

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

**Financial Statements**

**June 30, 2020**



**Independent School District No. 877  
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**Independent School District No. 877  
Board of Education and Administration  
June 30, 2020**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Dave Wilson	Chairperson	December 31, 2020
Sue Lee	Vice Chairperson	December 31, 2020
Melissa Brings	Clerk	December 31, 2020
Laurie Raymond	Treasurer	December 31, 2020
Bob Sansevere	Director	December 31, 2022
Amanda Reineck	Director	December 31, 2022
Ken Ogden	Director	December 31, 2022
<u>Administration</u>		
Scott Thielman	Superintendent	
Gary Kawlewski	Director of Finance and Operations	
Miranda Kramer	Controller	

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of June 30, 2020, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Implementation of GASB 84**

As discussed in Note 12 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about 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 do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information and the Uniform Financial Accounting and Reporting Standards Compliance Table identified in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

## **Other Matters (Continued)**

### *Other Information (Continued)*

The accompanying supplementary information identified in the Table of Contents is the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

### *Report on Summarized Comparative Information*

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statement for the year ended June 30, 2019, from which such partial information was derived.

We have previously audited the District's 2019 financial statements and our report, dated October 14, 2019, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2020, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*BerganKDV Ltd.*

Minneapolis, Minnesota  
October 14, 2020

**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

This section of Independent School District No. 877's (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of required supplementary information specified in the GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain comparative information between the current year (2019-2020) and the prior year (2018-2019) is required in the MD&A.

### **Financial Highlights**

Key financial highlights for the 2019-2020 fiscal year include the following:

- The District's total combined net position increased 5.6% over the course of the year and was a negative \$18.9 million at June 30, 2020. This change was directly related to the increase in revenues from state aid-formula grants from the prior year and reduced expenditures due to the COVID-19 pandemic and planned program reductions for the 2019-20 school year.
- During the year, the District's expenses were \$81.9 million and its revenues were \$83.0 million. Revenues increased by \$3.3 million from the prior year.
- The General Fund reported an unassigned fund balance this year of \$7.9 million, an increase of \$1.7 million from the prior year.

### **Overview of the Financial Statements**

The financial section of the annual report consists of four parts: Independent Auditor's Report, required supplementary information which includes the MD&A, the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are the district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide financial statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

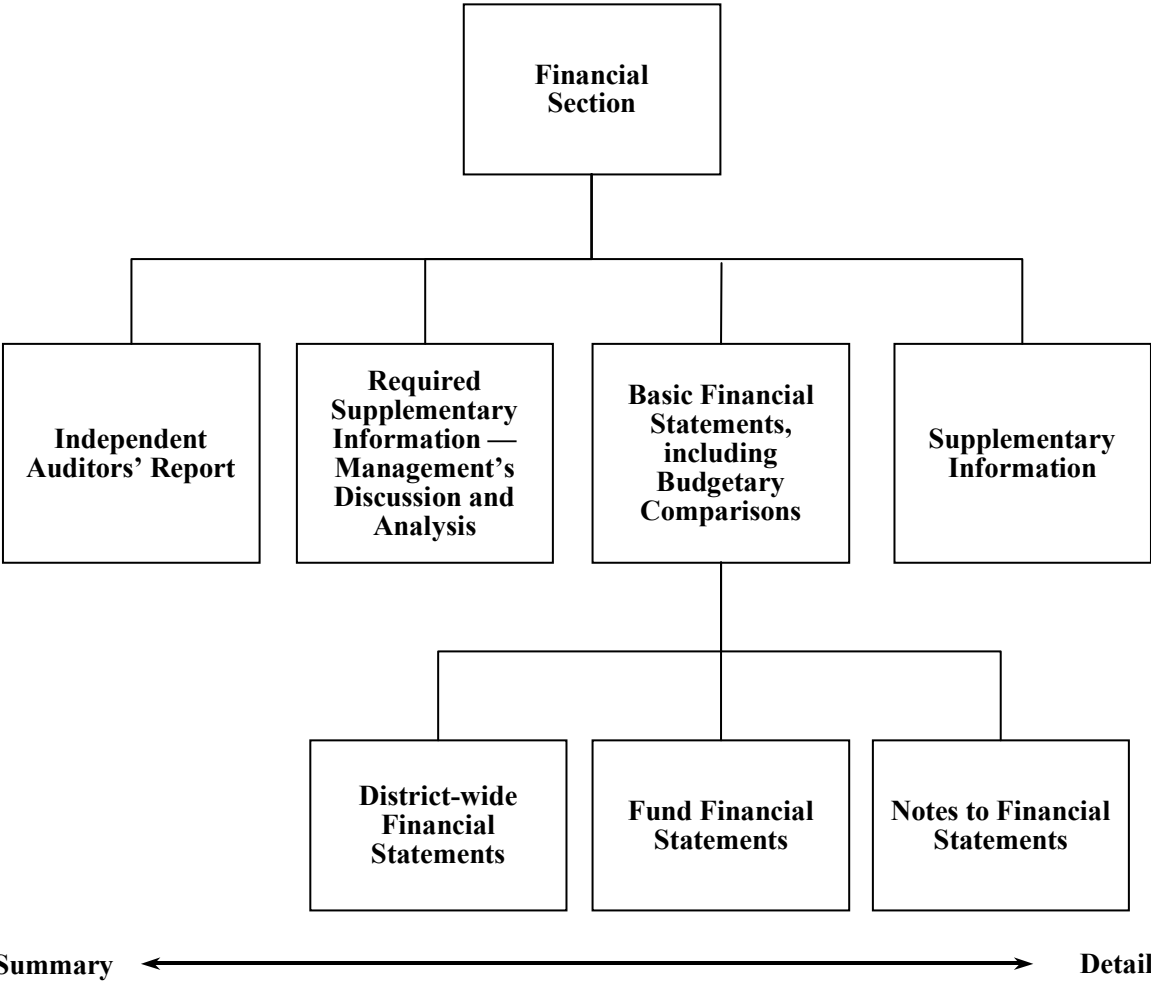


**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**Overview of the Financial Statements (Continued)**

The financial statements also include notes that explain in more detail information in the basic financial statements. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1  
Annual Financial Report**



**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**Overview of the Financial Statements (Continued)**

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

<b>Figure A-2 Major Features of the District-Wide and Fund Financial Statements</b>			
	<b>District-Wide Statements</b>	<b>Fund Financial Statements - Governmental</b>	<b>Fiduciary Funds</b>
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary, such as special education, building maintenance, food service and community education	Instances in which the District is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenues, Expenditures and Changes in Fund Balance</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> <li>• Statement of Changes in Fiduciary Net Position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Generally assets expected to be consumed and liabilities paid during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

***District-Wide Statements***

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows or resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**Overview of the Financial Statements (Continued)**

***District-Wide Statements (Continued)***

The two district-wide statements report the District's net position and how they have changed. The term "net position" is defined as the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources and is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are shown in one category:

- ***Governmental Activities:*** Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services and community education. Property taxes and state appropriations finance most of these activities.

***Fund Financial Statements***

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has one type of fund:

- ***Governmental Funds:*** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view to determine whether the District's working capital will be sufficient to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide reconciliations between the governmental funds statements and the district-wide statements, which do present a long-term focus.

**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**Financial Analysis of the District as A Whole**

***Net Position***

The District's consolidated net position increased 5.6% and was a negative \$18,942,078 on June 30, 2020 (See Table A-1). The District's total assets and deferred outflows decreased 7.39%. Total liabilities and deferred inflows decreased 7.19% due to changes in the district's net pension liability. More information about the change in pension liability can be found in Note 7 of the financial statements.

The net investment in capital assets increased primarily due to the District paying off long-term debt faster than the rate of depreciation of assets is occurring. The unrestricted net position decreased because of changes in the pension and OPEB liabilities and related deferred inflows and outflows of the district.

**Table A-1  
The District's Net Position**

	Governmental Activities		Percentage Change
	2020	2019	
<b>Assets</b>			
Current and other assets	\$ 41,516,491	\$ 36,700,594	13.12%
Capital and non-current assets	84,410,935	86,320,887	-2.21%
Total assets	125,927,426	123,021,481	2.36%
Deferred outflows	33,833,698	49,480,142	-31.62%
Total assets and deferred outflows of resources	\$ 159,761,124	\$ 172,501,623	-7.39%
<b>Liabilities</b>			
Current liabilities	\$ 11,158,311	\$ 11,202,088	-0.39%
Long-term liabilities	96,237,832	102,443,476	-6.06%
Total liabilities	107,396,143	113,645,564	-5.50%
Deferred inflows of resources	71,307,059	78,910,850	-9.64%
Total liabilities and deferred inflows of resources	\$ 178,703,202	\$ 192,556,414	-7.19%
<b>Net Position</b>			
Net investment in capital assets	\$ 29,163,173	\$ 27,558,684	5.82%
Restricted	3,410,242	2,415,596	41.18%
Unrestricted	(51,515,493)	(50,029,071)	-2.97%
Total net position	\$ (18,942,078)	\$ (20,054,791)	5.55%

***Change in Net Position***

The change in net position for 2019-2020 was a positive \$1,084,229 based on total revenues of \$83.0 million and total expenses of \$81.9 million. Table A-2 on the following page shows the breakdown into the various revenue and expense categories.

**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**Financial Analysis of the District as A Whole (Continued)**

**Tables A-2  
Change in Net Position**

	Governmental Activities		Percentage Change
	2020	2019	
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 4,555,837	\$ 5,364,965	-15.08%
Operating grants and contributions	15,796,721	14,387,141	9.80%
Capital grants and contributions	2,453,266	2,541,446	-3.47%
General revenues			
Property taxes	15,292,193	14,734,277	3.79%
Unrestricted state aid	43,889,089	41,372,677	6.08%
Investment earnings	368,013	513,178	-28.29%
Other	689,161	835,559	-17.52%
Gain on sale of capital assets	-	-	0.00%
Total revenues	<u>83,044,280</u>	<u>79,749,243</u>	<u>4.13%</u>
<b>Expenses</b>			
Administration	2,016,288	1,196,644	68.50%
District support services	1,704,719	1,625,386	4.88%
Regular instruction	35,151,730	24,659,601	42.55%
Vocational education instruction	1,798,795	1,529,575	17.60%
Special education instruction	12,916,382	8,331,083	55.04%
Instructional support services	5,617,290	3,545,487	58.43%
Pupil support services	7,080,827	6,598,482	7.31%
Sites and buildings	7,282,948	7,576,501	-3.87%
Fiscal and other fixed cost programs	193,347	296,491	-34.79%
Food service	3,097,431	2,902,859	6.70%
Community service	3,563,928	2,987,472	19.30%
Interest and fiscal charges on long-term liabilities	1,536,366	1,773,061	-13.35%
Total expenses	<u>81,960,051</u>	<u>63,022,642</u>	<u>30.05%</u>
Change in net position	1,084,229	16,726,601	93.52%
Change in accounting principle	28,484	-	0.00%
Beginning net position	<u>(20,054,791)</u>	<u>(36,781,392)</u>	<u>45.48%</u>
Ending net position	<u>\$ (18,942,078)</u>	<u>\$ (20,054,791)</u>	5.55%

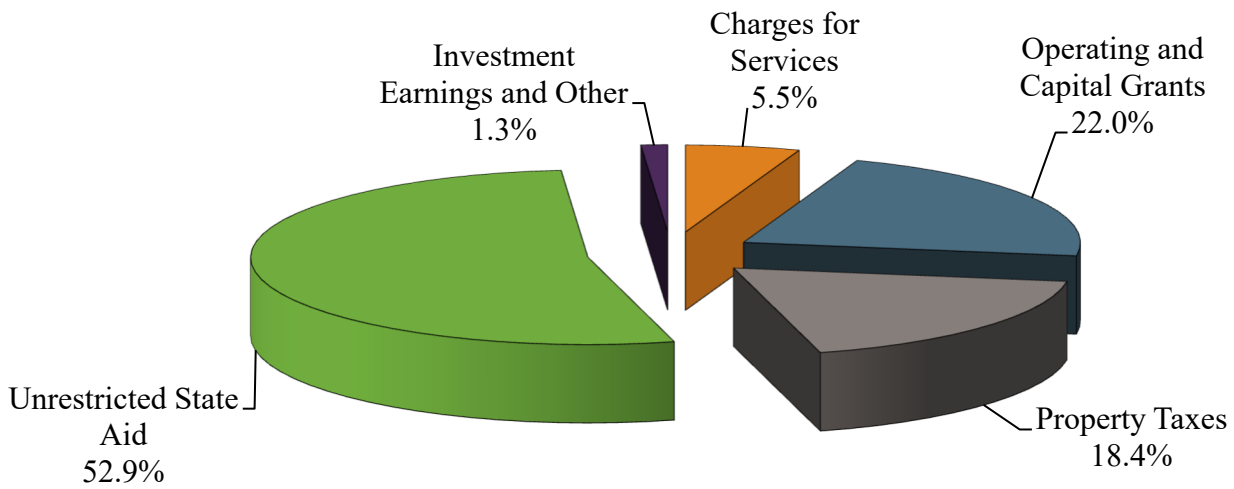
**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**Financial Analysis of the District as A Whole (Continued)**

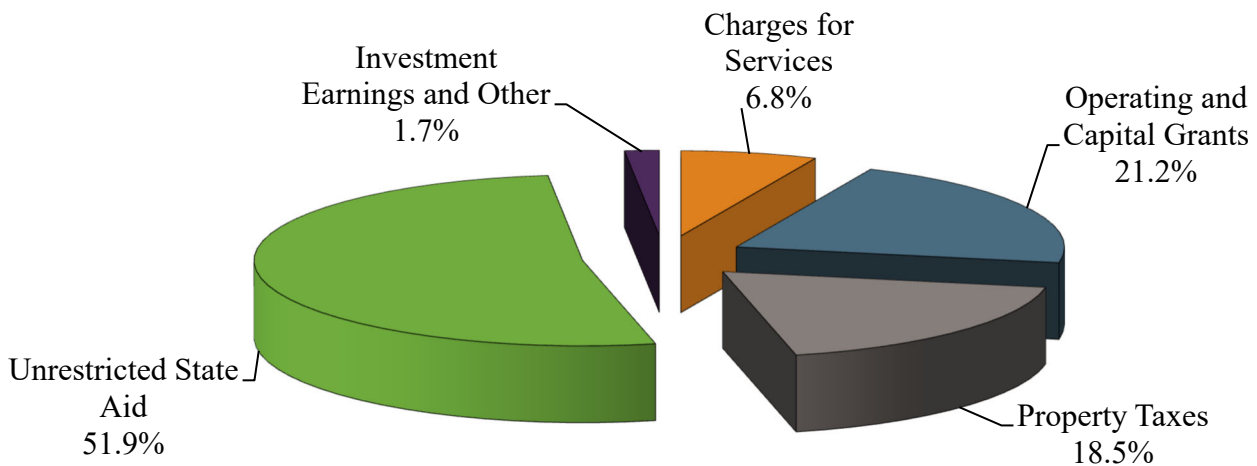
**Revenues**

The District's total revenues were approximately \$83.0 million for the year ended June 30, 2020. Property taxes and state formula aid accounted for 71.3% of total revenue for the year (See Figure A-3). Another 1.3% came from other general revenues combined with investment earnings, and the remaining 27.4% came from program revenues.

