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

Basic Financial Statements

June 30, 2021

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Independent School District No. 877
Board of Education and Administration
June 30, 2021

Board of Education	Position	Term Expires
Melissa Brings	Chairperson	December 31, 2024
Sue Lee	Vice Chairperson	December 31, 2024
Bob Sansevere	Clerk	December 31, 2022
Ken Ogden	Treasurer	December 31, 2022
Amanda Reineck	Director	December 31, 2022
Amanda Lawrence	Director	December 31, 2024
Adam Bjorklund	Director	December 31, 2024

Administration	
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 Basic 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, 2021, and the related notes to financial statements, which collectively comprise the District's financial statements as listed in the Table of Contents.

Management's Responsibility for the Basic Financial Statements
The management of Independent School District No. 877 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 basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic 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 basic 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 basic 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 basic 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, 2021, 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.

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 the Government Accounting Standards Board (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 basic financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The accompanying supplementary information identified in the Table of Contents and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate 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 and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Matters (Continued)

Report on Summarized Comparative Information

The basic 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 basic financial statement for the year ended June 30, 2020, from which such partial information was derived.

We have previously audited the District's 2020 basic financial statements and our report, dated October 14, 2020, expressed unmodified opinions on the respective basic 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, 2020, is consistent, in all material respects, with the audited basic 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 19, 2021, 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 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 19, 2021

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, 2021. 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 (2020-2021) and the prior year (2019-2020) is required in the MD&A.

Financial Highlights

Key financial highlights for the 2020-2021 fiscal year include the following:

- The District's total combined net position increased 19.21% over the course of the year and was a negative $14.9 million at June 30, 2021. This change was a combination of increased federal revenues and reduced district expenditures due to the COVID-19 pandemic, changes in net pension liability and increases in related assets, and implementation of a five-year voter approved operating referendum.

- During the year, the District's expenses were $83.2 million and its revenues were $87.3 million. Revenues increased by $4.2 million and expenses increased 1.3 million from the prior year.

- The General Fund reported an unassigned fund balance this year of $10.0 million, an increase of $2.2 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.

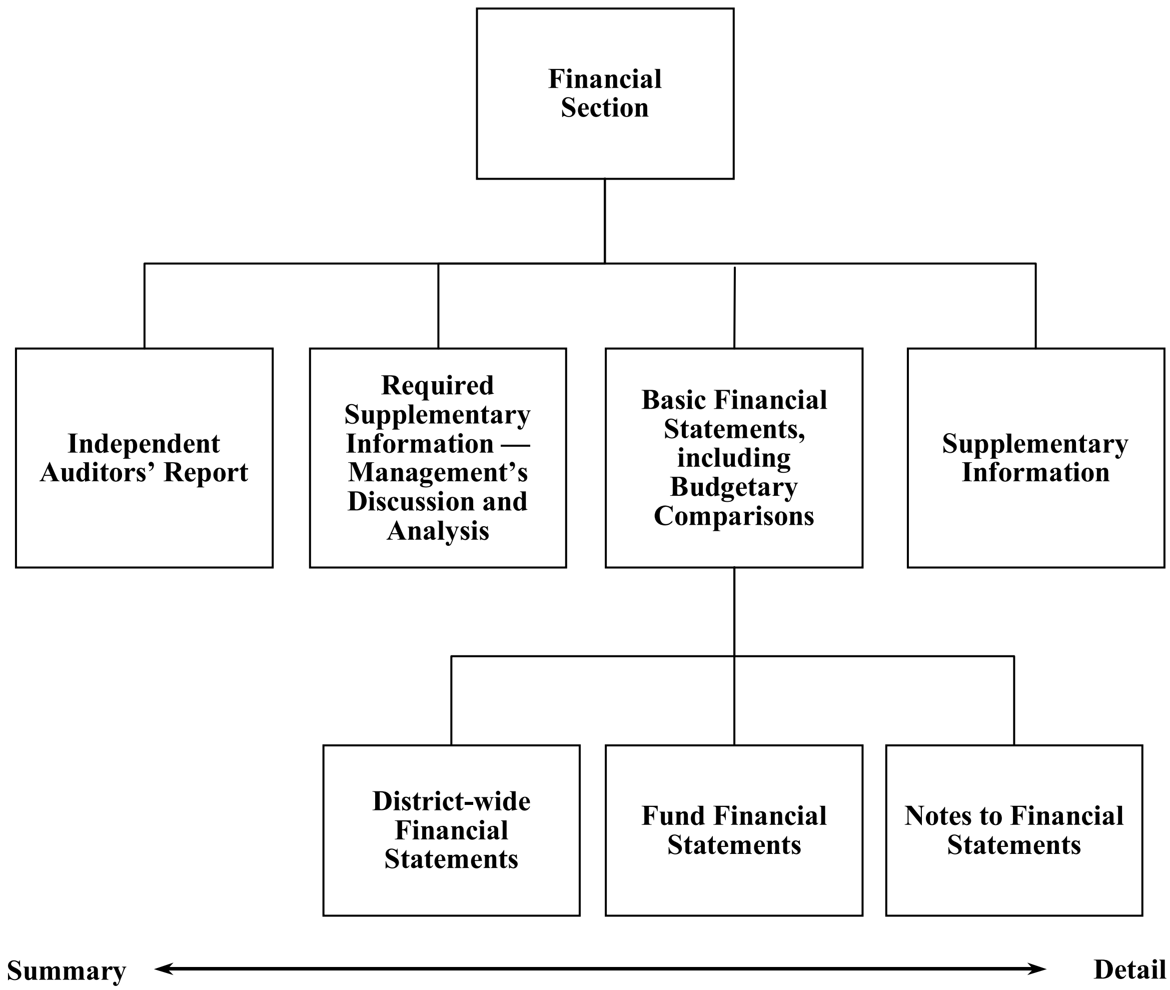
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide financial statements.

- 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.

Overview of the Financial Statements (Continued)
The financial statements also include notes that explain in more detail the 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



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.

Figure A-2
Major Features of the District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements - Governmental	Fiduciary Funds
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	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
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.

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.

