General Fund revenues were $103,502,573 for the year ended June 30, 2020, which was $1,716,033 (1.7 percent) over the final budget. Property taxes were $660,519 less than budgeted amounts as fiscal disparities and county apportionment revenue were less than projected. State sources were over budget by $1,155,836, primarily due to special education and general education aid ending higher than budget and the District receiving a Safe Schools grant, which was not included in the budget. Other revenue sources were over budget by $726,836, mainly from student activity revenue that was moved to the General Fund in the current year. Federal sources were over budgeted amounts by $493,880, mainly in special education aid.

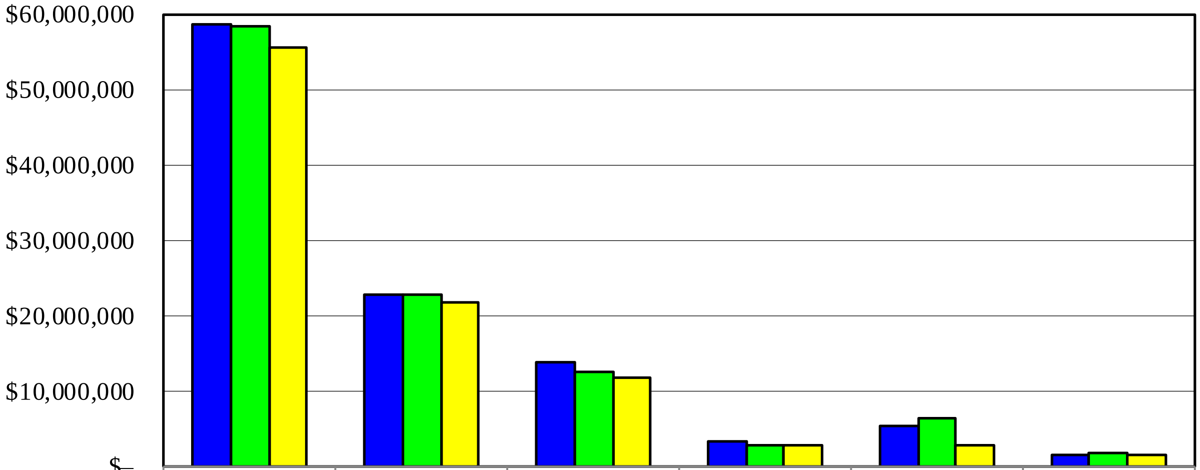
Total General Fund revenue increased by $4,190,743, or 4.2 percent, in fiscal year 2020 compared with fiscal year 2019. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including the excess levy referendum, involves an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

Total state source revenue increased in two areas. First, general education state aid increased in the basic formula allowance for general education state aid and an additional 57 students over the previous year. Secondly, special education revenue increased for the current year and prior year, due to revised calculations provided by the MDE based, in part, from updated legislative information.

GENERAL FUND EXPENDITURES

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

General Fund Expenditures



	Salaries	Employee Benefits	Purchased Services	Supplies	Capital	Other
Budget	$58,724,090	$22,757,660	$13,945,524	$3,346,138	$5,419,506	$1,420,718
Actual	$58,566,138	$22,843,762	$12,569,484	$2,729,204	$6,439,833	$1,668,735
Prior Year	$55,667,339	$21,820,188	$11,881,321	$2,835,278	$2,780,766	$1,429,923

Total General Fund expenditures were $104,817,156 for the year ended June 30, 2020, which was $796,480 (0.75 percent) under the final budget. Purchased service costs were $1,376,040 under budget and supplies and materials were under budget $616,934, mainly due to school closures toward the end of the school year related to the COVID-19 pandemic. Capital expenditures were $1,020,327 over budget, mainly due to the issuance of a capital lease that was not included in the budget in the current year.

Total General Fund expenditures increased $8,402,341, or 8.7 percent, from the previous year.

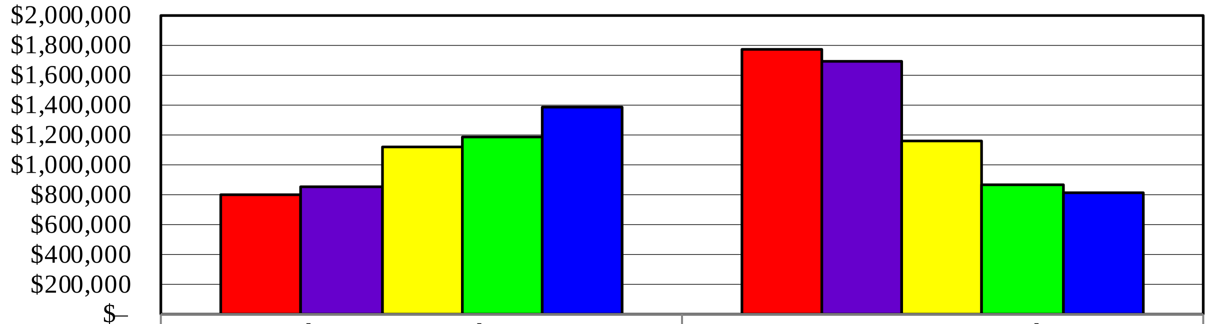
In fiscal year 2020, salaries increased 5.2 percent and employee benefits increased 4.7 percent. The increase in salaries and benefits is attributed to employee contract improvements and hiring additional staff due to expected enrollment increases. Purchased services increased $688,163. Transportation costs increased due to increased enrollment, contract cost increases, and the first year of transporting charter school students. Other cost increases were due to changes in vendors for health, dental, and flexible benefit programs.