**Figure A-3  
Sources of District's Revenues for Fiscal 2020**



**Figure A-3  
Sources of District's Revenues for Fiscal 2019**



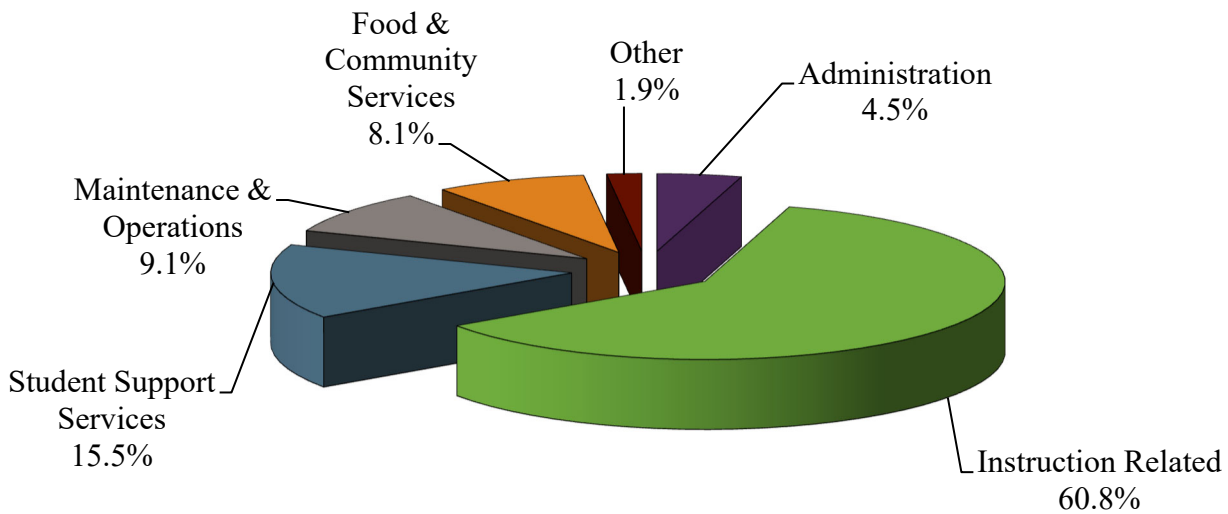
**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**Financial Analysis of the District as A Whole (Continued)**

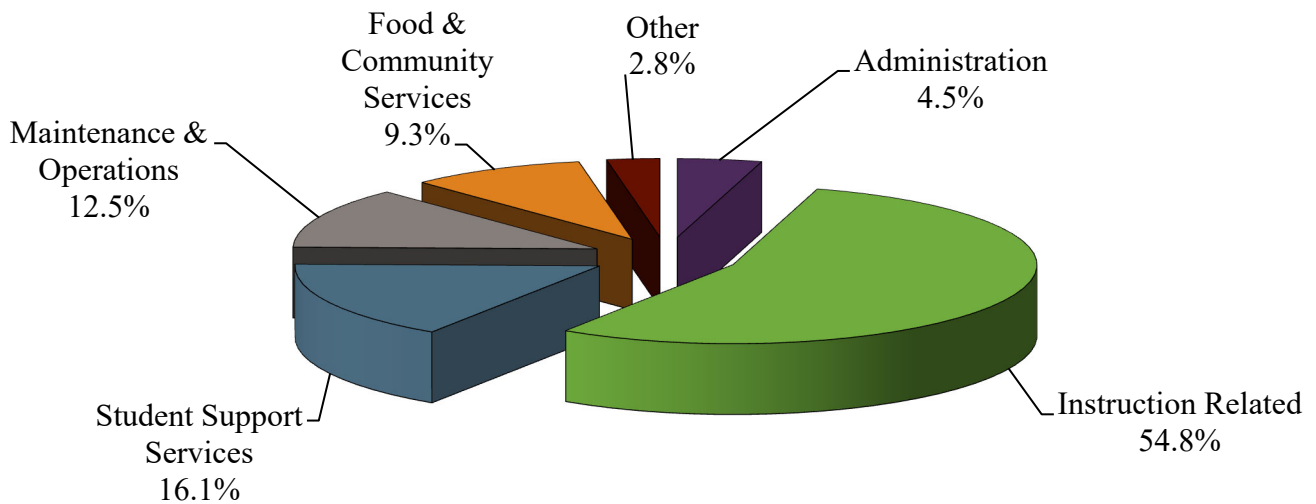
***Expenses***

The total cost of all programs and services increased 30.1% to \$81.9 million. The increase is directly related to changes in the district's net pension liability recognized in 2019-20. The District's expenses are predominantly related to educating, caring for, and transporting students. The administrative expenses of the District accounted for 4.5% of total costs for 2019-20 and for 4.5% of total costs for 2018-19 (see Figure A-4).

**Figure A-4  
District Expenses for Fiscal 2020**



**Figure A-4  
District Expenses for Fiscal 2019**



**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**Financial Analysis of the District as A Whole (Continued)**

***Governmental Activities***

Typically, the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds of food service and community education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 73.3% of those resources are spent on instruction and support services associated with instruction.

Table A-3 presents the cost of 12 major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

The users of the District's program revenue of \$4,555,837 paid the District's cost partially as shown in the Statement of Activities in the financial statements. The federal and state governments subsidized certain programs with grants and contributions (\$15,796,721 for operating purposes and \$2,453,266 for capital purposes). District taxpayers and the taxpayers of the State of Minnesota, however, paid for most of the District's costs with general revenue of \$60,238,456. Of that remaining amount, a major portion of governmental activities came from \$15,292,193 in property taxes, \$43,889,089 of state aid based on the statewide education aid formula, and \$1,057,174 with investment earnings and other general revenues.

**Tables A-3  
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2020	2019		2020	2019	
Administration	\$ 2,016,288	\$ 1,196,644	68.50%	\$ 2,016,288	\$ 1,196,644	68.50%
District support services	1,704,719	1,625,386	4.88%	1,691,112	1,608,693	5.12%
Regular instruction	35,151,730	24,659,601	42.55%	31,000,170	20,239,371	53.17%
Vocational education instruction	1,798,795	1,529,575	17.60%	1,751,711	1,469,078	19.24%
Special education instruction	12,916,382	8,331,083	55.04%	3,853,552	(532,156)	-824.14%
Instructional support services	5,617,290	3,545,487	58.43%	5,153,585	3,197,400	61.18%
Pupil support services	7,080,827	6,598,482	7.31%	6,494,750	6,363,591	2.06%
Sites and buildings	7,282,948	7,576,501	-3.87%	5,121,629	5,439,669	-5.85%
Fiscal and other fixed cost programs	193,347	296,491	-34.79%	192,815	294,616	-34.55%
Food service	3,097,431	2,902,859	6.70%	(322,732)	(141,279)	128.44%
Community service	3,563,928	2,987,472	19.30%	664,981	(179,598)	-470.26%
Interest and fiscal charges on long-term liabilities	1,536,366	1,773,061	-13.35%	1,536,366	1,773,061	-13.35%
<b>Total</b>	<b>\$ 81,960,051</b>	<b>\$ 63,022,642</b>	<b>30.05%</b>	<b>\$ 59,154,227</b>	<b>\$ 40,729,090</b>	<b>45.24%</b>



**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**Financial Analysis of the District's Funds**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$18,170,428. Of this amount, \$3,848,393 is restricted to cover building project costs, future debt obligations, and other purposes.

Revenues for the District's governmental funds were \$82,979,660 while total expenditures were \$82,439,761. After factoring in Other Financing Sources and Uses and the change in accounting principle shown in Note 12, the District completed the year with a net change in fund balance of a positive \$569,452. The most significant factors in leading to the increase were an increase in fund balance in the general and food service funds from planned program modifications as well as cost savings from the COVID-19 pandemic. Reduced constructions costs as the district nears the end of the construction projects of the passage of a bond issue for betterment of facilities also helped to increase the fund balance.

**General Fund**

The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12 including pupil transportation activities and capital outlay projects.

The following schedule presents a summary of General Fund revenues.

**Tables A-4  
General Fund Revenues**

	Year Ended June 30,		Change	
	2020	2019	Increase (Decrease)	Percent
Property taxes	\$ 7,557,111	\$ 7,016,659	\$ 540,452	7.70%
Other local and county revenues	1,971,135	2,197,898	(226,763)	-10.32%
State sources	56,801,416	56,485,821	315,595	0.56%
Federal sources	2,135,166	1,809,492	325,674	18.00%
Sales and other conversion of assets	16,655	19,910	(3,255)	-16.35%
<b>Total revenue</b>	<b>\$ 68,481,483</b>	<b>\$ 67,529,780</b>	<b>\$ 951,703</b>	<b>1.41%</b>

**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**General Fund (Continued)**

Total General Fund revenue increased from the previous year by \$951,703, or 1.41%. Property tax revenue increased \$540,453 from the 2018-2019 year due to a greater local share of equalized revenue sources. Revenue from state sources increased \$315,595 in the State's General Education Revenue formula allowance, slightly higher student counts than projected, an increase in special education aid, and a one-time increase in Safe Schools Aid. Federal sources went up primarily due to funding from the federal CARES Act and use of carryover funds from the prior year. The revenue from Other Local and County sources decreased \$226,763 from decreased interest earnings, lower student activity fundraising and donations, lower activity participation fees, and an increase in third party billing revenue.

The following schedule presents a summary of General Fund expenditures.

**Tables A-5  
General Fund Expenditures**

	Year Ended June 30,		Change	
	2020	2019	Increase (Decrease)	Percent
Salaries	\$ 37,522,396	\$ 37,638,672	\$ (116,276)	-0.31%
Employee benefits	14,053,710	14,326,980	(273,270)	-1.91%
Purchased services	9,952,115	10,272,057	(319,942)	-3.11%
Supplies and materials	2,162,818	3,254,715	(1,091,897)	-33.55%
Capital expenditures	3,138,813	2,780,454	358,359	12.89%
Other expenditures	579,865	668,087	(88,222)	-13.21%
<b>Total expenditures</b>	<b>\$ 67,409,717</b>	<b>\$ 68,940,965</b>	<b>\$ (1,531,248)</b>	<b>-2.22%</b>

Total General Fund expenditures decreased \$1,531,248 or -2.22%, from the previous year primarily due to a planned budget reduction effort of approximately \$1.5 million and significant underspending in most expenditure categories due to the COVID-19 pandemic which caused the district to move to a distance learning educational delivery model in March of 2020.

In the 2019-2020 school year, General Fund revenues and other sources were higher than expenditures by \$1,072,382. As a result, the total fund balance at June 30, 2020 increased to \$15,767,382 of which \$7,357,579 is restricted, committed, or assigned. The unassigned fund balance increased from the prior year, ending at a balance of \$8,409,803 at June 30, 2020, or 12.48% of expenditures with the non-spendable fund balance of \$559,231 included. The District closely monitors its fund balance.

**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**General Budgetary Highlights**

The District typically revises its annual budget once each year. The budget amendment caused the changes shown between the original budget amount and the final budget amount which primarily fall into the following two categories:

- Change in salaries and benefits from projected amounts due to staffing for enrollment and special education needs and contract settlements.
- Changes in revenue entitlements from state aid proration and enrollment changes in weighted average daily membership (WADM).
- Changes in revenue from the Special Education program.
- Changes in revenue and expenditures due the COVID-19 pandemic

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues and other sources by about \$1,360,658, the actual results for the year show a \$1,072,382 surplus with revenues and other financing sources exceeding expenditures. Revenues were over the District's final budget by .62% whereas expenditures were under budget by 2.90%.

- Actual revenues and other financing sources were higher than expected by \$421,258 and due primarily to increased special education aid, general education aid, slightly higher federal aid, and higher than projected interest earnings.
- Actual expenditures were under budget by \$2,011,782. The district had lower than anticipated expenditures for substitutes, alternative compensation stipends, and lower extended time payments for staff. The district had lower than anticipated health insurance expenses. The district also saw its portion of TRA, FICA, and PERA come in under budget because those benefits are a percentage of salary that was underspent as shown above. The district also had lower than anticipated expenditures in most other expenditure categories due to the move to the distance learning model due to the COVID-19 pandemic.

**Capital Projects and Debt Service Funds**

The Building Construction fund recorded the revenues and expenditures from the bond issue passed on November 4, 2014. The project started in 2014-2015 and is scheduled to be completed in 2020-2021. Revenues represent the proceeds from donations and interest earned during the year and totaled \$111,837. Expenditures for work completed as of the end of the year totaled \$878,422. The total Building Construction fund balance was \$144,491 on June 30, 2020.

The Debt Service Fund balance for Fund 07 decreased \$42,329. The ending balance is \$1,053,445 in total as of June 30, 2020. All of this balance is restricted to meet future debt obligations of the district.

**Independent School District No. 877  
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**Capital Projects and Debt Service Funds (Continued)**

The Post Employment Debt Service Fund revenues exceeded expenditures by \$60,790 and increased its fund balance to \$400,041 at June 30, 2020. The balance in this fund will be used for future debt service obligations.

**Other Nonmajor Funds**

The Food Service Fund revenues exceeded expenditures for the year by \$308,683. The food service department had increased revenue due to more meals being served than the prior year due to the COVID-19 pandemic. The district had lower participation in the regular food service program due to a shortened number of days to the move to distance learning. However, the program served significantly higher Summer Food Service program meals during the pandemic which increased revenues at a greater rate than expenditures. The program did see higher expenditure cost than the prior year due to the increase in the number of meals served.

The Community Service Fund expenditures exceeded revenues and other financing sources by \$91,973 and decreased its fund balance to a negative \$125,356 as of June 30, 2020. Most of the decrease in fund balance was directly related to the State of Minnesota's requirement to provide child care service for essential workers at no expense.

**Fiduciary Funds**

The District created a sunset clause in certain contracts for retiree insurance contributions. Individuals hired after the sunset date are no longer eligible for the grandfathered post-retirement insurance benefits. The new provisions require the district to make ongoing contributions to the new employee's HRA account held in an outside irrevocable trust. Each contract has a contribution limit for the individual employee. The value of the irrevocable trust was \$2,077,527 as of June 30, 2020.

During the 2009-2010 school year, the District issued \$10.845 million in OPEB Bonds and at the same time, created an irrevocable trust to fund the District's post-employment benefits. The District started to use the Trust in the 2012-2013 year to cover post-employment obligations. The amount held in trust for OPEB as of June 30, 2020 was \$12,999,797 and decreased in value by \$347,575.

**Capital Asset and Debt Administration**

***Capital Assets***

By the end of 2020, the District had invested approximately \$157 million in a broad range of capital assets, including school buildings, athletic facilities, computer, and audio-visual equipment and administrative offices, (see Table A-6). This amount represents a net increase of \$3,162,281 or 2.05%, from last year. Total depreciation expense for the year was approximately \$5.0 million. More detailed information about capital assets can be found in Note 4 to financial statements.