Financial Analysis of the District as A Whole

Net Position

The District's consolidated net position increased 19.21% and was a negative $14,905,558 on June 30, 2021 (See Table A-1). The District's total assets and deferred outflows decreased 4.91%. Total liabilities and deferred inflows decreased 6.65% due to changes in the district's bond payable, net pension liability, and deferred inflows of resources related to pensions. 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 net pension liability and related deferred inflows and outflows of the District.

Table A-1
The District's Net Position

	Governmental Activities		Percentage
	2021	2020	Change
Assets			
Current and other assets	$ 45,270,955	$ 41,516,491	9.04%
Capital and non-current assets	86,458,852	84,410,935	2.43%
Total assets	131,729,807	125,927,426	4.61%
Deferred outflows	20,182,385	33,833,698	-40.35%
Total assets and deferred outflows of resources	$ 151,912,192	$ 159,761,124	-4.91%
Liabilities			
Current liabilities	$ 11,730,816	$ 11,158,311	5.13%
Long-term liabilities	95,371,690	96,237,832	-0.90%
Total liabilities	107,102,506	107,396,143	-0.27%
Deferred inflows of resources	59,715,244	71,307,059	-16.26%
Total liabilities and deferred inflows of resources	$ 166,817,750	$ 178,703,202	-6.65%
Net Position			
Net investment in capital assets	$ 30,755,848	$ 29,163,173	5.46%
Restricted	4,489,066	2,415,596	85.84%
Unrestricted	(50,150,472)	(50,029,071)	-0.24%
Total net position	$ (14,905,558)	$ (18,450,302)	19.21%

Change in Net Position

The change in net position for 2020-2021 was a positive $4,036,520 based on total revenues of $87.3 million and total expenses of $83.2 million. Table A-2 on the following page shows the breakdown into the various revenue and expense categories.

Financial Analysis of the District as A Whole (Continued)

Tables A-2
Change in Net Position

	Governmental Activities 2021	Governmental Activities 2020	Percentage Change
Revenues			
Program revenues			
Charges for services	$ 2,859,322	$ 4,555,837	-37.24%
Operating grants and contributions	16,979,366	15,796,721	7.49%
Capital grants and contributions	2,215,824	2,453,266	-9.68%
General revenues			
Property taxes	19,562,773	15,292,193	27.93%
Unrestricted state aid	42,551,887	43,889,089	-3.05%
Investment earnings	29,452	368,013	-92.00%
Other	3,066,247	689,161	344.92%
Total revenues	87,264,871	83,044,280	5.08%
Expenses			
Administration	2,006,434	2,016,288	-0.49%
District support services	1,471,768	1,704,719	-13.67%
Regular instruction	35,914,948	35,151,730	2.17%
Vocational education instruction	1,625,890	1,798,795	-9.61%
Special education instruction	12,853,298	12,916,382	-0.49%
Instructional support services	6,443,199	5,617,290	14.70%
Pupil support services	6,779,803	7,080,827	-4.25%
Sites and buildings	8,272,267	7,282,948	13.58%
Fiscal and other fixed cost programs	464,917	193,347	140.46%
Food service	2,999,362	3,097,431	-3.17%
Community service	3,065,022	3,563,928	-14.00%
Interest and fiscal charges on long-term liabilities	1,331,443	1,536,366	-13.34%
Total expenses	83,228,351	81,960,051	1.55%
Change in net position	4,036,520	1,084,229	-272.29%
Change in accounting principle		28,484	100.00%
Beginning net position	(18,942,078)	(20,054,791)	5.55%
Ending net position	$ (14,905,558)	$ (18,942,078)	21.31%

Financial Analysis of the District as A Whole (Continued)

Revenues

The District's total revenues were approximately $87.3 million for the year ended June 30, 2021. Property taxes and state formula aid accounted for 71.2% of total revenue for the year (See Figure A-3). Another 3.5% came from other general revenues combined with investment earnings, and the remaining 25.3% came from program revenues.

Figure A-3
Sources of District's Revenues for Fiscal 2021

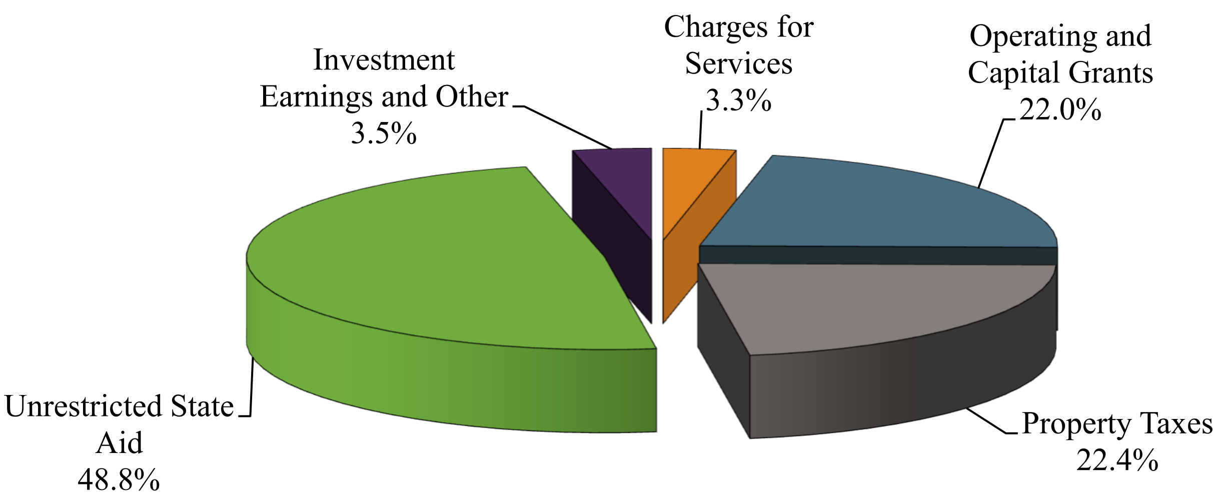
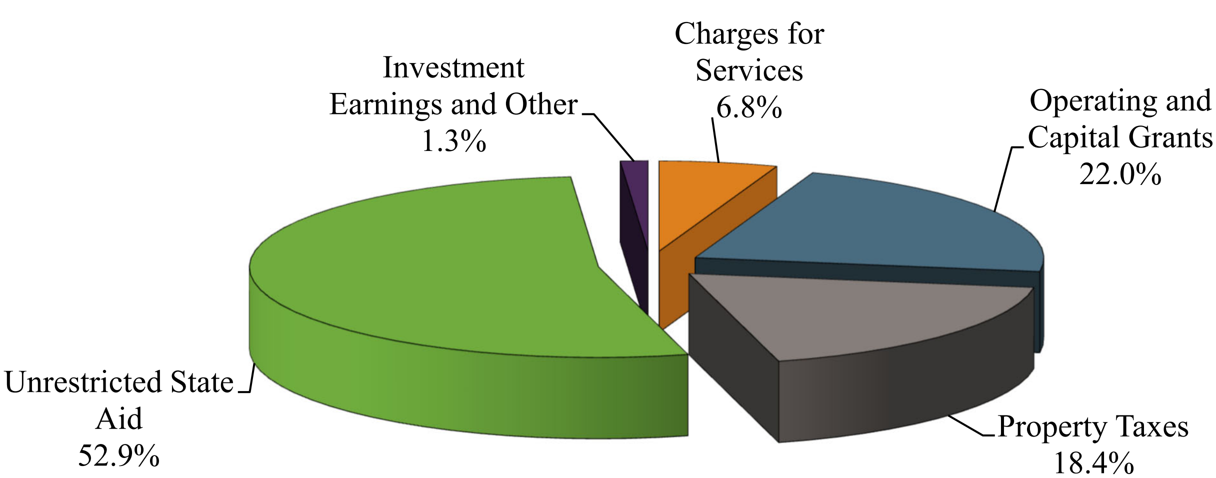