Capital expenditures increased by $3,659,067 from the prior year. The increase can be attributed to the issuance of a lease for technology and facilities equipment, site improvements, textbooks, and software. Much of the increase can be associated with the opening of new buildings.

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.

Other Operating Funds
Total Fund Balances



	Food Service Special Revenue	Community Service Special Revenue
2016	$801,699	$1,771,156
2017	$848,011	$1,689,825
2018	$1,119,144	$1,159,003
2019	$1,185,213	$859,336
2020	$1,389,376	$810,236

Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended fiscal 2020 with a fund balance increase of $204,163, compared to a budgeted decrease of $212,997. Food service revenue was $5,093,402, which was under budget by $56,844, mainly in other local revenue related to meal sales. Expenditures were $4,896,923 under budget by $466,320, mainly in food and supplies costs. The ending fund balance of $1,389,376 in this fund represents 28.4 percent of current year expenditures.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended fiscal 2020 with a fund balance decrease of $49,100, compared to a budgeted increase of $91,300. Revenues were $6,451,605, which exceeded budget by $256,810. Expenditures were $6,523,447, over budget by $419,952, mainly in salaries and benefits. The ending fund balance of $810,236 in this fund represents 12.4 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.

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund ended the year with a fund balance decrease of $67,779,465. The change in fund balance is related to the spend down of general obligation bond proceeds issued in previous years to finance building improvement projects. At June 30, 2020, the fund balance includes $13,131,590 restricted for capital projects and $1,661,974 restricted for long-term facilities maintenance projects.

Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. The District refinanced some of its outstanding bonded debt in fiscal 2020, significantly lowering its future debt service payments.

INTERNAL SERVICE FUNDS

Self-Insurance Fund

During fiscal year 2020, the District operated a Self-Insurance Internal Service Fund. This fund accounts for the District's self-insured medical and dental insurance program. Net position in this fund increased $985,542, resulting in a net position of $4,222,127 at June 30, 2020. This increase was due to the COVID-19 pandemic, as fewer people were going to doctor and dental appointments, which resulted in fewer claims.

Other Post-Employment Benefits Fund

The Other Post-Employment Benefits Internal Service Fund was established to fund OPEB. This fund was established to provide a source of funds to finance current and future benefit obligations to employees. On June 30, 2020, this fund had a deficit net position of ($3,342,278). The most recent independent actuarial study dated June 30, 2020, computed the present value of these benefits. The long-term liability represents total OPEB pension benefit obligations based on actuarial estimates. The District develops a strategy for funding this post-employment benefit liability. This funding is built into the ongoing annual budget. This plan includes a plan for how the District's plans to avoid future reductions of regular programming that would be necessary to pay for these post-employment benefits.

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,		
	2019	2020	Change
Net position – governmental activities			
Total fund balances – governmental funds	$ 106,148,052	$ 38,660,354	$ (67,487,698)
Total capital assets, net of depreciation	191,333,728	258,778,946	67,445,218
Total bonds, premium (discount), and capital leases	(213,856,193)	(204,535,159)	9,321,034
Pension liability, net of deferments	(74,890,928)	(82,853,970)	(7,963,042)
Other adjustments	(1,253,157)	(2,558,962)	(1,305,805)
Total net position – governmental activities	$ 7,481,502	$ 7,491,209	$ 9,707
Net position			
Net investment in capital assets	$ 57,446,781	$ 65,838,391	$ 8,391,610
Restricted	8,573,972	9,209,583	635,611
Unrestricted	(58,539,251)	(67,556,765)	(9,017,514)
Total net position	$ 7,481,502	$ 7,491,209	$ 9,707

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.

The District's net investment in capital assets increased $8,391,610. 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. The increase in the current year was also impacted by capital additions financed with available resources and capital-related levies, which do not result in additional capital-related debt.

Unrestricted net position deficit increased $9,017,514, mainly due to the change in the state-wide funding of pension liabilities, net of deferments including the District's proportionate share of the Teachers Retirement Association state-wide pension plan.

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.

The CARES Act Education Stabilization Fund provided 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 $820 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 percent of unfunded costs to 80 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 FY20 into FY21. If spent for approved purposes in FY 21, the districts would generate additional FY 21 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 21 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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