**Independent School District No. 877  
Management's Discussion and Analysis  
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**Capital Asset and Debt Administration (Continued)**

*Capital Assets (Continued)*

**Table A-6  
The District's Capital Assets**

	2020	2019	Percentage Change
Land	\$ 4,222,035	\$ 4,222,035	0.00%
Construction in progress	1,577,307	2,352,583	-32.95%
Land improvements	12,088,537	11,358,836	6.42%
Buildings and improvements	131,033,729	128,644,213	1.86%
Equipment and transportation vehicles	8,510,974	7,692,634	10.64%
Total historical cost	<u>157,432,582</u>	<u>154,270,301</u>	2.05%
Less accumulated depreciation	<u>(74,597,723)</u>	<u>(69,651,145)</u>	-7.10%
 Total	 <u><u>\$ 82,834,859</u></u>	 <u><u>\$ 84,619,156</u></u>	 -2.11%

***Construction – Next Five Years***

The District voted on a \$33 million bond issue in the fall of 2014 which was successfully passed. Construction from the project occurred starting with the 2014-2015 fiscal year and is scheduled to be completed in 2020-2021.

***Long-Term Debt***

At year-end, the District had \$59,546,542 in general obligation (G.O.) bonds and capital leases, a decrease of 9.4% from last year as shown in Table A-7. The District also had \$1,710,018 in future post-employment severance benefits payable at June 30, 2020. The School Board has committed \$2,615,036 for payment of future post-employment severance and health benefits. More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**Capital Asset and Debt Administration (Continued)**

***Long-Term Debt (Continued)***

**Table A-7  
The District's Long-Term Liabilities**

	2020	2019	Percentage Change
G.O. bonds	\$ 57,045,000	\$ 62,605,000	-8.88%
Net bond premium and discount	1,891,747	2,344,462	-19.31%
Net G.O. bonds	58,936,747	64,949,462	-9.26%
Obligations under capital leases	609,795	786,977	-22.51%
Net G.O. bonds and capital leases	59,546,542	65,736,439	-9.42%
Severance payable	1,344,341	1,290,002	4.21%
Compensated absences payable	365,677	338,664	7.98%
 Total	 <u>\$ 61,256,560</u>	 <u>\$ 67,365,105</u>	 -9.07%

***Bond Ratings***

The District's G.O. bonds carry an MSDE enhanced rating of Aa2 according to the most recent Moody's Investor Service Rating.

***Limitations on Debt***

The state limits the amount of General Obligation debt the District can issue to 15% of the market value of all taxable property within the District's corporate limits. The District's outstanding debt is significantly below this limit.

***Factors Bearing on the District's Future***

The district passed a \$750 per pupil operating referendum in the fall of 2019 which will generate additional revenue for five years starting with the 2020-21 fiscal year. With the exception of the voter-approved operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. In addition, student enrollment for future years will also be a factor that could affect available revenue for the district since many of the funding formulas are based on student enrollment.

During the 2019 State Legislative session, the basic general education formula increased by \$126 for 2019-20 and \$129 per pupil unit for 2020-21. Even though the additional funding will help, the District will need to continue its conservative budgeting practices and explore additional sources of revenue.

**Independent School District No. 877  
Management's Discussion and Analysis  
June 30, 2020**

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 877, 214 1<sup>st</sup> Avenue NE, Buffalo, Minnesota 55313.

## **BASIC FINANCIAL STATEMENTS**



**Independent School District No. 877**  
**Statement of Net Position**  
**June 30, 2020**  
**(with Comparative Totals as of June 30, 2019)**

	Governmental Activities	
	2020	2019
<b>Assets</b>		
Cash and investments	\$ 23,282,889	\$ 21,290,217
Current property taxes receivable	9,659,574	7,430,545
Delinquent property taxes receivable	216,458	170,247
Accounts receivable	359,760	391,962
Interest receivable	71,816	182,595
Due from Department of Education	5,568,866	5,962,618
Due from Federal Government through Department of Education	1,348,460	455,974
Due from other Minnesota school districts	93,002	122,043
Due from other governmental units	174,262	47,986
Inventory	144,579	124,492
Prepaid items	596,825	521,915
Equity interest in joint venture	314,543	314,543
Net OPEB asset	1,261,533	1,387,188
Capital assets not being depreciated		
Land	4,222,035	4,222,035
Construction in progress	1,577,307	2,352,583
Capital assets, net of accumulated depreciation		
Land improvements	8,116,233	7,911,664
Buildings	66,556,055	68,157,669
Machinery and equipment	2,363,229	1,975,205
Total assets	<u>125,927,426</u>	<u>123,021,481</u>
<b>Deferred Outflows of Resources</b>		
Deferred outflows of resources related to pensions	32,834,381	48,667,066
Deferred outflows of resources related to OPEB	812,272	551,212
Deferred outflows related to charge on refunding	187,045	261,864
Total deferred inflows of resources	<u>33,833,698</u>	<u>49,480,142</u>
 Total assets and deferred outflows of resources	<u>\$159,761,124</u>	<u>\$172,501,623</u>
<b>Liabilities</b>		
Accounts payable	\$ 899,930	\$ 1,166,609
Salaries and benefits payable	2,618,946	2,474,374
Interest payable	741,176	823,894
Due to other Minnesota school districts	151,788	140,746
Due to other governmental units	177,376	225,598
Unearned revenue	239,815	236,044
Bond payable, net		
Payable within one year	5,750,000	5,560,000
Payable after one year	53,186,747	59,389,462
Capital lease payable		
Payable within one year	183,685	177,183
Payable after one year	426,110	609,794
Compensated absences payable		
Payable within one year	365,677	338,664
Severance payable		
Payable within one year	29,918	58,976
Payable after one year	1,344,341	1,290,002
Net pension liability	41,280,634	41,154,218
Total liabilities	<u>107,396,143</u>	<u>113,645,564</u>
<b>Deferred Inflows of Resources</b>		
Property taxes levied for subsequent year's expenditures	19,011,832	14,627,024
Deferred inflows of resources related to pensions	51,020,838	63,229,039
Deferred inflows of resources related to OPEB	1,213,571	969,642
Deferred inflows related to charge on refunding	60,818	85,145
Total deferred inflows of resources	<u>71,307,059</u>	<u>78,910,850</u>
<b>Net Position</b>		
Net investment in capital assets	29,163,173	27,558,684
Restricted for		
Debt service	869,874	767,404
Capital projects	144,491	-
Other purposes	2,395,877	1,648,192
Unrestricted	(51,515,493)	(50,029,071)
Total net position	<u>(18,942,078)</u>	<u>(20,054,791)</u>
 Total liabilities, deferred inflows of resources, and net position	<u>\$159,761,124</u>	<u>\$172,501,623</u>

**Independent School District No. 877**  
**Statement of Activities**  
**For the Year Ended June 30, 2020**  
**(with Comparative Totals for the Year Ended June 30, 2019)**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2020	2019
Governmental activities						
Administration	\$ 2,016,288	\$ -	\$ -	\$ -	\$ (2,016,288)	\$ (1,196,644)
District support services	1,704,719	13,607	-	-	(1,691,112)	(1,608,693)
Elementary and secondary regular instruction	35,151,730	702,097	2,987,128	462,335	(31,000,170)	(20,239,371)
Vocational education instruction	1,798,795	-	47,084	-	(1,751,711)	(1,469,078)
Special education instruction	12,916,382	155,989	8,906,841	-	(3,853,552)	532,156
Instructional support services	5,617,290	227	463,478	-	(5,153,585)	(3,197,400)
Pupil support services	7,080,827	98,400	487,677	-	(6,494,750)	(6,363,591)
Sites and buildings	7,282,948	67,308	103,080	1,990,931	(5,121,629)	(5,439,669)
Fiscal and other fixed cost programs	193,347	532	-	-	(192,815)	(294,616)
Food service	3,097,431	1,293,690	2,126,473	-	322,732	141,279
Community education and services	3,563,928	2,223,987	674,960	-	(664,981)	179,598
Interest and fiscal charges on long-term debt	1,536,366	-	-	-	(1,536,366)	(1,773,061)
<b>Total governmental activities</b>	<b><u>\$ 81,960,051</u></b>	<b><u>\$ 4,555,837</u></b>	<b><u>\$ 15,796,721</u></b>	<b><u>\$ 2,453,266</u></b>	<b>(59,154,227)</b>	<b>(40,729,090)</b>
General revenues						
Taxes						
Property taxes, levied for general purposes					7,581,167	7,029,312
Property taxes, levied for community service					452,246	489,451
Property taxes, levied for debt service					7,258,780	7,215,514
State aid-formula grants					43,889,089	41,372,677
Other general revenues					689,161	835,559
Investment income					368,013	513,178
Total general revenues					<u>60,238,456</u>	<u>57,455,691</u>
Change in net position					1,084,229	16,726,601
Net position - beginning					(20,054,791)	(36,781,392)
Change in accounting principle (Note 12)					28,484	-
Net position - beginning, restated					<u>(20,026,307)</u>	<u>(36,781,392)</u>
Net position - ending					<u>\$ (18,942,078)</u>	<u>\$ (20,054,791)</u>

**Independent School District No. 877**  
**Balance Sheet - Governmental Funds**  
**June 30, 2020**  
**(with Comparative Totals as of June 30, 2019)**

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds	
				2020	2019
<b>Assets</b>					
Cash and investments	\$ 17,558,590	\$ 3,676,157	\$ 2,048,142	\$ 23,282,889	\$ 21,290,217
Current property taxes receivable	5,747,766	2,684,220	1,227,588	9,659,574	7,430,545
Delinquent property taxes receivable	100,461	84,414	31,583	216,458	170,247
Accounts receivable	344,319	-	15,441	359,760	391,962
Interest receivable	71,816	-	-	71,816	182,595
Due from Department of Education	5,422,097	25,951	120,818	5,568,866	5,962,618
Due from Federal Government through Department of Education	647,691	-	700,769	1,348,460	455,974
Due from other Minnesota school districts	66,076	-	26,926	93,002	122,043
Due from other governmental units	174,262	-	-	174,262	47,986
Inventory	61,179	-	83,400	144,579	124,492
Prepaid items	498,052	-	98,773	596,825	521,915
<b>Total assets</b>	<b>\$ 30,692,309</b>	<b>\$ 6,470,742</b>	<b>\$ 4,353,440</b>	<b>\$ 41,516,491</b>	<b>\$ 36,700,594</b>
<b>Liabilities</b>					
Accounts payable	\$ 838,785	\$ -	\$ 61,145	\$ 899,930	\$ 1,166,609
Salaries and benefits payable	2,399,595	-	219,351	2,618,946	2,474,374
Due to other Minnesota school districts	148,472	-	3,316	151,788	140,746
Due to other governmental units	177,376	-	-	177,376	225,598
Unearned revenue	59,068	-	180,747	239,815	236,044
Severance payable	29,918	-	-	29,918	58,976
<b>Total liabilities</b>	<b>3,653,214</b>	<b>-</b>	<b>464,559</b>	<b>4,117,773</b>	<b>4,302,347</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - property taxes levied for subsequent year's expenditures	11,171,252	5,332,883	2,507,697	19,011,832	14,627,024
Unavailable revenue - delinquent property taxes	100,461	84,414	31,583	216,458	170,247
<b>Total deferred inflows of resources</b>	<b>11,271,713</b>	<b>5,417,297</b>	<b>2,539,280</b>	<b>19,228,290</b>	<b>14,797,271</b>
<b>Fund Balances</b>					
Nonspendable	559,231	-	182,173	741,404	646,407
Restricted	1,350,174	1,053,445	1,444,774	3,848,393	4,084,637
Committed	2,615,036	-	-	2,615,036	3,340,760
Assigned	3,507,647	-	-	3,507,647	3,632,970
Unassigned	7,735,294	-	(277,346)	7,457,948	5,896,202
<b>Total fund balances</b>	<b>15,767,382</b>	<b>1,053,445</b>	<b>1,349,601</b>	<b>18,170,428</b>	<b>17,600,976</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 30,692,309</b>	<b>\$ 6,470,742</b>	<b>\$ 4,353,440</b>	<b>\$ 41,516,491</b>	<b>\$ 36,700,594</b>

**Independent School District No. 877**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**June 30, 2020**  
**(with Comparative Totals as of June 30, 2019)**

	2020	2019
Total fund balances - governmental funds	\$ 18,170,428	\$ 17,600,976
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		
Cost of capital assets	157,432,582	154,270,301
Less accumulated depreciation	(74,597,723)	(69,651,145)
Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets.		
Equity interest in joint venture - Wright Technical Center	314,543	314,543
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bond principal payable	(57,045,000)	(62,605,000)
Net premium on bonds payable	(1,891,747)	(2,344,462)
Capital lease payable	(609,795)	(786,977)
Compensated absences payable	(365,677)	(338,664)
Severance payable	(1,344,341)	(1,290,002)
Net pension liability	(41,280,634)	(41,154,218)
Net OPEB asset created through treatment of general obligation (G.O.) taxable OPEB bonds as employer contribution to defined benefit OPEB plan is not recognized in the governmental funds.		
	1,261,533	1,387,188
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions, OPEB and a bond refunding that are not recognized in the governmental funds.		
Deferred outflows of resources related to pensions	32,834,381	48,667,066
Deferred inflows of resources related to pensions	(51,020,838)	(63,229,039)
Deferred outflows of resources related to OPEB	812,272	551,212
Deferred inflows of resources related to OPEB	(1,213,571)	(969,642)
Deferred outflows of resources related to bond refunding	187,045	261,864
Deferred inflows of resources related to bond refunding	(60,818)	(85,145)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		
	216,458	170,247
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.		
	(741,176)	(823,894)
Total net position - governmental activities	\$ (18,942,078)	\$ (20,054,791)

**Independent School District No. 877**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2020**  
**(with Comparative Totals for the Year Ended June 30, 2019)**