Figure A-3
Sources of District's Revenues for Fiscal 2020



Financial Analysis of the District as A Whole (Continued)

Expenses

The total cost of all programs and services increased 1.55% to $83.2 million. The increase is directly related to changes in the District's net pension liability recognized in 2020-21. The District's expenses are predominantly related to educating, caring for, and transporting students. The administrative expenses of the District accounted for 4.2% of total costs for 2020-21 and for 4.5% of total costs for 2019-20 (see Figure A-4).

Figure A-4
District Expenses for Fiscal 2021

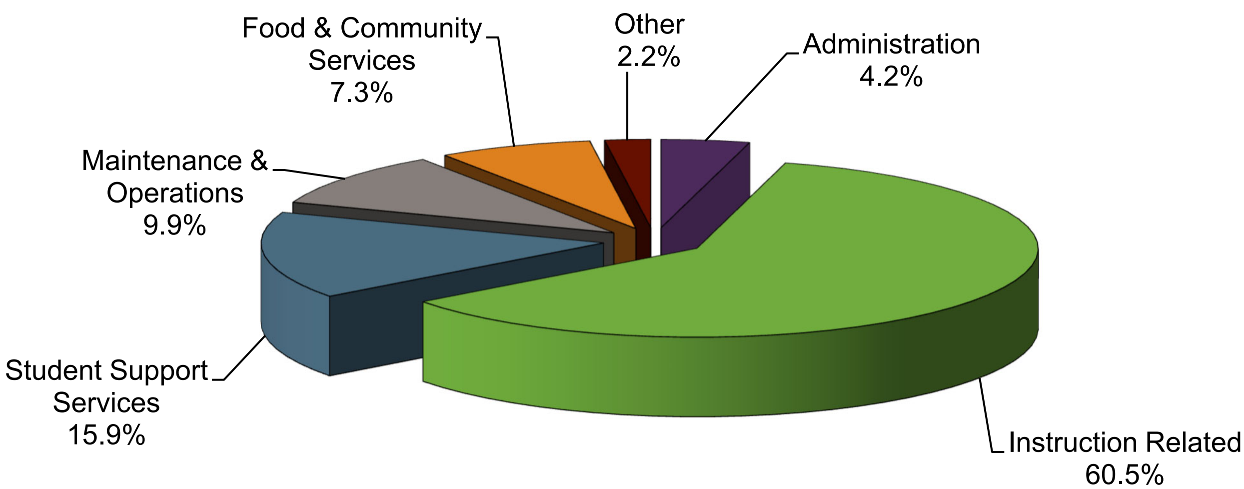
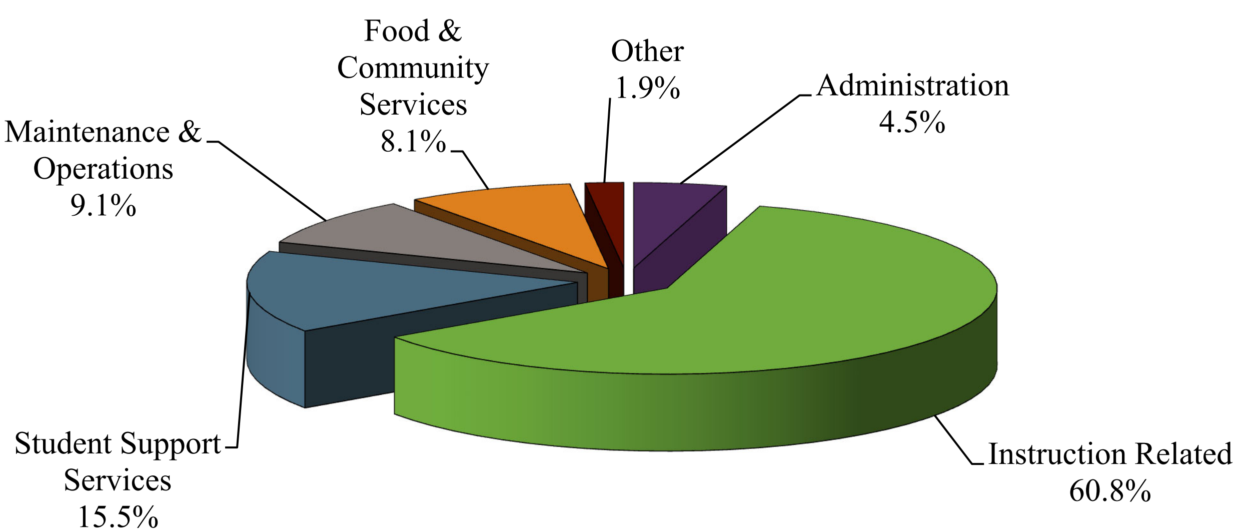


Figure A-4
District Expenses for Fiscal 2020



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 73.7% 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 $2,859,322 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 ($16,979,366 for operating purposes and $2,215,824 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 $65,210,359. Of that remaining amount, a major portion of governmental activities came from $19,562,773 in property taxes, $42,551,887 of state aid based on the statewide education aid formula, and $3,095,699 with investment earnings, other general revenues, and net income from joint venture.