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds	
				2020	2019
<b>Revenues</b>					
Local property taxes	\$ 7,557,111	\$ 5,223,763	\$ 2,465,108	\$ 15,245,982	\$ 14,711,960
Other local and county revenues	1,971,135	45,327	2,493,921	4,510,383	5,150,420
Revenue from state sources	56,801,416	259,704	747,908	57,809,028	57,495,334
Revenue from federal sources	2,135,166	-	1,968,756	4,103,922	2,963,291
Sales and other conversion of assets	16,655	-	1,293,690	1,310,345	1,732,127
Total revenues	<u>68,481,483</u>	<u>5,528,794</u>	<u>8,969,383</u>	<u>82,979,660</u>	<u>82,053,132</u>
<b>Expenditures</b>					
<b>Current</b>					
Administration	1,849,683	-	-	1,849,683	1,843,006
District support services	1,654,071	-	-	1,654,071	1,692,112
Elementary and secondary regular instruction	29,884,781	-	-	29,884,781	31,886,638
Vocational education instruction	1,707,497	-	-	1,707,497	1,890,966
Special education instruction	12,053,067	-	-	12,053,067	11,847,856
Instructional support services	4,891,993	-	-	4,891,993	4,622,051
Pupil support services	6,982,202	-	-	6,982,202	6,982,068
Sites and buildings	5,054,265	-	414,019	5,468,284	5,517,145
Fiscal and other fixed cost programs	193,347	-	-	193,347	296,491
Food service	-	-	3,079,557	3,079,557	2,898,568
Community education and services	-	-	3,470,903	3,470,903	3,440,017
<b>Capital outlay</b>					
Administration	337	-	-	337	129
District support services	349	-	-	349	657
Elementary and secondary regular instruction	69,486	-	-	69,486	18,885
Vocational education instruction	-	-	-	-	3,000
Special education instruction	-	-	-	-	820
Instructional support services	374,644	-	-	374,644	255,490
Pupil support services	397	-	-	397	5,354
Sites and buildings	2,491,517	-	464,403	2,955,920	3,158,015
Food service	-	-	43,297	43,297	11,891
Community education and services	-	-	1,457	1,457	4,563
<b>Debt service</b>					
Principal	177,182	3,730,000	1,830,000	5,737,182	11,530,922
Interest and fiscal charges	24,899	1,841,123	155,285	2,021,307	2,287,265
Total expenditures	<u>67,409,717</u>	<u>5,571,123</u>	<u>9,458,921</u>	<u>82,439,761</u>	<u>90,193,909</u>
Excess of revenues over (under) expenditures	1,071,766	(42,329)	(489,538)	539,899	(8,140,777)
<b>Other Financing Sources</b>					
Proceeds from sale of capital assets	616	-	453	1,069	13,539
Net change in fund balances	1,072,382	(42,329)	(489,085)	540,968	(8,127,238)
<b>Fund Balances</b>					
Beginning of year	14,666,516	1,095,774	1,838,686	17,600,976	25,728,214
Change in accounting principle (Note 12)	28,484	-	-	28,484	-
Beginning of year, as restated	<u>14,695,000</u>	<u>1,095,774</u>	<u>1,838,686</u>	<u>17,629,460</u>	<u>25,728,214</u>
End of year	<u>\$ 15,767,382</u>	<u>\$ 1,053,445</u>	<u>\$ 1,349,601</u>	<u>\$ 18,170,428</u>	<u>\$ 17,600,976</u>

**Independent School District No. 877**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances to**  
**the Statement of Activities - Governmental Funds**  
**Year Ended June 30, 2020**  
**(with Comparative Totals for the Year Ended June 30, 2019)**

	2020	2019
Net change in fund balances - total governmental funds	\$ 540,968	\$ (8,127,238)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital outlays	3,294,410	3,123,613
Depreciation expense	(5,026,879)	(4,856,285)
Loss on disposal	(51,828)	(22,811)
Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.	-	(78,832)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(27,013)	(16,560)
Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(54,339)	137,852
Proceeds of G.O. Taxable OPEB bonds issued during 2010 were contributed to the OPEB plan to retire the unfunded obligation. Governmental funds report such outlay as expenditures. The impact on the Statement of Activities is the creation of a new net OPEB asset which is a combination of the contribution to the irrevocable trust from the proceeds of the OPEB bond issue and the amortization of the net OPEB obligation for the current year.	(108,524)	(69,684)
Principal payments on long-term debt and leases are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	5,737,182	11,530,922
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	82,718	87,641
Governmental funds report the effect of bond discounts and premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	452,715	586,526
Governmental funds report the effect of bond refundings when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(50,492)	(159,963)
Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective	(3,750,900)	14,569,103
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	46,211	22,317
Change in net position - governmental activities	\$ 1,084,229	\$ 16,726,601

See notes to financial statements.

**Independent School District No. 877**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 7,457,205	\$ 7,418,516	\$ 7,557,111	\$ 138,595
Other local and county revenues	2,268,824	1,831,024	1,971,135	140,111
Revenue from state sources	56,431,359	56,676,566	56,801,416	124,850
Revenue from federal sources	2,322,773	2,101,957	2,135,166	33,209
Sales and other conversion of assets	36,300	24,815	16,655	(8,160)
Total revenues	<u>68,516,461</u>	<u>68,052,878</u>	<u>68,481,483</u>	<u>428,605</u>
<b>Expenditures</b>				
Current				
Administration	1,851,346	1,877,932	1,849,683	(28,249)
District support services	1,689,262	1,723,049	1,654,071	(68,978)
Elementary and secondary regular instruction	31,756,833	31,094,088	29,884,781	(1,209,307)
Vocational education instruction	1,885,589	1,804,306	1,707,497	(96,809)
Special education instruction	12,672,409	11,985,354	12,053,067	67,713
Instructional support services	5,395,086	5,174,760	4,891,993	(282,767)
Pupil support services	7,249,902	7,227,075	6,982,202	(244,873)
Sites and buildings	5,730,071	5,427,422	5,054,265	(373,157)
Fiscal and other fixed cost programs	253,102	257,621	193,347	(64,274)
Capital outlay				
Administration	450	450	337	(113)
District support services	9,432	9,432	349	(9,083)
Elementary and secondary regular instruction	129,926	141,360	69,486	(71,874)
Vocational education instruction	1,000	1,000	-	(1,000)
Special education instruction	7,630	6,690	-	(6,690)
Instructional support services	419,539	384,896	374,644	(10,252)
Pupil support services	2,360	2,360	397	(1,963)
Sites and buildings	2,266,678	2,101,624	2,491,517	389,893
Debt service				
Principal	177,181	177,181	177,182	1
Interest and fiscal charges	24,899	24,899	24,899	-
Total expenditures	<u>71,522,695</u>	<u>69,421,499</u>	<u>67,409,717</u>	<u>(2,011,782)</u>
Excess of revenues over (under) expenditures	(3,006,234)	(1,368,621)	1,071,766	2,440,387
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	8,249	7,963	616	(7,347)
Net change in fund balance	<u>\$ (2,997,985)</u>	<u>\$ (1,360,658)</u>	1,072,382	<u>\$ 2,433,040</u>
<b>Fund Balance</b>				
Beginning of year			14,666,516	
Change in accounting principle (Note 12)			<u>28,484</u>	
Beginning of year, as restated			<u>14,695,000</u>	
End of year			<u>\$ 15,767,382</u>	

**Independent School District No. 877**  
**Statement of Fiduciary Net Position**  
**June 30, 2020**

	Total Trust Funds
<b>Assets</b>	
Current	
Investments	
Brokered money market	\$ 2,409,227
Fixed income	4,502,058
Equities	8,259,837
Total investments	15,171,122
Accounts and interest receivable	40,294
Total assets	\$ 15,211,416
<b>Liabilities</b>	
Accounts payable	\$ 112,245
Unearned revenue	21,847
Total liabilities	\$ 134,092
<b>Net Position</b>	
Held in trust for OPEB	\$ 12,999,797
Held in trust for HRA	2,077,527
Total net position	\$ 15,077,324

**Statement of Changes in Fiduciary Net Position**  
**Year Ended June 30, 2020**

	Total Trust Funds
<b>Additions</b>	
Contributions	\$ 517,847
Investment income	
Interest, dividends, change in fair value	486,873
Less investment expenses	(71,632)
Net investment income	415,241
Total additions	933,088
<b>Deductions</b>	
Employee benefit deductions	1,054,140
Change in net position	(121,052)
<b>Net Position</b>	
Beginning of year	15,198,376
End of year	\$ 15,077,324

See notes to financial statements.



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**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

**A. Reporting Entity**

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District, as of July 1, 2019, have been taken under board control and will not be reported separately.

**1. Joint Ventures**

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 10.

**B. Basic Financial Statement Information**

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basic Financial Statement Information (Continued)**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Private Purpose Trust and Custodial Funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

**C. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

**1. Revenue Recognition**

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is incurred. Other revenue is considered available if collected within 60 days.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned, and unassigned.

**Description of Funds**

**Major Funds**

General Fund – This fund includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety, and disabled accessibility projects.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, G.O. bond principal, interest, and related costs.

**Nonmajor Funds**

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, or other similar services.

Post Employment Debt Service Fund – This fund is used to account for the accumulation of resources for payments of OPEB bonds, principal, and related costs.

Building Construction Capital Project Funds – This fund is used to account for the financial resources used for the construction of or improvements to facilities authorized by bond issue.

**Fiduciary Fund**

OPEB Irrevocable Trust Fund – This fund is used for reporting resources set aside and held in an irrevocable trust arrangement for OPEB.

HRA Trust Fund – This fund is used for reporting resources set aside and held in a trust arrangement for HRA contributions.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Deposits and Investments**

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described below and on the following page.

**1. District Funds Other than OPEB and HRA Trust Funds**

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

Cash and investments at June 30, 2020, were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF) and shares in the Minnesota Trust (MNTrust) securities. MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value.

*Minnesota Statutes* requires all deposits be protected by federal deposit insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

*Minnesota Statutes* authorizes the District to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase, and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days.

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF or MNTrust. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. MSDLAF+ Term investments have a maturity of 60 days to one year and early withdrawal may result in substantial early redemption penalties. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Deposits and Investments (Continued)**

**2. OPEB and HRA Trust Funds**

These funds represent investments administered by the District's OPEB and HRA Trust investment managers. As of June 30, 2020, they were comprised of brokered money markets, government agencies, corporate securities and equities.

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

*Minnesota Statutes* authorize the OPEB and HRA Trust to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota, or its municipalities, bankers' acceptances, future contracts, corporate bonds, common stock and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, commercial paper of the highest quality with a maturity no longer than 270 days and in the State Board of Investments. Investments are stated at fair value.

**E. Property Tax Receivable**

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represent uncollected taxes for the past six years, and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

**F. Property Taxes Levied for Subsequent Year's Expenditures**

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2019, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2020. The remaining portion of the levy will be recognized when measurable and available.

**G. Inventories**

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

**H. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Property Taxes**

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Wright County and Hennepin County are the collecting agencies for the levy and remit the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

**J. Capital Assets**

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 with an estimated useful life in excess of five years, including all computer equipment regardless of the value. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 20 years for equipment.

Capital assets not being depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

**K. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has three items that qualify for reporting in this category. A deferred charge on refunding, and deferred outflows of resources related to pensions and OPEB are reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources related to pensions and OPEB are recorded for various estimate differences that will be amortized and recognized over future years.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Deferred Outflows/Inflows of Resources (Continued)**

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has five types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. A deferred charge on refunding is reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. Deferred inflows of resources related to OPEBs is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

**L. Long-Term Obligations**

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**M. Compensated Absences**

Vacation pay is earned at various rates by employees and accrued as compensated absences in the Statement of Net Position.

Substantially all employees are entitled to sick leave at various rates. Classified employees are not compensated for unused sick leave upon a qualified termination of employment.



**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**M. Compensated Absences (Continued)**

Non-classified employees receive payment for a set number of sick days after reaching age 55 and completing 15 years of service. The amount of compensated absences for sick leave anticipated to be paid upon employees' retirements is recorded as severance payable in the Statement of Net Position.

**N. Post Employment Severance and Health Benefits**

Severance and health benefits consist of lump sum retirement payments and post employment health care benefits.

The District maintains various early retirement incentive payment plans for its employee groups. Teacher and administrator employee group plans contain benefit formulas based on years of service and/or minimum age requirements. No employee can receive early retirement incentive payments exceeding one year's salary.

Under the terms of certain collectively bargained employment contracts, the District is required to pay the medical and dental insurance premiums for retired teachers and administrators until they reach specific age requirements such as Medicare eligibility. The amount to be paid is equal to the full monthly premium cost for insurance coverage available under the appropriate current employment contract.

**O. Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015.

**P. Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2020.

**R. Fund Equity**

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor the constraints on the specific purpose for which amounts in these funds can be spent.

- **Nonspendable Fund Balance** – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, nonfinancial assets held for resale, or the permanent principal of endowment funds.
- **Restricted Fund Balance** – These are amounts that are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.
- **Committed Fund Balance** – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board by formal action. Constraints are only removed by formal board action.
- **Assigned Fund Balance** – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the Director of Finance and Operations or the School Board.
- **Unassigned Fund Balance** – These are amounts that are the residual amounts in the General Fund not reported in any other classification. Unassigned amounts in the General Fund are technically available for expenditure for any purpose. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.
- **Minimum Fund Balance Policy** – The School Board shall strive to maintain a fund balance of between 8% and 12% of fund balance to total operating expenditures in the General Fund. The fund balance shall be defined as the sum of the unassigned fund balance, the restricted next year's approved budget deficit fund balance, and the nonspendable fund balances.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**R. Fund Equity (Continued)**

- The Business Office shall monitor the fund balance. If the fund balance falls below 8%, the School Board shall implement a procedure to stabilize the District's financial position. This shall involve:
  1. No new programs will be added at the District level unless matched by a like revenue source;
  2. Allocations such as textbooks, supplies, etc., shall be frozen; and
  3. The District will review other measures which will not immediately affect delivery of programs but could have a cost savings. An example might be areas where expenses have historically been lower than budgeted levels.
  
- If the fund balance is projected to fall below 6%, the District shall take measures to either generate additional revenues or to reduce expenditures through budget cuts or a combination of both.

**S. Net Position**

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**T. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**U. Comparative Data**

Comparative total data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations. This data has been restated where necessary for comparable classifications.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**V. Budgetary Information**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not required for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Deficit Fund Balance**

The Community Service Fund had a negative fund balance of \$125,356 at June 30, 2020.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

**District Funds Other than OPEB and HRA Trust Funds**

**A. Deposits**

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

**Custodial Credit Risk – Deposits:** This is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. *Minnesota Statutes* 118A requires all deposits be protected by federal deposit insurance, corporate security bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The District has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes* 118.03 for an amount exceeding FDIC or FSLIC coverage. *Minnesota Statutes* require all deposits be protected by federal depository insurance. As of June 30, 2020, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

**Independent School District No. 877  
Notes to Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**District Funds Other than OPEB and HRA Trust Funds (Continued)**

**A. Deposits (Continued)**

As of June 30, 2020, the District had the following deposits:

Pooled Deposits	
Checking	\$ 1,875,752
Certificates of deposit	3,727,400
Savings	4,133
Total pooled deposits	\$ 5,607,285

**B. Investments**

As of June 30, 2020, the District had the following pooled investments:

Investment Type	Fair Value	Investment Maturities Less than 1 Year	Credit Rating
MNTrust Investment Shares	\$ 753,862	\$ 753,862	N/A
MSDLAF-Term	962,653	962,653	AAAm
MSDLAF-Max	15,953,089	15,953,089	AAAm
Total Pooled Investments	\$ 17,669,604	\$ 17,669,604	

**Interest Rate Risk:** This is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy states the portfolio shall be managed in a manner to attain a market rate of return through budgetary and economic cycles while preserving and protecting capital in the overall portfolio. Investment maturities shall be scheduled to coincide with projected cash flow needs.

**Credit Risk:** This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investment policy refers to *Minnesota Statutes* 118A.01 through 118A.06. Statutes limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The District will minimize credit risk by limiting investments to those allowed by statutory constraints. The District's investments are rated in the table above. Also as indicated in the table, there are certain investments that are not subject to credit risk and therefore, not rated.