Tables A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2021	2020	Change	2021	2020	Change
Administration	$ 2,006,434	$ 2,016,288	-0.49%	$ 2,006,434	$ 2,016,288	-0.49%
District support services	1,471,768	1,704,719	-13.67%	1,458,564	1,691,112	-13.75%
Regular instruction	35,914,948	35,151,730	2.17%	32,411,454	31,000,170	4.55%
Vocational education instruction	1,625,890	1,798,795	-9.61%	1,593,154	1,751,711	-9.05%
Special education instruction	12,853,298	12,916,382	-0.49%	2,787,231	3,853,552	-27.67%
Instructional support services	6,443,199	5,617,290	14.70%	6,086,999	5,153,585	18.11%
Pupil support services	6,779,803	7,080,827	-4.25%	6,551,316	6,494,750	0.87%
Sites and buildings	8,272,267	7,282,948	13.58%	6,403,158	5,121,629	25.02%
Fiscal and other fixed cost programs	464,917	193,347	-100.00%	424,384	192,815	120.10%
Food service	2,999,362	3,097,431	-3.17%	(450,994)	(322,732)	39.74%
Community service	3,065,022	3,563,928	-14.00%	570,696	664,981	-14.18%
Interest and fiscal charges on long-term liabilities	1,331,443	1,536,366	-13.34%	1,331,443	1,536,366	-13.34%
Total	$ 83,228,351	$ 81,960,051	1.55%	$ 61,173,839	$ 59,154,227	3.41%

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 $21,073,207. Of this amount, $5,487,902 is restricted to cover building project costs, future debt obligations, and other purposes.

Revenues for the District's governmental funds were $87,041,156 while total expenditures were $84,953,356. After factoring in Other Financing Sources and Uses, the District completed the year with a net change in fund balance of a positive $2,902,779. 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. Also, a major contributing factor to increased revenues was the implementation of a voter approved five-year operating referendum. A five-year plan was created for use of the funds generated by the voter approved referendum and it included a plan to build fund balance in the first two years to be used during the remainder of the referendum for inflation. Lastly, federal pandemic relief funds were a major factor increasing revenues.

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	
	2021	2020	Increase (Decrease)	Percent
Property taxes	$ 11,890,038	$ 7,557,111	$ 4,332,927	57.34%
Other local and county revenues	1,201,745	1,971,135	(769,390)	-39.03%
State sources	55,596,866	56,801,416	(1,204,550)	-2.12%
Federal sources	4,294,003	2,135,166	2,158,837	101.11%
Sales and other conversion of assets	9,745	16,655	(6,910)	-41.49%
Total revenue	$ 72,992,397	$ 68,481,483	$ 4,510,914	6.59%

General Fund (Continued)
Total General Fund revenue increased from the previous year by $4,510,914, or 6.59%. Property tax revenue increased $4,332,927 from the 2019-20 year due to implementation of a voter approved five-year operating referendum. Revenue from state sources decreased $1,204,550 due to less General Education Revenue formula allowance resulting from a loss of 362 students during the COVID-19 pandemic and an increase in special education aid. Federal sources went up primarily due to funding received from federal pandemic relief funds. The revenue from Other Local and County sources decreased $769,390 due to lower interest income, 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	
	2021	2020	Increase (Decrease)	Percent
Salaries	$ 38,498,306	$ 37,522,396	$ 975,910	2.60%
Employee benefits	15,036,828	14,053,710	983,118	7.00%
Purchased services	10,121,120	9,952,115	169,005	1.70%
Supplies and materials	3,868,302	2,162,818	1,705,484	78.85%
Capital expenditures	2,680,041	3,138,813	(458,772)	-14.62%
Other expenditures	608,042	579,865	28,177	4.86%
Total expenditures	$ 70,812,639	$ 67,409,717	$ 3,402,922	5.05%

Total General Fund expenditures increased $3,402,922, or 5.05% from the previous year primarily due to salary and benefit negotiated increases and expenditures necessary to navigate the COVID-19 pandemic.

In the 2020-2021 school year, General Fund revenues and other sources were higher than expenditures by $2,266,677. As a result, the total fund balance at June 30, 2021 increased to $18,034,059 of which $7,413,155 was restricted, committed, or assigned. The combined unassigned and nonspendable fund balance increased from the prior year, ending at a balance of $10,620,904 at June 30, 2021, or 15.00% of expenditures with the non-spendable fund balance of $607,010 included. The District closely monitors its fund balance.

General Fund 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 fell into the following categories:

- Changes in revenue and expenditures due the COVID-19 pandemic:
  - Ongoing decrease in activities and participation caused by the COVID-19 pandemic.
  - Changes in revenue entitlements from state aid proration and enrollment changes in adjusted pupil units (APU) and weighted pupil units (PUN). The District experienced a significant decrease of 362 in adjusted pupil units.
  - Significant changes in revenues and expenditures related to federal pandemic relief funds received.
  - Decreased travel expenditures due to COVID-19 restrictions
- Changes in revenue from the Special Education program
- Lower than expected building maintenance and utility costs

While the District's final budget for the General Fund anticipated that revenues and other financing sources would exceed expenditures by $1,439,633, the actual results for the year show the difference of $2,226,677 with revenues and other financing sources exceeding expenditures. Revenues and other financing sources were under the District's final budget by 2.11% and expenditures were under budget by 3.28%.

- Actual revenues and other financing sources were lower than expected by $1,57,037 due primarily to increased special education aid, lower than anticipated state aid generated from average daily membership, and reclassification of funds to the Capital Project Fund.
- Actual expenditures were under budget by $2,404,081. The District had lower than anticipated staffing expenditures for substitutes, alternative compensation stipends, and lower extended time payments for staff. The reduced staffing expenditures also resulted in lower than anticipated health insurance, TRA, FICA, and PERA expenditures. Building repairs, maintenance, and utilities were lower than anticipated. Reclassification of a budgeted project to the Building Construction Fund had a significant impact. COVID-19 restrictions realized lower than anticipated expenditures for transportation of students and staff, as well as, lower than anticipated expenditures in many other expenditure categories due to changes in learning models.

Capital Projects and Debt Service Funds

The Building Construction fund recorded the revenues and expenditures from the bond issue passed on November 4, 2014 and new this year, revenues and expenditures for the high school tennis court project. The bond project started in 2014-2015 was completed in 2020-2021. The high school tennis court project is expected to be completed in 2021-2022. Revenues for this year are the result of lease financing proceeds. Expenditures for work completed as of the end of the year totaled $144,490 for the building construction bond project and $215,571 for the high school tennis courts. The total Building Construction fund balance was $511,180 on June 30, 2021, which was an increase of $366,689.

The Debt Service Fund balance for Fund 07 decreased $117,444. The ending balance is $936,001 in total as of June 30, 2021. All of this balance is restricted to meet future debt obligations of the District.

The Post Employment Debt Service Fund revenues exceeded expenditures by $28,782 and increased its fund balance to $428,823 at June 30, 2021. The balance in this fund will be used for future debt service obligations.

Other Nonmajor Funds

The Food Service Fund revenues exceeded expenditures causing the fund balance to increase by $441,955. Food Service revenues were over budget by $233,172 and the expenditures were over budget by $61. The Food Service Fund had increases in the local and federal meal reimbursement rates to increase revenue. Due to the pandemic, the Summer Food Service Program for free breakfast and lunch was continuous throughout the school year. The actual counts exceeded prior year counts by 20,414 meals between breakfast and lunch through June 30, 2021. We were also able to use $122,344 of federal pandemic relief funding to offset expenses in the program which also helped to increase federal revenue.

The Community Service Fund expenditures exceeded revenues and other financing sources by $83,880 and decreased its fund balance to a negative $209,236 as of June 30, 2021. Most of the decrease in fund balance was directly related to decreased participation in offerings resulting in less fees from patrons.

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 $2,770,112 as of June 30, 2021.

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, 2021 was $15,334,421 and increased in value by $2,334,624.

Capital Asset and Debt Administration

Capital Assets

By the end of 2021, 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 decrease of $2,638,121 or 3.18%, from last year. Total depreciation expense for the year was approximately $5.2 million. More detailed information about capital assets can be found in Note 4 to the financial statements.

Table A-6
The District's Capital Assets

	2021	2020	Percentage Change
Land	$ 4,222,035	$ 4,222,035	0.00%
Construction in progress	1,530,500	1,577,307	-2.97%
Land improvements	12,780,337	12,088,537	5.72%
Buildings and improvements	130,194,441	131,033,729	-0.64%
Equipment and transportation vehicles	7,465,196	8,510,974	-12.29%
Total historical cost	156,192,509	157,432,582	-0.79%
Less accumulated depreciation	(75,995,771)	(74,597,723)	-1.87%
Total	$ 80,196,738	$ 82,834,859	-3.18%

Construction – Next Five Years

The District will continue to improve buildings and building sites utilizing Long Term Facilities Maintenance funding but does not have plans for a project requiring bonded debt.

Long-Term Debt

At year-end, the District had $53,886,892 in general obligation (G.O.) bonds and capital leases, a decrease of 9.5% from last year as shown in Table A-7. The District also had $1,651,137 in future post-employment severance benefits payable at June 30, 2021. The School Board has committed $2,187,804 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.

Capital Asset and Debt Administration (Continued)

Long-Term Debt (Continued)

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

	2021	2020	Percentage Change
G.O. bonds	$ 51,295,000	$ 57,045,000	-10.08%
Net bond premium and discount	1,439,032	1,891,747	-23.93%
Net G.O. bonds	52,734,032	58,936,747	-10.52%
Obligations under capital leases	1,152,860	609,795	89.06%
Net G.O. bonds and capital leases	53,886,892	59,546,542	-9.50%
Severance payable	1,285,490	1,344,341	-4.38%
Compensated absences payable	365,647	365,677	-0.01%
Total	$ 55,538,029	$ 61,256,560	-9.34%

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, the COVID-19 pandemic resulted in a substantial decrease in student enrollment during 2020-21 fiscal year. The projections for 2021-22 fiscal year include a 50% reenrollment of those students. Future year enrollment projections indicate a declining enrollment phase that will also be a factor that could affect available revenue for the District since many of the funding formulas are based on student enrollment. The District will continue its conservative budgeting practices and explore additional sources of revenue.

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 1st Avenue NE, Buffalo, Minnesota 55313.

BASIC FINANCIAL STATEMENTS

Independent School District No. 877
Statement of Net Position
June 30, 2021
(with Comparative Totals as of June 30, 2020)