**Independent School District No. 877  
Notes to Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**District Funds Other than OPEB and HRA Trust Funds (Continued)**

**B. Investments (Continued)**

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy places no limit on the amount the District may invest in any one issuer, though it does state the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities and that no more than 50% of the total portfolio will be with any one instrument.

Custodial Credit Risk – Investments: This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states investments shall be held by institutions designated by the School Board.

**OPEB and HRA Trust Funds**

**C. Trust Fund Investments**

As of June 30, 2020, the District's OPEB and HRA Trust Fund had the following investments:

Investment Type	Fair Value	Investment Maturities				
		Less than 1 Year	1-2 Years	2-5 Years	5-10 Years	Greater than 10 years
Brokered Money Markets	\$ 2,409,226	\$ 2,409,226	\$ -	\$ -	\$ -	\$ -
Fixed Income						
Government Agencies	2,211,162	-	82,667	1,034,677	500,342	593,476
Corporate Securities	2,290,896	227,452	310,965	486,808	1,021,347	244,324
Equities	8,259,838	8,259,838	-	-	-	-
Total Investments	<u>\$ 15,171,122</u>	<u>\$ 10,896,516</u>	<u>\$ 393,632</u>	<u>\$ 1,521,485</u>	<u>\$ 1,521,689</u>	<u>\$ 837,800</u>

Interest Rate Risk: The District's OPEB Trust Investment Policy states the investment emphasis is on the current income requirements and capital preservation, with a secondary emphasis on capital appreciation. The District has a moderate risk tolerance. The asset allocation strategy for the trust is as follows:

Asset Class	Percent	Range
Cash equivalents	2%	0-100%
Bonds	48%	+/- 15%
Equities	50%	+/- 15%

Credit Risk: The District will minimize credit risk by limiting investments to those allowed in the Trust portfolio. The Trust's investments in government agencies and corporate securities were rated Baa2 or greater by Moody's. The remaining investments are not subject to credit risk and, therefore, not rated. The District's OPEB Investment Policy states investments must have a rating of Baa3 or greater.

**Independent School District No. 877  
Notes to Financial Statements**

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**OPEB and HRA Trust Funds (Continued)**

**C. Trust Fund Investments (Continued)**

Concentration of Credit Risk: The District's OPEB Trust Investment Policy states no single security, with the exception of a security issued by the U.S. Government, its agencies and/or instrumentalities, shall at the time of purchase, constitute more than 5% of the value of the portfolio. The Policy also indicates the District has an investment horizon which is considered to be long-term, in excess of ten years. The District's OPEB investments in Fidelity Overseas Fund (8.8%), Vanguard 500 Index Fund (20.2%) and T Rowe Price Dividend growth Fund Inc (9.7%) were above 5% of total OPEB investments.

Custodial Credit Risk: The District's OPEB Trust Investment Policy does not address custodial credit risk.

The District has the following recurring fair value measurements as of June 30, 2020:

- \$8,259,838 of investments are valued using a quoted market prices (Level 1 inputs)
- \$4,502,058 of investments are valued using a matrix pricing model (Level 2 inputs)

**D. Deposits and Investments**

The following is a summary of total deposits and investments:

District governmental funds	
Deposits - pooled (Note 2.A.)	\$ 5,607,285
Investments pooled (Note 2.B.)	17,669,604
Petty cash	6,000
OPEB and HRA irrevocable trust funds	
Investments (Note 2.C.)	<u>15,171,122</u>
Total deposits and investments	<u><u>\$ 38,454,011</u></u>

Deposits and investments are presented in the June 30, 2020, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 23,282,889
Statement of Fiduciary Net Position	
Trust funds	<u>15,171,122</u>
Total deposits and investments	<u><u>\$ 38,454,011</u></u>

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 4,222,035	\$ -	\$ -	\$ 4,222,035
Construction in progress	2,352,583	732,664	1,507,940	1,577,307
Total capital assets not being depreciated	<u>6,574,618</u>	<u>732,664</u>	<u>1,507,940</u>	<u>5,799,342</u>
Capital assets being depreciated				
Land improvements	11,358,836	729,701	-	12,088,537
Buildings	128,644,213	2,473,494	83,978	131,033,729
Equipment and vehicles	7,692,634	866,491	48,151	8,510,974
Total capital assets being depreciated	<u>147,695,683</u>	<u>4,069,686</u>	<u>132,129</u>	<u>151,633,240</u>
Less accumulated depreciation for				
Land improvements	3,447,172	525,132	-	3,972,304
Buildings	60,486,544	4,025,509	34,379	64,477,674
Equipment and vehicles	5,717,429	476,238	45,922	6,147,745
Total accumulated depreciation	<u>69,651,145</u>	<u>5,026,879</u>	<u>80,301</u>	<u>74,597,723</u>
Total capital assets being depreciated, net	<u>78,044,538</u>	<u>(957,193)</u>	<u>51,828</u>	<u>77,035,517</u>
Governmental activities, capital assets, net	<u>\$ 84,619,156</u>	<u>\$ (224,529)</u>	<u>\$ 1,559,768</u>	<u>\$ 82,834,859</u>



**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense of \$5,026,879 for the year ended June 30, 2020, was charged to the following governmental functions:

District support services	\$ 632
Elementary and secondary regular instruction	2,822,872
Vocational education instruction	333
Special education instruction	1,688
Instructional support services	87,246
Pupil support	525
Sites and buildings	2,073,940
Food service	37,808
Community service	<u>1,835</u>
Total depreciation expense	<u><u>\$ 5,026,879</u></u>

**NOTE 5 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-term liabilities						
G.O. bonds, including						
2012A G.O. refunding bonds	03/16/12	2.00%-4.00%	\$ 31,215,000	02/01/24	\$ 13,780,000	\$ 1,890,000
2013A alternative facilities bonds	05/01/13	1.00%-2.00%	3,855,000	02/01/24	2,610,000	170,000
2015A school building bonds	02/04/15	2.75%-3.00%	32,620,000	02/01/30	32,620,000	-
2017A OPEB refunding bonds	06/08/17	2.00%-2.20%	9,635,000	02/01/23	5,720,000	1,880,000
2018A refunding bonds	05/17/18	5.00%	5,710,000	02/01/22	<u>2,315,000</u>	<u>1,810,000</u>
Total G.O. bonds					<u>57,045,000</u>	<u>5,750,000</u>
Unamortized bond premium					1,891,747	-
Net bonds payable					<u>58,936,747</u>	<u>5,750,000</u>
Capital leases payable					609,795	183,685
Severance payable					1,344,341	29,918
Compensated absences payable					<u>365,677</u>	<u>365,677</u>
Total all long-term liabilities					<u><u>\$ 61,256,560</u></u>	<u><u>\$ 6,329,280</u></u>

Long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities, to refinance (refund) previous bond issues and cover annual OPEB costs and net OPEB obligations. Other long-term liabilities, such as severance and compensated absences, are typically liquidated through the General Fund.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**B. Minimum Debt Payments for Bonds**

Minimum annual principal and interest payments required to retire bond liabilities:

Year Ending June 30,	G.O. Bonds		Total
	Principal	Interest	
2021	\$ 5,750,000	\$ 1,792,208	\$ 7,542,208
2022	5,960,000	1,585,958	7,545,958
2023	6,245,000	1,385,333	7,630,333
2024	6,470,000	1,173,422	7,643,422
2025	5,035,000	956,922	5,991,922
2026-2030	27,585,000	2,478,130	30,063,130
Total	<u>\$ 57,045,000</u>	<u>\$ 9,371,973</u>	<u>\$ 66,416,973</u>

**C. Capital Lease Obligations**

In October 2006, the District entered into a lease purchase agreement for the construction of an addition to the Phoenix Learning Center. The total financed was \$750,000 with an interest rate of 4.79% and is to be repaid through the General Fund. The lease agreement requires the District to make annual payments through October 15, 2021.

In April 2010, the District entered into a lease purchase agreement for the remodel of the Montrose Early Childhood Building. The total financed was \$1,324,474 with an interest rate of 5.55% and is to be paid through the General Fund. In April 2017, the District refinanced the lease purchase agreement. The total financed was \$839,792 with an interest rate of 2.99% and is to be paid through the General Fund. The lease agreement requires the District to make annual payments through May 1, 2024.

The future minimum lease obligations and the net present value of these minimum lease payments were as follows:

Year Ending June 30,	
2021	\$ 202,081
2022	166,752
2023	131,424
2024	150,193
Total minimum lease payments	650,450
Less amount representing interest	(40,655)
Present value of minimum lease payments	<u>\$ 609,795</u>

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**C. Capital Lease Obligations (Continued)**

The carrying value and related accumulated depreciation at June 30, 2020, for the assets purchased was as follows:

Carrying value	\$ 2,514,728
Less accumulated depreciation	<u>(1,001,040)</u>
Assets, net of depreciation	<u><u>\$ 1,513,688</u></u>

**D. Changes in Long-Term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	\$ 62,605,000	\$ -	\$ 5,560,000	\$ 57,045,000
Net premium	2,344,462	-	452,715	1,891,747
Capital leases payable	786,977	-	177,182	609,795
Severance payable	1,290,002	137,222	82,883	1,344,341
Compensated absences payable	<u>338,664</u>	<u>538,771</u>	<u>511,758</u>	<u>365,677</u>
Total long-term liabilities	<u><u>\$ 67,365,105</u></u>	<u><u>\$ 675,993</u></u>	<u><u>\$ 6,784,538</u></u>	<u><u>\$ 61,256,560</u></u>

**NOTE 6 – FUND BALANCES**

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities or as required by other outside parties.

**Fund Equity**

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 6 – FUND BALANCES (CONTINUED)**

**A. Restricted/Reserved Fund Balance**

	General Fund	Debt Service	Other Nonmajor Funds	Total
Nonspendable for				
Inventory	\$ 61,179	\$ -	\$ 83,400	\$ 144,579
Prepaid items	498,052	-	98,773	596,825
Total nonspendable	<u>559,231</u>	<u>-</u>	<u>182,173</u>	<u>741,404</u>
Restricted/reserved for				
Student Activities	26,151	-		26,151
Operating Capital	1,015,094	-	-	1,015,094
Medical Assistance	308,929	-	-	308,929
Adult Basic Education	-	-	12,345	12,345
Early Childhood and Family Education	-	-	114,542	114,542
School readiness	-	-	19,935	19,935
Food Service	-	-	834,384	834,384
Debt Service	-	1,053,445	400,041	1,453,486
Building Construction	-	-	63,527	63,527
Total restricted/reserved	<u>1,350,174</u>	<u>1,053,445</u>	<u>1,444,774</u>	<u>3,848,393</u>
Committed for				
Separation Benefits	2,615,036	-	-	2,615,036
Assigned for				
Carryover	904,295	-	-	904,295
Dental Insurance	261,023	-	-	261,023
Capital	1,833,715	-	-	1,833,715
Qcomp	105,022	-	-	105,022
Student Activities	403,592	-	-	403,592
Total assigned	<u>3,507,647</u>	<u>-</u>	<u>-</u>	<u>3,507,647</u>
Unassigned for				
Long-Term Facilities and Maintenance*	(115,278)	-	-	(115,278)
Community Education*	-	-	(226,840)	(226,840)
Community Service*	-	-	(50,506)	(50,506)
Unassigned	7,850,572	-	-	7,850,572
Total unassigned	<u>7,735,294</u>	<u>-</u>	<u>(277,346)</u>	<u>7,457,948</u>
Total fund balance	<u>\$ 15,767,382</u>	<u>\$ 1,053,445</u>	<u>\$ 1,349,601</u>	<u>\$ 18,170,428</u>

\*Negative restricted/reserved fund balances have been reclassified to unassigned for the financial statements in accordance with GASB Statement No. 54.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 6 – FUND BALANCES (CONTINUED)**

**Fund Equity (Continued)**

**A. Restricted/Reserved Fund Balance (Continued)**

Nonspendable for Inventory – A portion of the fund balance has been spent on inventory and is not available for other uses.

Nonspendable for Prepaid Items – A portion of the fund balance has been spent on prepaid items and is not available for other uses.

Restricted/Reserved for Student Activities – This balance represents available resources to be used for the extracurricular activity funds raised by the students.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Medical Assistance – This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes 125A.21, subd. 3*).

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes 124D.16*).

Restricted for Food Service – This balance represents the positive fund balance of the Food Service Fund.

Restricted for Debt Service – This balance represents the resources available for the payment of bond principal, interest, and related costs.

Restricted/Reserved for Building Construction – This balance represents the resources available for the construction of or improvements to facilities authorized by bond issue.

Committed for Separation Benefits – This balance represents the resources set aside for the payment of retirement benefits including compensated absences, pensions, OPEB, and termination benefits.

Assigned for Carryover – This balance represents unspent budget appropriations carried over for the subsequent year.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 6 – FUND BALANCES (CONTINUED)**

**Fund Equity (Continued)**

**A. Restricted/Reserved Fund Balance (Continued)**

Assigned for Dental Insurance – This balance represents the resources set aside for payment of dental insurance costs.

Assigned for Capital – This balance represents the resources set aside for capital costs.

Assigned for QComp – This balance represents resources set aside for QComp.

Assigned for Student Activities – This balance represents the accumulation of the student activity accounts that are under School Board control.

Unassigned for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12).

Unassigned for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education, and extended day programs.

Unassigned for Community Service – This balance represents the negative fund balance of the Community Service Fund

**B. Net Position**

Net position restricted for other purposes on the Statement of Net Position are comprised of the total positive restricted fund balances of the General and total fund balance of the Food Service and Community Service Funds.

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

The District participates in various pension plans, total pension expense for the year ended June 30, 2020, was \$7,115,594. The components of pension expense are noted in the following plan summaries.

The General Fund, Food Service Fund and Community Service Fund typically liquidate the liability related to pensions.

**Independent School District No. 877  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association**

**A. Plan Description**

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with *Minnesota Statutes*, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

Educators employed in Minnesota's public elementary and secondary schools, charter schools and certain TRA-covered educational institutions maintained by the state are required to be TRA members (except those teachers employed by St. Paul Schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota.

**B. Benefits Provided**

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by *Minnesota Statute* and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

*Tier I Benefits*

Tier 1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006, or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006, or after	1.9% per year

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- 3% per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

**Independent School District No. 877  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

*Tier II Benefits*

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members is applied. For years of service July 1, 2006, and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under *Minnesota Statute*. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

**C. Contribution Rate**

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2018, June 30, 2019, and June 30, 2020, were:

	June 30, 2018		June 30, 2019		June 20, 2020	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.5%	11.0%	11.71%	11.0%	11.92%
Coordinated	7.5%	7.5%	7.5%	7.71%	7.5%	7.9%



**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**C. Contribution Rate (Continued)**

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations. Amounts are reported in thousands.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 403,300
Deduct employer contributions not related to future contribution efforts	(688)
Deduct TRA's contributions not included in allocation	<u>(486)</u>
Total employer contributions	402,126
Total non-employer contributions	<u>35,588</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u><u>\$ 437,714</u></u>

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

**Independent School District No. 877  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

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**Actuarial Information**

Valuation date	July 1, 2019
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% thereafter
Projected salary increase	2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

**Mortality Assumptions**

Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	35.5 %	5.10 %
International equity	17.5	5.30
Private markets	25.0	5.90
Fixed income	20.0	0.75
Unallocated cash	2.0	0.00
Total	<u>100 %</u>	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2016 is six years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions", and "Changes in Proportion" use the amortization period of six years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of five years as required by GASB 68.