	Governmental Activities	
	2021	2020
Assets		
Cash and investments	$ 28,665,929	$ 23,282,889
Current property taxes receivable	9,608,445	9,659,574
Delinquent property taxes receivable	244,068	216,458
Accounts receivable	256,454	359,760
Interest receivable	10,321	71,816
Due from Department of Education	4,847,247	5,568,866
Due from Federal Government through Department of Education	757,889	1,348,460
Due from other Minnesota school districts	99,529	93,002
Due from other governmental units	100,308	174,262
Inventory	148,338	144,579
Prepaid items	532,427	596,825
Equity interest in joint venture	329,569	314,543
Net OPEB asset	5,932,545	1,261,533
Capital assets not being depreciated		
Land	4,222,035	4,222,035
Construction in progress	1,530,500	1,577,307
Capital assets, net of accumulated depreciation		
Land improvements	8,248,311	8,116,233
Buildings	63,013,896	66,556,055
Machinery and equipment	3,181,996	2,363,229
Total assets	131,729,807	125,927,426
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	19,672,892	32,834,381
Deferred outflows of resources related to OPEB	397,266	812,272
Deferred outflows related to charge on refunding	112,227	187,045
Total deferred inflows of resources	20,182,385	33,833,698
Total assets and deferred outflows of resources	$ 151,912,192	$ 159,761,124
Liabilities		
Accounts payable	$ 1,435,737	899,930
Salaries and benefits payable	2,526,714	2,618,946
Interest payable	658,141	741,176
Due to other Minnesota school districts	46,992	151,788
Due to other governmental units	204,855	177,376
Unearned revenue	263,860	239,815
Bond payable, net		
Payable within one year	5,960,000	5,750,000
Payable after one year	46,774,032	53,186,747
Capital lease payable		
Payable within one year	222,383	183,685
Payable after one year	930,477	426,110
Compensated absences payable		
Payable within one year	365,647	365,677
Severance payable		
Payable within one year	46,487	29,918
Payable after one year	1,239,003	1,344,341
Net pension liability	46,428,178	41,280,634
Total liabilities	107,102,506	107,396,143
Deferred Inflows of Resources		
Property taxes levied for subsequent year's expenditures	19,429,035	19,011,832
Deferred inflows of resources related to pensions	35,370,658	51,020,838
Deferred inflows of resources related to OPEB	4,879,060	1,213,571
Deferred inflows related to charge on refunding	36,491	60,818
Total deferred inflows of resources	59,715,244	71,307,059
Net Position		
Net investment in capital assets	30,755,848	29,163,173
Restricted for		
Debt service	847,121	869,874
Capital projects	-	144,491
Other purposes	3,641,945	2,395,877
Unrestricted	(50,150,472)	(51,515,493)
Total net position	(14,905,558)	(18,942,078)
Total liabilities, deferred inflows of resources, and net position	$ 151,912,192	$ 159,761,124

See notes to basic financial statements

Independent School District No. 877
Statement of Activities
For the Year Ended June 30, 2021
(with Comparative Totals for the Year Ended June 30, 2020)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position – Governmental Activities: 2021	Net (Expense) Revenues and Changes in Net Position – Governmental Activities: 2020
Governmental activities						
Administration	$ 2,006,434	$ -	$ -	$ -	$ (2,006,434)	$ (2,016,288)
District support services	1,471,768	13,204	-	-	(1,458,564)	(1,691,112)
Elementary and secondary regular instruction	35,914,948	351,815	2,717,098	434,581	(32,411,454)	(31,000,170)
Vocational education instruction	1,625,890	-	32,736	-	(1,593,154)	(1,751,711)
Special education instruction	12,853,298	269,272	9,796,795	-	(2,787,231)	(3,853,552)
Instructional support services	6,443,199	48	356,152	-	(6,086,999)	(5,153,585)
Pupil support services	6,779,803	98,400	130,087	-	(6,551,316)	(6,494,750)
Sites and buildings	8,272,267	87,866	-	1,781,243	(6,403,158)	(5,121,629)
Fiscal and other fixed cost programs	464,917	40,533	-	-	(424,384)	(192,815)
Food service	2,999,362	152,288	3,298,068	-	450,994	322,732
Community education and services	3,065,022	1,845,896	648,430	-	(570,696)	(664,981)
Interest and fiscal charges on long-term debt	1,331,443	-	-	-	(1,331,443)	(1,536,366)
Total governmental activities	$ 83,228,351	$ 2,859,322	$ 16,979,366	$ 2,215,824	(61,173,839)	(59,154,227)
General revenues						
Taxes						
Property taxes, levied for general purposes					11,919,407	7,581,167
Property taxes, levied for community service					473,696	452,246
Property taxes, levied for debt service					7,169,670	7,258,780
State aid-formula grants					42,551,887	43,889,089
Other general revenues					3,051,221	689,161
Investment income					29,452	368,013
Net income (loss) from joint venture					15,026	-
Total general revenues					65,210,359	60,238,456
Change in net position					4,036,520	1,084,229
Net position - beginning					(18,942,078)	(20,054,791)
Change in accounting principle					-	28,484
Net position - beginning, restated					(18,942,078)	(20,026,307)
Net position - ending					$ (14,905,558)	$ (18,942,078)

See notes to basic financial statements.

Independent School District No. 877
Balance Sheet - Governmental Funds
June 30, 2021
(with Comparative Totals as of June 30, 2020)

	General	Debt Service	Other Nonmajor Funds
Assets			
Cash and investments	$ 21,335,209	$ 3,649,254	$ 3,681,466
Current property taxes receivable	5,749,364	2,623,157	1,235,924
Delinquent property taxes receivable	129,830	79,508	34,730
Accounts receivable	241,972	-	14,482
Interest receivable	10,321	-	-
Due from Department of Education	4,767,301	27,199	52,747
Due from Federal Government through Department of Education	548,512	-	209,377
Due from other Minnesota school districts	76,249	-	23,280
Due from other governmental units	98,883	-	1,425
Inventory	77,470	-	70,868
Prepaid items	529,540	-	2,887
Total assets	$ 33,564,651	$ 6,379,118	$ 5,327,186
Liabilities			
Accounts payable	$ 1,225,970	$ -	$ 209,767
Salaries and benefits payable	2,328,138	-	198,576
Due to other Minnesota school districts	46,992	-	-
Due to other governmental units	204,643	-	212
Unearned revenue	86,585	-	177,275
Severance payable	46,487	-	-
Total liabilities	3,938,815	-	585,830
Deferred Inflows of Resources			
Unavailable revenue - property taxes levied for subsequent year's expenditures	11,461,947	5,363,609	2,603,479
Unavailable revenue - delinquent property taxes	129,830	79,508	34,730
Total deferred inflows of resources	11,591,777	5,443,117	2,638,209
Fund Balances			
Nonspendable	607,010	-	73,755
Restricted	2,033,046	936,001	2,518,855
Committed	2,187,804	-	-
Assigned	3,192,305	-	-
Unassigned	10,013,894	-	(489,463)
Total fund balances	18,034,059	936,001	2,103,147
Total liabilities, deferred inflows of resources, and fund balances	$ 33,564,651	$ 6,379,118	$ 5,327,186

See notes to basic financial statements.