Changes in actuarial assumptions since the 2018 valuation:

- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

**E. Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2019 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

**F. Net Pension Liability**

On June 30, 2020, the District reported a liability of \$33,750,441 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.5295% at the end of the measurement period and 0.5273% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the district as its proportionate share of the net pension liability, the direct aid and total portion of the net pension liability that was associated with the district were as follows:

District's proportionate share of net pension liability	\$ 33,750,441
State's proportionate share of the net pension liability associated with the District	2,987,024

For the year ended June 30, 2020, the District recognized pension expense of \$6,386,951. It recognized \$227,049 as an increase to this pension expense for the support provided by direct aid.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability (Continued)**

On June 30, 2020, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,677	\$ 822,109
Net difference between projected and actual earnings on plan investments	-	2,826,683
Changes of assumptions	28,074,464	44,684,356
Changes in proportion	1,407,359	745,241
Contributions to TRA subsequent to the measurement date	2,368,996	-
Total	\$ 31,855,496	\$ 49,078,389

\$2,368,996 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2021	\$ 2,074,718
2022	(4,444)
2023	(12,507,904)
2024	(9,114,718)
2025	(39,541)
Total	\$ (19,591,889)

**Independent School District No. 877  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**G. Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5%) and 1 percent higher (8.5%) than the current rate.

District proportionate share of NPL		
1% decrease (6.5%)	Current (7.5%)	1% increase (8.5%)
\$ 53,806,456	\$ 33,750,441	\$ 17,214,553

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

**H. Pension Plan Fiduciary Net Position**

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That can be obtained at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org), or by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000, or by calling (651) 296-2409 or (800) 657-3669.

**Public Employees' Retirement Association**

**A. Plan Description**

The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plan is tax qualified plan under Section 401(a) of the Internal Revenue Code.

**General Employees Retirement Plan**

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**B. Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**B. Benefits Provided (Continued)**

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1 the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**C. Contributions**

*Minnesota Statutes* Chapter 353 set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2020, were \$750,765. The District's contributions were equal to the required contributions as set by state statute.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs**

General Employees Fund Pension Costs

At June 30, 2020, the District reported a liability of \$7,530,193 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$233,990. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was 0.1362% at the end of the measurement period and 0.1448% for the beginning of the period.

School's proportionate share of net pension liability	\$ 7,530,193
State of Minnesota's proportionate share of the net pension liability associated with the School	<u>233,990</u>
Total	<u><u>\$ 7,764,183</u></u>

For the year ended June 30, 2020, the District recognized pension expense of \$728,643 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$17,524 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.



**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

At June 30, 2020, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 217,971	\$ -
Changes in actuarial assumptions	-	627,560
Difference between projected and actual investments earnings	-	826,200
Change in proportion	10,149	488,689
Contributions paid to PERA subsequent to the measurement date	750,765	-
Total	\$ 978,885	\$ 1,942,449

The \$750,765 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2021	\$ (608,504)
2022	(837,981)
2023	(279,979)
2024	12,135
Total	\$ (1,714,329)

**Independent School District No. 877  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2019, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2019:

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

**Independent School District No. 877  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Final Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	35.5 %	5.10 %
Private markets	25.0	5.90
Fixed income	20.0	0.75
International equity	17.5	5.90
Cash equivalents	2.0	0.00
Total	<u>100 %</u>	

**F. Discount Rates**

The discount rate used to measure the total pension liability in 2019 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability Sensitivity**

The following table presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
District's proportionate share of the PERA net pension liability	\$ 12,379,232	\$ 7,530,193	\$ 3,526,347

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**H. Pension Plan Fiduciary Net Position**

Detailed information about the General Employees Fund's fiduciary net position is available in a separately-issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**NOTE 8 – RETIREMENT PLANS**

**A. Post Retirement Health Care Savings Plan**

The District's Post Retirement Health Care Savings Plan (the "Plan") allows employees to use individual accounts to save for medical expenses. The accounts are funded entirely with employer contributions. Employee participation is a voluntary process negotiated through the collective bargaining process. Employees cannot voluntarily contribute to this Plan. Amounts and how it will be funded must be mandated through collective bargaining or through a personnel policy. Any employee covered under the Plan may draw down the balance of the account for reimbursement of eligible medical expenses including health care premiums. Contributions to the Plan by the District totaled \$44,331 for the year.

**B. Defined Contribution Plan**

The District provides eligible employees future retirement benefits through the District's Defined Contribution Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. The District makes matching contribution for some administrative employees of \$75,000. Contributions are invested to tax deferred annuities selected and owned by Plan participants. Employee contributions for the fiscal year totaled \$247,077.

**NOTE 9 – FLEXIBLE BENEFIT PLAN**

The District has a flexible benefit plan which is classified as a "cafeteria plan" under Section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their groups allows eligibility. Eligible employees can elect to participate by contributing pretax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

Before the beginning of the plan year, which runs December 31 to December 31, each participant designates a total amount of pretax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the plan, whether or not such contributions have been made.

Payments of insurance premiums (health and dental) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 9 – FLEXIBLE BENEFIT PLAN (CONTINUED)**

Amounts withheld for medical reimbursement and dependent care are held for the benefit of the flexible benefit plan. All assets of the plan are administered by an employee of the District. Payments are made by the District to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the participant. The medical reimbursement and dependent care activity is included in the financial statements in the General Fund.

All plan property and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the plan are equal to those general creditors of the District in an amount equal to eligible health care and dependent care expenses incurred by the participants. The District believes it is unlikely it will use the assets to satisfy the claims of general creditors in the future.

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. In addition, the plan provides severance benefits based on years of service that are placed directly in a medical savings account upon retirement. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

**B. Benefits Provided**

Teachers who apply for early retirement shall remain eligible to receive certain health insurance benefits until the end of the school year in which the teacher becomes Medicare eligible. Full vesting of such amounts occurs upon attaining 56 years of age. The General Fund, Food Service Fund and Community Service Fund typically liquidate the Liability related to OPEB.

**C. Members**

As of June 30, 2020, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	50
Active employees	621
	<hr/>
Total	671
	<hr/> <hr/>

**D. Contributions**

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. For the year 2020, the District contributed \$286,132 to the plan.

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**E. Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

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Investment rate of return	6.00%, net of investment expense
Salary increases	3.50%, including inflation
Inflation	2.50%
Healthcare cost trend increases	6.9% initially, gradually decreasing to an ultimate rate of 4.0%
Mortality Assumption	RP-2014 mortality tables, with projected mortality improvements based on scale MP-2015 and other adjustments

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2019 – June 30, 2020.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic equity	36 %	4.95 %	7.45 %
International equity	14	5.24	7.74
Fixed income	48	1.99	4.49
Real estate and alternatives	1	4.19	6.69
Cash and equivalents	2	0.58	3.08
Total	100 %		

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**E. Actuarial Assumptions (Continued)**

The details of the investments and the investment policy are described in Note 2 of the District's financial statements. For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 2.90%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**F. Discount Rate**

The discount rate used to measure the total OPEB liability was 5.51%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**G. Changes in Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2019	\$ 11,960,184	\$ 13,347,372	\$ (1,387,188)
Changes for the year			
Service cost	539,822	-	539,822
Interest	668,010	-	668,010
Change in assumptions	(415,739)	-	(415,739)
Employer contributions	-	286,132	(286,132)
Net investment income	-	380,306	(380,306)
Benefit payments	(1,014,013)	(1,014,013)	-
Net changes	(221,920)	(347,575)	125,655
Balances at June 30, 2020	\$ 11,738,264	\$ 12,999,797	\$ (1,261,533)

**Independent School District No. 877**  
**Notes to Financial Statements**

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**H. OPEB Liability Sensitivity**

The following presents the District's net OPEB liability calculated using the discount rate of 5.57% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (4.51%)	Current (5.51%)	1% increase (6.51%)
Net OPEB liability (asset)	\$ (498,112)	\$ (1,261,533)	\$ (1,994,730)

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current healthcare cost trend rates.

	1% decrease (5.9% decreasing to 3.0%)	Current (6.9% decreasing to 4.0%)	1% increase (7.9% decreasing to 5.0%)
Net OPEB liability (asset)	\$ (2,189,606)	\$ (1,261,533)	\$ (181,167)

**I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2020, the District recognized OPEB expense of \$394,656. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ 371,344	\$ -
Differences between expected and actual economic experience	344,073	-
Changes of assumptions	96,855	1,213,571
Total	\$ 812,272	\$ 1,213,571



**Independent School District No. 877  
Notes to Financial Statements**

**NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources  
Related to OPEB (Continued)**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Total
2021	\$ (26,265)
2022	7,424
2023	(21,040)
2024	(19,554)
2025	(81,641)
Thereafter	(260,223)
Total	\$ (401,299)

**J. Payable to the OPEB Plan**

At June 30, 2020, the District reported a payable of \$0 to the OPEB plan. The amount is reported as a receivable on the OPEB Trust Fund Statement of Fiduciary Net Position.

**NOTE 11 – COMMITMENTS**

**A. Joint Powers Agreement**

The District entered in to a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition was financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost.

Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, Minnesota 55313-1936.

**B. Rental Agreement**

The District entered into a rental agreement with the City of Buffalo, Minnesota (the "City") in 2001 for use of the Civic Center by the District.

**Independent School District No. 877  
Notes to Financial Statements**

**NOTE 11 – COMMITMENTS (CONTINUED)**

**B. Rental Agreement (Continued)**

The original agreement was for a period of 15 years commencing September 1, 2000. The District approved an amended agreement extending the agreement for an additional three years and has been operating on the same agreement since. The agreement calls for a minimum rental of 335 hours of ice time per year at the rate of \$194 per hour and an annual payment of \$40,000 for use of classrooms, team and locker rooms, and additional ice time during the day when school is in session.

Any increase in the hourly rate of rental will be negotiated between the City and the District annually. Minimum annual payments to the City under this agreement are \$104,990. The District is entitled to a percentage of gate receipts from tickets sold for attendance at District functions as part of the terms of this agreement.

**C. Construction Commitments**

As of June 30, 2020, the District had outstanding construction commitments as follows:

<u>Project</u>	<u>Project Authorization</u>	<u>Expended through June 30, 2020</u>	<u>Commitment</u>
BCMS Media Center	\$ 747,500	\$ 313,158	\$ 434,342
BHS Parking Lot	435,533	135,914	299,619
Total	<u>\$ 1,183,033</u>	<u>\$ 449,072</u>	<u>\$ 733,961</u>

**NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2020, the District implemented GASB Statement No. 84, *Fiduciary Activities*. As a result, the District moved student activity funds in the amount of \$28,484 to the general fund and governmental activities

**NOTE 13 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB Statement No. 87, *Leases* establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2022.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**Independent School District No. 877**  
**Schedule of Changes in Net OPEB Liability**  
**and Related Ratios**

	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020
Total OPEB Liability				
Service cost	\$ 571,820	\$ 580,052	\$ 647,543	\$ 539,822
Interest	708,616	741,570	705,963	668,010
Differenced between expected and actual experience	-	-	474,926	-
Changes of assumptions	(164,949)	154,281	(972,096)	(415,739)
Changes of benefit terms	-	-	(1,703)	-
Benefit payments	(883,563)	(1,223,984)	(1,177,820)	(1,014,013)
Net change in total OPEB liability	<u>231,924</u>	<u>251,919</u>	<u>(323,187)</u>	<u>(221,920)</u>
Beginning of year	<u>11,799,528</u>	<u>12,031,452</u>	<u>12,283,371</u>	<u>11,960,184</u>
End of year	<u>\$ 12,031,452</u>	<u>\$ 12,283,371</u>	<u>\$ 11,960,184</u>	<u>\$ 11,738,264</u>
Plan Fiduciary Net Pension (FNP)				
Employer contributions	\$ 142,146	\$ 324,890	\$ 375,317	\$ 286,132
Projected investment income	1,013,962	714,809	851,971	380,306
Benefit payments	(883,563)	(1,223,984)	(1,177,820)	(1,014,013)
Other changes	(54,610)	-	-	-
Net change in plan fiduciary net position	<u>217,935</u>	<u>(184,285)</u>	<u>49,468</u>	<u>(347,575)</u>
Beginning of year	<u>13,264,254</u>	<u>13,482,189</u>	<u>13,297,904</u>	<u>13,347,372</u>
End of year	<u>\$ 13,482,189</u>	<u>\$ 13,297,904</u>	<u>\$ 13,347,372</u>	<u>\$ 12,999,797</u>
Net OPEB liability	<u>\$ (1,450,737)</u>	<u>\$ (1,014,533)</u>	<u>\$ (1,387,188)</u>	<u>\$ (1,261,533)</u>
Plan FNP as a percentage of the total OPEB liability	112.06%	108.26%	111.60%	110.75%
Covered-employee payroll	\$ 36,004,117	\$ 36,409,652	\$ 36,946,495	\$ 35,294,307
Net OPEB liability as a percentage of covered-employee	-4.03%	-2.79%	-3.75%	-3.57%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 877**  
**Schedule of Investment Returns**

	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>
Annual money-weighted rate of return, net of investment expense	7.79%	5.42%	6.56%	2.90%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 877  
Schedule of District's and Non-Employer Proportionate Share  
(if Applicable) of Net Pension Liability  
Last Ten Years General Employees Retirement Fund**

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1626%	\$ 7,638,133	-	\$ 7,638,133	\$ 8,537,407	89.5%	78.75%
2015	0.1537%	7,965,532	-	7,965,532	8,884,053	89.7%	78.20%
2016	0.1484%	12,049,344	157,434	12,206,778	9,210,493	130.8%	68.90%
2017	0.1489%	9,505,678	119,554	9,625,232	9,594,720	99.1%	75.90%
2018	0.1448%	8,032,910	263,406	8,296,316	9,732,547	82.5%	79.50%
2019	0.1362%	7,530,193	233,990	7,764,183	9,636,173	78.1%	80.23%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available

**Schedule of District's and Non-Employer Proportionate Share  
(if Applicable) of Net Pension Liability  
Last Ten Years TRA Retirement Fund**

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.5473%	\$ 25,219,190	\$ 1,774,131	\$ 26,993,321	\$ 24,984,186	100.9%	81.50%
2015	0.5152%	31,870,215	3,909,225	35,779,440	26,147,587	121.9%	76.77%
2016	0.5235%	124,867,241	12,532,418	137,399,659	27,230,707	458.6%	44.88%
2017	0.5329%	106,376,507	10,282,834	116,659,341	28,687,733	370.8%	51.57%
2018	0.5273%	33,121,308	3,111,973	36,233,281	29,134,480	113.7%	78.07%
2019	0.5295%	33,750,441	2,987,024	36,737,465	30,063,515	112.3%	78.21%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available

**Independent School District No. 877  
Schedule of District Contributions  
General Employees Retirement Fund  
Last Ten Years**

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 618,962	\$ 618,962	\$ -	\$ 8,537,407	7.25%
2015	666,304	666,304	-	8,884,053	7.50%
2016	690,787	690,787	-	9,210,493	7.50%
2017	719,604	719,604	-	9,594,720	7.50%
2018	729,941	729,941	-	9,732,547	7.50%
2019	722,713	722,713	-	9,636,173	7.50%
2020	750,765	750,765	-	10,010,200	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of District Contributions  
TRA Retirement Fund  
Last Ten Years**

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 1,748,893	\$ 1,748,893	\$ -	\$ 24,984,186	7.00%
2015	1,961,069	1,961,069	-	26,147,587	7.50%
2016	2,042,303	2,042,303	-	27,230,707	7.50%
2017	2,151,580	2,151,580	-	28,687,733	7.50%
2018	2,185,086	2,185,086	-	29,134,480	7.50%
2019	2,317,897	2,317,897	-	30,063,515	7.71%
2020	2,368,996	2,368,996	-	29,911,566	7.92%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.



**Independent School District No. 877**  
**Notes to the Required Supplementary Information**

**TRA RETIREMENT FUND**

**2019 Changes**

Changes in Actuarial Assumptions

- None

**2018 Changes**

Changes in Actuarial Assumptions

- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

**2017 Changes**

Changes in Actuarial Assumptions

- The discount rate was increased to 5.12% from 4.66%.
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.

**Independent School District No. 877**  
**Notes to the Required Supplementary Information**

**TRA RETIREMENT FUND (CONTINUED)**

**2017 Changes (Continued)**

Changes in Actuarial Assumptions (Continued)

- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

**2016 Changes**

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

**2015 Changes**

Changes of Benefit Terms

- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

**Independent School District No. 877**  
**Notes to the Required Supplementary Information**

**GENERAL EMPLOYEES FUND**

**2019 Changes**

Changes in Actuarial Assumptions

- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions

- The employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changes prospectively, requiring \$16 million due per year through 2031.

**2018 Changes**

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**2017 Changes**

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The State's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

**Independent School District No. 877**  
**Notes to the Required Supplementary Information**

**GENERAL EMPLOYEES FUND (CONTINUED)**

**2016 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

**2015 Changes**

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

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**SUPPLEMENTARY INFORMATION**

**Independent School District No. 877**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual Detail - General Fund**  
**Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 7,457,205	\$ 7,418,516	\$ 7,557,111	\$ 138,595
Other local and county revenues	2,268,824	1,831,024	1,971,135	140,111
Revenue from state sources	56,431,359	56,676,566	56,801,416	124,850
Revenue from federal sources	2,322,773	2,101,957	2,135,166	33,209
Sales and other conversion of assets	36,300	24,815	16,655	(8,160)
Total revenues	<u>68,516,461</u>	<u>68,052,878</u>	<u>68,481,483</u>	<u>428,605</u>
<b>Expenditures</b>				
<b>Administration</b>				
Salaries	1,285,440	1,291,960	1,297,856	5,896
Employee benefits	486,899	496,598	501,462	4,864
Purchased services	43,047	43,047	14,340	(28,707)
Supplies and materials	13,043	32,043	30,602	(1,441)
Capital expenditures	450	450	337	(113)
Other expenditures	22,917	14,284	5,423	(8,861)
Total administration	<u>1,851,796</u>	<u>1,878,382</u>	<u>1,850,020</u>	<u>(28,362)</u>
<b>District support services</b>				
Salaries	904,769	911,979	905,774	(6,205)
Employee benefits	423,028	421,890	428,745	6,855
Purchased services	315,763	333,063	279,833	(53,230)
Supplies and materials	19,400	19,400	19,290	(110)
Capital expenditures	9,432	9,432	349	(9,083)
Other expenditures	26,302	36,717	20,429	(16,288)
Total district support services	<u>1,698,694</u>	<u>1,732,481</u>	<u>1,654,420</u>	<u>(78,061)</u>
<b>Elementary and secondary regular instruction</b>				
Salaries	20,174,402	20,111,986	19,755,585	(356,401)
Employee benefits	8,700,835	7,974,603	7,675,255	(299,348)
Purchased services	1,223,143	1,312,935	1,067,521	(245,414)
Supplies and materials	1,407,533	1,444,727	1,172,384	(272,343)
Capital expenditures	129,926	141,360	69,486	(71,874)
Other expenditures	250,920	249,837	214,036	(35,801)
Total elementary and secondary regular instruction	<u>31,886,759</u>	<u>31,235,448</u>	<u>29,954,267</u>	<u>(1,281,181)</u>

**Independent School District No. 877**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual Detail - General Fund**  
**Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Expenditures</b>				
Vocational education instruction				
Salaries	\$ 940,139	\$ 896,616	\$ 788,089	\$ (108,527)
Employee benefits	378,857	344,615	326,582	(18,033)
Purchased services	529,336	527,342	568,049	40,707
Supplies and materials	28,922	28,922	24,120	(4,802)
Capital expenditures	1,000	1,000	-	(1,000)
Other expenditures	8,335	6,811	657	(6,154)
Total vocational education instruction	<u>1,886,589</u>	<u>1,805,306</u>	<u>1,707,497</u>	<u>(97,809)</u>
Special education instruction				
Salaries	8,496,895	8,257,775	8,378,769	120,994
Employee benefits	3,211,482	3,074,598	3,072,328	(2,270)
Purchased services	584,235	304,936	279,240	(25,696)
Supplies and materials	232,807	181,788	145,348	(36,440)
Capital expenditures	7,630	6,690	-	(6,690)
Other expenditures	146,990	166,257	177,382	11,125
Total special education instruction	<u>12,680,039</u>	<u>11,992,044</u>	<u>12,053,067</u>	<u>61,023</u>
Instructional support services				
Salaries	3,305,346	3,234,441	3,224,556	(9,885)
Employee benefits	1,077,934	1,058,799	983,830	(74,969)
Purchased services	275,510	258,541	171,715	(86,826)
Supplies and materials	599,275	465,845	410,405	(55,440)
Capital expenditures	419,539	384,896	374,644	(10,252)
Other expenditures	137,021	157,134	101,487	(55,647)
Total instructional support services	<u>5,814,625</u>	<u>5,559,656</u>	<u>5,266,637</u>	<u>(293,019)</u>
Pupil support services				
Salaries	1,147,790	1,163,113	1,194,143	31,030
Employee benefits	493,104	475,938	448,735	(27,203)
Purchased services	5,625,687	5,604,152	5,452,404	(151,748)
Supplies and materials	(22,525)	(22,872)	(113,520)	(90,648)
Capital expenditures	2,360	2,360	397	(1,963)
Other expenditures	5,846	6,744	440	(6,304)
Total pupil support services	<u>7,252,262</u>	<u>7,229,435</u>	<u>6,982,599</u>	<u>(246,836)</u>



**Independent School District No. 877**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual Detail - General Fund**  
**Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Expenditures</b>				
Sites and buildings				
Salaries	\$ 2,160,685	\$ 2,027,770	\$ 1,977,638	\$ (50,132)
Employee benefits	687,315	643,984	616,794	(27,190)
Purchased services	2,281,548	2,178,721	1,925,677	(253,044)
Supplies and materials	554,037	526,020	474,141	(51,879)
Capital expenditures	2,266,678	2,101,624	2,491,517	389,893
Other expenditures	46,486	50,927	60,015	9,088
Total sites and buildings	<u>7,996,749</u>	<u>7,529,046</u>	<u>7,545,782</u>	<u>16,736</u>
Fiscal and other fixed cost programs				
Purchased services	<u>253,102</u>	<u>257,621</u>	<u>193,347</u>	<u>(64,274)</u>
Debt service				
Principal	177,181	177,181	177,182	1
Interest and fiscal charges	<u>24,899</u>	<u>24,899</u>	<u>24,899</u>	<u>-</u>
Total debt service	<u>202,080</u>	<u>202,080</u>	<u>202,081</u>	<u>1</u>
Total expenditures	<u>71,522,695</u>	<u>69,421,499</u>	<u>67,409,717</u>	<u>(2,011,782)</u>
Excess of revenues over (under) expenditures	(3,006,234)	(1,368,621)	1,071,766	2,440,387
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	<u>8,249</u>	<u>7,963</u>	<u>616</u>	<u>(7,347)</u>
Net change in fund balance	<u>\$ (2,997,985)</u>	<u>\$ (1,360,658)</u>	1,072,382	<u>\$ 2,433,040</u>
<b>Fund Balance</b>				
Beginning of year			14,666,516	
Change in accounting principle (Note 11)			<u>28,484</u>	
Beginning of year, as restated			<u>14,695,000</u>	
End of year			<u>\$ 15,767,382</u>	

**Independent School District No. 877**  
**Combining Balance Sheet -**  
**Nonmajor Governmental Funds**  
**June 30, 2020**  
**(with Comparative Totals as of June 30, 2019)**

	Special Revenue			Debt Service	Capital Project Fund	Total Nonmajor Funds	
	Food Service	Community Service	Total	Employment Benefits Debt Service Fund	Building Construction	2020	2019
<b>Assets</b>							
Cash and investments	\$ 332,994	\$ 213,793	\$ 546,787	\$ 1,435,355	\$ 66,000	\$ 2,048,142	\$ 1,940,949
Current property taxes receivable	-	233,482	233,482	994,106	-	1,227,588	220,436
Delinquent property taxes receivable	-	7,088	7,088	24,495	-	31,583	5,968
Accounts receivable	14,685	756	15,441	-	-	15,441	78,823
Due from Department of Education	73,661	45,833	119,494	1,324	-	120,818	69,143
Due from other Minnesota school districts	-	26,926	26,926	-	-	26,926	24,796
Due from Federal Government through Department of Education	643,732	57,037	700,769	-	-	700,769	45,952
Due from other governmental units	-	-	-	-	-	-	750
Inventory	83,400	-	83,400	-	-	83,400	52,285
Prepaid items	12,641	5,168	17,809	-	80,964	98,773	19,973
<b>Total assets</b>	<b>\$1,161,113</b>	<b>\$ 590,083</b>	<b>\$ 1,751,196</b>	<b>\$ 2,455,280</b>	<b>\$ 146,964</b>	<b>\$ 4,353,440</b>	<b>\$ 2,459,075</b>
<b>Liabilities</b>							
Accounts payable	\$ 41,170	\$ 17,502	\$ 58,672	\$ -	\$ 2,473	\$ 61,145	\$ 155,671
Salaries and benefits payable	60,247	159,104	219,351	-	-	219,351	182,566
Due to other Minnesota districts	-	3,316	3,316	-	-	3,316	-
Due to other governmental units	-	-	-	-	-	-	182
Unearned revenue	129,271	51,476	180,747	-	-	180,747	159,780
<b>Total liabilities</b>	<b>230,688</b>	<b>231,398</b>	<b>462,086</b>	<b>-</b>	<b>2,473</b>	<b>464,559</b>	<b>498,199</b>
<b>Deferred Inflows of Resources</b>							
Unavailable revenue - property taxes levied for subsequent year's expenditures	-	476,953	476,953	2,030,744	-	2,507,697	455,473
Unavailable revenue - delinquent property taxes	-	7,088	7,088	24,495	-	31,583	5,968
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>484,041</b>	<b>484,041</b>	<b>2,055,239</b>	<b>-</b>	<b>2,539,280</b>	<b>461,441</b>
<b>Fund Balances</b>							
Nonspendable	96,041	5,168	101,209	-	80,964	182,173	72,258
Restricted	834,384	146,822	981,206	400,041	63,527	1,444,774	1,595,747
Unassigned	-	(277,346)	(277,346)	-	-	(277,346)	(168,570)
<b>Total fund balances</b>	<b>930,425</b>	<b>(125,356)</b>	<b>805,069</b>	<b>400,041</b>	<b>144,491</b>	<b>1,349,601</b>	<b>1,499,435</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$1,161,113</b>	<b>\$ 590,083</b>	<b>\$ 1,751,196</b>	<b>\$ 2,455,280</b>	<b>\$ 146,964</b>	<b>\$ 4,353,440</b>	<b>\$ 2,459,075</b>

**Independent School District No. 877**  
**Combining Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances -**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2020**  
**(with Comparative Totals for the Year Ended June 30, 2019)**

	Special Revenue		Debt Service Employment Benefits Debt	Capital Project Building Construction	Total Nonmajor Funds		
	Food Service	Community Service			Total	2020	2019
<b>Revenues</b>							
Local property taxes	\$ -	\$ 451,126	\$ 451,126	\$ 2,013,982	\$ -	\$ 2,465,108	\$ 488,808
Other local and county revenues	20,349	2,342,964	2,363,313	18,771	111,837	2,493,921	2,858,038
Revenue from state sources	205,326	529,260	734,586	13,322	-	747,908	719,650
Revenue from federal sources	1,911,719	57,037	1,968,756	-	-	1,968,756	1,153,799
Sales and other conversion of assets	1,293,690	-	1,293,690	-	-	1,293,690	1,712,217
Total revenues	<u>3,431,084</u>	<u>3,380,387</u>	<u>6,811,471</u>	<u>2,046,075</u>	<u>111,837</u>	<u>8,969,383</u>	<u>6,932,512</u>
<b>Expenditures</b>							
<b>Current</b>							
Sites and buildings	-	-	-	-	414,019	414,019	418,345
Food service	3,079,557	-	3,079,557	-	-	3,079,557	2,898,568
Community education and services	-	3,470,903	3,470,903	-	-	3,470,903	3,440,017
<b>Capital outlay</b>							
Sites and buildings	-	-	-	-	464,403	464,403	863,454
Food service	43,297	-	43,297	-	-	43,297	11,891
Community education and services	-	1,457	1,457	-	-	1,457	4,563
<b>Debt service</b>							
Principal	-	-	-	1,830,000	-	1,830,000	-
Interest and fiscal charges	-	-	-	155,285	-	155,285	-
Total expenditures	<u>3,122,854</u>	<u>3,472,360</u>	<u>6,595,214</u>	<u>1,985,285</u>	<u>878,422</u>	<u>9,458,921</u>	<u>7,636,838</u>
Excess of revenues over (under) expenditures	308,230	(91,973)	216,257	60,790	(766,585)	(489,538)	(704,326)
<b>Other Financing Sources</b>							
Proceeds from Sale of Capital Assets	453	-	453	-	-	453	5,575
Net change in fund balances	308,683	(91,973)	216,710	60,790	(766,585)	(489,085)	(698,751)
<b>Fund Balances</b>							
Beginning of year	621,742	(33,383)	588,359	339,251	911,076	1,838,686	2,198,186
End of year	<u>\$ 930,425</u>	<u>\$ (125,356)</u>	<u>\$ 805,069</u>	<u>\$ 400,041</u>	<u>\$ 144,491</u>	<u>\$ 1,349,601</u>	<u>\$ 1,499,435</u>