Total Governmental Funds	
2021	2020
$ 28,665,929	$ 23,282,889
9,608,445	9,659,574
244,068	216,458
256,454	359,760
10,321	71,816
4,847,247	5,568,866
757,889	1,348,460
99,529	93,002
100,308	174,262
148,338	144,579
532,427	596,825
$ 45,270,955	$ 41,516,491
$ 1,435,737	$ 899,930
2,526,714	2,618,946
46,992	151,788
204,855	177,376
263,860	239,815
46,487	29,918
4,524,645	4,117,773
19,429,035	19,011,832
244,068	216,458
19,673,103	19,228,290
680,765	741,404
5,487,902	3,848,393
2,187,804	2,615,036
3,192,305	3,507,647
9,524,431	7,457,948
21,073,207	18,170,428
$ 45,270,955	$ 41,516,491

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Independent School District No. 877
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2021
(with Comparative Totals as of June 30, 2020)

	2021	2020
Total fund balances - governmental funds	$ 21,073,207	$ 18,170,428
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	156,192,509	157,432,582
Less accumulated depreciation	(75,995,771)	(74,597,723)
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	329,569	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	(51,295,000)	(57,045,000)
Net premium on bonds payable	(1,439,032)	(1,891,747)
Capital lease payable	(1,152,860)	(609,795)
Compensated absences payable	(365,647)	(365,677)
Severance payable	(1,239,003)	(1,344,341)
Net pension liability	(46,428,178)	(41,280,634)
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.	5,932,545	1,261,533
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	19,672,892	32,834,381
Deferred inflows of resources related to pensions	(35,370,658)	(51,020,838)
Deferred outflows of resources related to OPEB	397,266	812,272
Deferred inflows of resources related to OPEB	(4,879,060)	(1,213,571)
Deferred outflows of resources related to bond refunding	112,227	187,045
Deferred inflows of resources related to bond refunding	(36,491)	(60,818)
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.	244,068	216,458
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(658,141)	(741,176)
Total net position - governmental activities	$ (14,905,558)	$ (18,942,078)

See notes to basic financial statements.

Independent School District No. 877
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2021
(with Comparative Totals for the Year Ended June 30, 2020)

	General	Debt Service	Other Nonmajor Funds
Revenues			
Local property taxes	$ 11,890,038	$ 5,157,632	$ 2,487,493
Other local and county revenues	1,201,745	2,556	1,969,717
Revenue from state sources	55,596,866	271,989	589,234
Revenue from federal sources	4,294,003	-	3,417,850
Sales and other conversion of assets	9,745	-	152,288
Total revenues	72,992,397	5,432,177	8,616,582
Expenditures			
Current			
Administration	1,889,847	-	-
District support services	1,627,888	-	-
Elementary and secondary regular instruction	31,507,634	-	-
Vocational education instruction	1,575,772	-	-
Special education instruction	12,356,805	-	-
Instructional support services	6,065,473	-	-
Pupil support services	6,674,022	-	-
Sites and buildings	5,970,237	-	81,995
Fiscal and other fixed cost programs	464,917	-	-
Food service	-	-	2,992,667
Community education and services	-	-	3,098,315
Capital outlay			
Administration	-	-	-
District support services	1,158	-	-
Elementary and secondary regular instruction	123,687	-	-
Special education instruction	114	-	-
Instructional support services	231,693	-	-
Pupil support services	79,115	-	-
Sites and buildings	2,042,196	-	278,066
Food service	-	-	141,323
Community education and services	-	-	45
Debt service			
Principal	183,685	3,870,000	1,880,000
Interest and fiscal charges	18,396	1,679,621	118,685
Total expenditures	70,812,639	5,549,621	8,591,096
Excess of revenues over (under) expenditures	2,179,758	(117,444)	25,486
Other Financing Sources			
Proceeds from sale of capital assets	16,613	-	1,310
Insurance proceeds	70,306	-	-
Proceeds from capital leases	-	-	726,750
Total other financing sources	86,919	-	728,060
Net change in fund balances	2,266,677	(117,444)	753,546
Fund Balances			
Beginning of year	15,767,382	1,053,445	1,349,601
Change in accounting principle	-	-	-
Beginning of year, as restated	15,767,382	1,053,445	1,349,601
End of year	$ 18,034,059	$ 936,001	$ 2,103,147

See notes to basic financial statements.

Total Governmental Funds	
2021	2020
$ 19,535,163	$ 15,245,982
3,174,018	4,510,383
56,458,089	57,809,028
7,711,853	4,103,922
162,033	1,310,345
87,041,156	82,979,660
1,889,847	1,849,683
1,627,888	1,654,071
31,507,634	29,884,781
1,575,772	1,707,497
12,356,805	12,053,067
6,065,473	4,891,993
6,674,022	6,982,202
6,052,232	5,468,284
464,917	193,347
2,992,667	3,079,557
3,098,315	3,470,903
-	337
1,158	349
123,687	69,486
114	-
231,693	374,644
79,115	397
2,320,262	2,955,920
141,323	43,297
45	1,457
5,933,685	5,737,182
1,816,702	2,021,307
84,953,356	82,439,761
2,087,800	539,899
17,923	1,069
70,306	-
726,750	-
814,979	1,069
2,902,779	540,968
18,170,428	17,600,976
-	28,484
18,170,428	17,629,460
$ 21,073,207	$ 18,170,428

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, 2021
(with Comparative Totals for the Year Ended June 30, 2020)

	2021	2020
Net change in fund balances - total governmental funds	$ 2,902,779	$ 540,968
Amounts reported for governmental activities in the Statement of Activities are different because: 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	2,688,253	3,294,410
Depreciation expense	(5,208,968)	(5,026,879)
Loss on disposal	(117,406)	(51,828)
Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.	15,026	-
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	29	(27,013)
Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	105,339	(54,339)
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.	590,517	(108,524)
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.	5,933,685	5,737,182
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.	83,035	82,718
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	452,715
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.	(50,491)	(50,492)
Proceeds from the issuance of long term debt are recognized as other financing sources in the governmental funds increasing fund balance but have no effect on net position in the Statement of Activities.	(726,750)	-
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.	(2,658,853)	(3,750,900)
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.	27,610	46,211
Change in net position - governmental activities	$ 4,036,520	$ 1,084,229