**Independent School District No. 877**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - Food Service Fund**  
**Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Other local and county revenues	\$ 8,471	\$ 9,111	\$ 20,349	\$ 11,238
Revenue from state sources	176,682	139,330	205,326	65,996
Revenue from federal sources	1,117,797	1,580,521	1,911,719	331,198
Sales and other conversion of assets	1,779,385	1,322,764	1,293,690	(29,074)
Total revenues	<u>3,082,335</u>	<u>3,051,726</u>	<u>3,431,084</u>	<u>379,358</u>
<b>Expenditures</b>				
Food service				
Salaries	1,084,720	1,127,186	1,089,994	(37,192)
Employee benefits	571,736	568,493	514,136	(54,357)
Purchased services	159,300	167,100	157,719	(9,381)
Supplies and materials	1,237,963	1,216,826	1,309,796	92,970
Capital expenditures	22,500	44,523	43,297	(1,226)
Other expenditures	8,961	8,000	7,912	(88)
Total expenditures	<u>3,085,180</u>	<u>3,132,128</u>	<u>3,122,854</u>	<u>(9,274)</u>
Excess of revenues over (under) expenditures	(2,845)	(80,402)	308,230	388,632
<b>Other Financing Sources</b>				
Proceeds from Sale of Capital Asset	<u>3,000</u>	<u>1,000</u>	<u>453</u>	<u>(547)</u>
Net change in fund balance	<u>\$ 155</u>	<u>\$ (79,402)</u>	308,683	<u>\$ 388,085</u>
<b>Fund Balance</b>				
Beginning of year			<u>621,742</u>	
End of year			<u>\$ 930,425</u>	

**Independent School District No. 877**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - Community Service Fund**  
**Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 459,798	\$ 459,798	\$ 451,126	\$ (8,672)
Other local and county revenues	2,669,385	2,370,377	2,342,964	(27,413)
Revenue from state sources	520,116	539,442	529,260	(10,182)
Revenue from federal sources	-	-	57,037	57,037
Total revenues	<u>3,649,299</u>	<u>3,369,617</u>	<u>3,380,387</u>	<u>10,770</u>
<b>Expenditures</b>				
Community education and services				
Salaries	2,332,964	2,248,730	2,266,031	17,301
Employee benefits	775,016	807,204	791,460	(15,744)
Purchased services	301,373	281,773	264,021	(17,752)
Supplies and materials	173,400	154,257	145,892	(8,365)
Capital expenditures	6,500	2,500	1,457	(1,043)
Other expenditures	3,900	3,900	3,499	(401)
Total expenditures	<u>3,593,153</u>	<u>3,498,364</u>	<u>3,472,360</u>	<u>(26,004)</u>
Net change in fund balance	<u>\$ 56,146</u>	<u>\$ (128,747)</u>	(91,973)	<u>\$ 36,774</u>
<b>Fund Balance</b>				
Beginning of year			<u>(33,383)</u>	
End of year			<u>\$ (125,356)</u>	

**Independent School District No. 877**  
**Combining Statement of Fiduciary Net Position**  
**June 30, 2020**

	OPEB Irrevocable Trust Fund	HRA Trust Fund	Total Trust Funds
<b>Assets</b>			
Investments			
Brokered money market	\$ 331,700	\$ 2,077,527	\$ 2,409,227
Fixed income	4,502,058	-	4,502,058
Equities	8,259,837	-	8,259,837
Total investments	<u>13,093,595</u>	<u>2,077,527</u>	<u>15,171,122</u>
Accounts and interest receivable	<u>40,294</u>	<u>-</u>	<u>40,294</u>
Total assets	<u>\$ 13,133,889</u>	<u>\$ 2,077,527</u>	<u>\$ 15,211,416</u>
<b>Liabilities</b>			
Accounts payable	\$ 112,245	\$ -	\$ 112,245
Unearned revenue	<u>21,847</u>	<u>-</u>	<u>21,847</u>
Total liabilities	<u>\$ 134,092</u>	<u>\$ -</u>	<u>\$ 134,092</u>
<b>Net Position</b>			
Held in trust for OPEB	\$ 12,999,797	\$ -	\$ 12,999,797
Held in trust for HRA	<u>-</u>	<u>2,077,527</u>	<u>2,077,527</u>
Total net position	<u>\$ 12,999,797</u>	<u>\$ 2,077,527</u>	<u>\$ 15,077,324</u>

**Combining Statement of Changes in Fiduciary Net Position**  
**Year Ended June 30, 2020**

	OPEB Irrevocable Trust Fund	HRA Trust Fund	Total Trust Funds
<b>Additions</b>			
Contributions	\$ 326,259	\$ 191,588	\$ 517,847
Investment income			
Interest, dividends, change in fair value	451,938	34,935	486,873
Less investment expenses	(71,632)	-	(71,632)
Net investment income	<u>380,306</u>	<u>34,935</u>	<u>415,241</u>
Total additions	<u>706,565</u>	<u>226,523</u>	<u>933,088</u>
<b>Deductions</b>			
Employee benefit deductions	<u>1,054,140</u>	<u>-</u>	<u>1,054,140</u>
Change in net position	(347,575)	226,523	(121,052)
<b>Net Position</b>			
Beginning of year	<u>13,347,372</u>	<u>1,851,004</u>	<u>15,198,376</u>
End of year	<u>\$ 12,999,797</u>	<u>\$ 2,077,527</u>	<u>\$ 15,077,324</u>

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**OTHER DISTRICT INFORMATION**



**Independent School District No. 877**  
**Deferred Tax Levies**  
**(Unaudited)**

Calendar Year Levied	Collected	School Building Refunding Bonds of 2018A	School Building Bonds of 2015	School Refunding Bonds of 2012	School Refunding Bond 2017		Total
				School Building Bonds of 2003	Taxable OPEB Bonds of 2009	Alternative Facilities Bonds of 2013	
2019	2020	\$ 2,022,038	\$ 1,004,769	\$ 2,563,260	\$ 2,098,121	\$ 231,131	\$ 7,919,319
2020	2021	556,763	1,004,769	4,022,130	2,116,391	223,204	7,923,257
2021	2022	-	1,004,769	4,747,470	2,044,256	215,355	8,011,850
2022	2023	-	1,004,769	4,755,660	-	2,265,165	8,025,594
2023	2024	-	6,291,519	-	-	-	6,291,519
2024	2025	-	6,311,416	-	-	-	6,311,416
2025	2026	-	6,315,459	-	-	-	6,315,459
2026	2027	-	6,312,794	-	-	-	6,312,794
2027	2028	-	6,310,658	-	-	-	6,310,658
2028	2029	-	6,315,960	-	-	-	6,315,960
		<u>\$ 2,578,801</u>	<u>\$ 41,876,882</u>	<u>\$ 16,088,520</u>	<u>\$ 6,258,768</u>	<u>\$ 2,934,855</u>	<u>\$ 69,737,826</u>

**Independent School District No. 877**  
**Property Tax Levies, Rates, and Valuations**  
**Last Ten Fiscal Years**  
**(Unaudited)**

Year Collectible	Net Tax Capacity Valuations	Tax Capacity Rates	General Fund	Community Service Fund	Debt Service Fund	OPEB Debt Service Fund	Total All Funds
2011	\$ 30,210,896	0.31952	\$ 5,580,632	\$ 590,417	\$ 6,664,340	\$ 518,688	\$ 13,354,077
2012	27,627,448	0.35165	5,407,118	560,963	6,650,801	518,688	13,137,570
2013	25,795,102	0.36930	5,353,503	549,781	6,362,376	520,630	12,786,290
2014	26,369,245	0.33882	5,040,652	479,555	6,259,996	492,256	12,272,459
2015	28,598,205	0.35375	5,102,489	444,304	7,363,703	496,186	13,406,682
2016	30,076,092	0.34489	6,299,838	464,451	5,807,758	1,290,641	13,862,688
2017	31,467,344	0.32887	6,260,288	488,197	5,914,677	1,272,597	13,935,759
2018	33,452,365	0.32471	6,963,233	493,467	5,334,875	2,069,902	14,861,477
2019	35,575,211	0.30953	7,360,503	455,473	5,398,465	2,035,660	15,250,101
2020	38,274,130	0.29184	11,795,773	476,953	5,332,883	2,030,744	19,636,353

Source: School Tax Report

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**Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

**Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ending June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 14, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "BergankDV Ltd." followed by a period.

Minneapolis, Minnesota  
October 14, 2020

**Minnesota Legal Compliance**

**Independent Auditor's Report**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota as of and for the year ended June 30, 2020, and the related notes to financial statements, and have issued our report thereon dated October 14, 2020.

The *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to *Minnesota Statutes* Sec. 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits, and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting and reporting standards for school districts and miscellaneous provisions. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

*Bergan KDV Ltd.*

Minneapolis, Minnesota  
October 14, 2020

**Independent School District No. 877**  
**Uniform Financial Accounting and Reporting Standards**  
**Compliance Table**  
**For the Year Ended June 30, 2020**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION FUND</b>			
Total Revenue	\$68,481,483	\$ 68,481,482	\$ 1	Total revenue	\$ 111,837	\$ 111,837	\$ -
Total Expenditures	67,409,717	67,409,716	1	Total expenditures	878,422	878,422	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	559,231	559,231	-	4.60 Nonspendable fund balance	80,964	80,964	-
<i>Restricted/reserved:</i>				<i>Restricted/Reserved:</i>			
4.01 Student Activities	26,151	26,151	-	4.07 Capital Projects Levy	-	-	-
4.02 Scholarships	-	-	-	4.09 Alternative Facility Program	-	-	-
4.03 Staff Development	-	-	-	4.13 Building Projects Funded by COP	-	-	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Program	-	-	-	4.64 Restricted fund balance	63,527	63,526	1
4.13 Building Projects Funded by COP/LP	-	-	-	<i>Unassigned:</i>			
4.14 Operating Debt	-	-	-	4.63 Unassigned fund balance	-	-	-
4.16 Levy Reduction	-	-	-	<b>07 DEBT SERVICE FUND</b>			
4.17 Taconite Building Maintenance	-	-	-	Total revenue	\$ 5,528,794	\$ 5,528,794	\$ -
4.24 Operating Capital	1,015,094	1,015,094	-	Total expenditures	5,571,123	5,571,123	-
4.26 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
4.27 Disabled Accessibility	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.28 Learning and Development	-	-	-	<i>Restricted/reserved:</i>			
4.34 Area Learning Center	-	-	-	4.25 Bond refunding	-	-	-
4.35 Contracted Alternative Programs	-	-	-	4.33 Maximum effort load aid	-	-	-
4.36 State Approved Alternative Program	-	-	-	4.51 QZAB Payments	-	-	-
4.38 Gifted and Talented	-	-	-	<i>Restricted:</i>			
4.40 Teacher Development and Evaluations	-	-	-	4.64 Restricted fund balance	1,053,445	1,053,445	-
4.41 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
4.45 Career Technical Programs	-	-	-	4.63 Unassigned fund balance	-	-	-
4.48 Achievement and Integration Revenue	-	-	-	<b>08 TRUST FUND</b>			
4.49 Safe School Crime	-	-	-	Total revenue	\$ 226,523	\$ 226,523	\$ -
4.51 QZAB Payments	-	-	-	Total expenditures	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
4.53 Unfunded Severance and Retirement Levy	-	-	-	4.22 Net position	2,077,527	2,077,527	-
4.59 Basic Skills Extended Time	-	-	-	<b>20 INTERNAL SERVICE FUND</b>			
4.67 Long-Term Facilities Maintenance	(115,278)	(115,278)	-	Total revenue	\$ -	\$ -	\$ -
4.72 Medical Assistance	308,929	308,929	-	Total expenditures	-	-	-
4.75 Title VII - Impact Aid	-	-	-	<i>Unassigned:</i>			
4.76 Payments in Lieu of Taxes	-	-	-	4.22 Net position	-	-	-
<i>Restricted:</i>				<b>25 OPEB REVOCABLE TRUST</b>			
4.64 Restricted fund balance	-	-	-	Total revenue	\$ -	\$ -	\$ -
<i>Committed:</i>				Total expenditures	-	-	-
4.18 Committed for separation	2,615,036	2,615,036	-	<i>Unassigned:</i>			
4.61 Committed	-	-	-	4.22 Net position	-	-	-
<i>Assigned:</i>				<b>45 OPEB IRREVOCABLE TRUST</b>			
4.62 Assigned fund balance	3,507,647	3,507,642	5	Total revenue	\$ 706,565	\$ 706,564	\$ 1
<i>Unassigned:</i>				Total expenditures	1,054,140	1,054,139	1
4.22 Unassigned fund balance (net position)	7,850,572	7,850,575	(3)	<i>Unassigned:</i>			
<b>02 FOOD SERVICE FUND</b>				4.22 Net position	12,999,797	12,999,797	-
Total revenue	\$ 3,431,084	\$ 3,431,085	\$ (1)	<b>47 OPEB DEBT SERVICE</b>			
Total expenditures	3,122,854	3,122,855	(1)	Total revenue	\$ 2,046,075	\$ 2,046,075	\$ -
<i>Nonspendable:</i>				Total expenditures	1,985,285	1,985,285	-
4.60 Nonspendable fund balance	96,041	96,042	(1)	<i>Nonspendable:</i>			
<i>Restricted/reserved:</i>				4.60 Nonspendable fund balance	-	-	-
4.52 OPEB liabilities not held in trust	-	-	-	<i>Restricted:</i>			
<i>Restricted:</i>				4.64 Restricted fund balance	400,041	400,041	-
4.64 Restricted fund balance	834,384	834,383	1	<i>Unassigned:</i>			
<i>Unassigned:</i>				4.63 Unassigned fund balance	-	-	-
4.63 Unassigned fund balance	-	-	-	<b>04 COMMUNITY SERVICE FUND</b>			
<b>04 COMMUNITY SERVICE FUND</b>				Total revenue	\$ 3,380,387	\$ 3,380,385	\$ 2
Total revenue	\$ 3,380,387	\$ 3,380,385	\$ 2	Total expenditures	3,472,360	3,472,358	2
Total expenditures	3,472,360	3,472,358	2	<i>Nonspendable:</i>			
<i>Nonspendable:</i>				4.60 Nonspendable fund balance	5,168	5,168	-
4.60 Nonspendable fund balance	5,168	5,168	-	<i>Restricted/reserved:</i>			
<i>Restricted/reserved:</i>				4.26 \$25 Taconite	-	-	-
4.26 \$25 Taconite	-	-	-	4.31 Community Education	(226,840)	(226,840)	-
4.31 Community Education	(226,840)	(226,840)	-	4.32 ECFE	114,542	114,542	-
4.32 ECFE	114,542	114,542	-	4.40 Teacher Development and Evaluation	-	-	-
4.40 Teacher Development and Evaluation	-	-	-	4.44 School Readiness	19,935	19,935	-
4.44 School Readiness	19,935	19,935	-	4.47 Adult Basic Education	12,345	12,345	-
4.47 Adult Basic Education	12,345	12,345	-	4.52 OPEB Liabilities not Held in Trust	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-	<i>Restricted:</i>			
<i>Restricted:</i>				4.64 Restricted fund balance	-	-	-
4.64 Restricted fund balance	-	-	-	<i>Unassigned:</i>			
<i>Unassigned:</i>				4.63 Unassigned fund balance	(50,506)	(50,506)	-
4.63 Unassigned fund balance	(50,506)	(50,506)	-				