See notes to basic 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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 11,864,957	$ 11,925,955	$ 11,890,038	$ (35,917)
Other local and county revenues	1,824,729	1,147,548	1,201,745	54,197
Revenue from state sources	58,036,612	56,471,942	55,596,866	(875,076)
Revenue from federal sources	2,163,388	4,335,236	4,294,003	(41,233)
Sales and other conversion of assets	24,312	22,000	9,745	(12,255)
Total revenues	73,913,998	73,902,681	72,992,397	(910,284)
Expenditures				
Current				
Administration	1,915,865	1,851,935	1,889,847	37,912
District support services	1,767,960	1,690,539	1,627,888	(62,651)
Elementary and secondary regular instruction	32,335,335	31,951,865	31,507,634	(444,231)
Vocational education instruction	1,823,915	1,714,309	1,575,772	(138,537)
Special education instruction	12,595,267	12,648,984	12,356,805	(292,179)
Instructional support services	5,272,725	6,576,270	6,065,473	(510,797)
Pupil support services	7,330,361	6,626,161	6,674,022	47,861
Sites and buildings	5,812,504	6,662,704	5,970,237	(692,467)
Fiscal and other fixed cost programs	281,040	276,125	464,917	188,792
Capital outlay				
Administration	450	450	-	(450)
District support services	8,458	4,458	1,158	(3,300)
Elementary and secondary regular instruction	82,872	95,623	123,687	28,064
Vocational education instruction	1,000	1,000	-	(1,000)
Special education instruction	6,375	2,000	114	(1,886)
Instructional support services	447,463	340,152	231,693	(108,459)
Pupil support services	2,360	72,380	79,115	6,735
Sites and buildings	2,316,684	2,499,685	2,042,196	(457,489)
Debt service				
Principal	183,684	183,684	183,685	1
Interest and fiscal charges	18,396	18,396	18,396	-
Total expenditures	72,202,714	73,216,720	70,812,639	(2,404,081)
Excess of revenues over expenditures	1,711,284	685,961	2,179,758	1,493,797
Other Financing Sources				
Proceeds from sale of capital assets	7,963	2,000	16,613	14,613
Insurance proceeds	503	24,922	70,306	45,384
Proceeds from capital leases	-	726,750	-	(726,750)
Total other financing sources	8,466	753,672	86,919	(666,753)
Net change in fund balance	$ 1,719,750	$ 1,439,633	2,266,677	$ 827,044
Fund Balance				
Beginning of year			15,767,382	
End of year			$ 18,034,059	

See notes to basic financial statements.

Independent School District No. 877
Statement of Fiduciary Net Position
June 30, 2021

	Total Trust Funds
Assets	
Current	
Investments	
Brokered money market	$ 2,903,154
Fixed income	5,789,361
Equities	9,497,277
Total investments	18,189,792
Accounts and interest receivable	63,874
Total assets	$ 18,253,666
Liabilities	
Accounts payable	$ 148,442
Unearned revenue	691
Total liabilities	$ 149,133
Net Position	
Held in trust for OPEB	$ 15,334,421
Held in trust for HRA	2,770,112
Total net position	$ 18,104,533

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2021

	Total Trust Funds
Additions	
Contributions	$ 982,885
Investment income	
Interest, dividends, change in fair value	3,229,606
Less investment expenses	(77,567)
Net investment income	3,152,039
Total additions	4,134,924
Deductions	
Employee benefit deductions	1,107,715
Change in net position	3,027,209
Net Position	
Beginning of year	15,077,324
End of year	$ 18,104,533

See notes to basic 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 basic 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 basic 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 are under board control and are not 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.

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.

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.

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, 2021, 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.

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, 2021, they were comprised of brokered money markets, government agencies, corporate securities equities and mutual funds.

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 2020, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2021. 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.

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 basic 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.

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 OPEB 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.

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.

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, 2021.

R. Fund Equity

In the fund financial statements, governmental funds report fund classifications that compromise 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.

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 basic 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 basic 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 basic 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the basic 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 $209,236 at June 30, 2021.

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, 2021, 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.

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

A. Deposits (Continued)
As of June 30, 2021, the District had the following deposits:

Pooled Deposits	
Checking	$ 1,208,976
Certificates of deposit	2,748,300
Savings	813,361
Total pooled deposits	$ 4,770,637

B. Investments
As of June 30, 2021, the District had the following pooled investments:

Investment Type	Fair Value	Investment Maturities Less than 1 Year	Credit Rating
MNTrust Investment Shares	$ 3,463	$ 3,463	N/A
MNTrust LimitedTerm Duration Series	6,997,986	6,997,986	N/A
MSDLAF-LAF	2,084,559	2,084,559	AAAm
MSDLAF-Term	1,500,000	1,500,000	AAAm
MSDLAF-Max	13,297,343	13,297,343	AAAm
Total Pooled Investments	$ 23,883,351	$ 23,883,351	

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.

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, 2021, the District's OPEB and HRA Trust Fund had the following investments:

		Investment Maturities				
Investment Type	Fair Value	Less than 1 Year	1-2 Years	2-5 Years	5-10 Years	Greater than 10 years
Brokered Money Markets	$ 2,909,096	$ 2,909,096	$ -	$ -	$ -	$ -
Fixed Income						
Government Agencies	2,563,519	80,984	-	1,434,048	837,625	210,862
Corporate Securities	2,825,345	405,122	105,826	612,996	1,463,105	238,296
Equities	9,897,773	9,897,773	-	-	-	-
Total Investments	$ 18,195,733	$ 13,292,975	$ 105,826	$ 2,047,044	$ 2,300,730	$ 449,158

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.

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 (8.1%), Vanguard 500 Index Fund (17.3%) and T Rowe Price Dividend Growth Fund Inc (8.8%) 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, 2021:

- $9,897,773 of investments are valued using a quoted market prices (Level 1 inputs)
- $5,388,865 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.)	$ 4,770,637
Investments pooled (Note 2.B.)	23,883,351
Petty cash	6,000
OPEB and HRA irrevocable trust funds	
Investments (Note 2.C.)	18,195,733
Total deposits and investments	$ 46,855,721

Deposits and investments are presented in the June 30, 2021, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 28,665,929
Statement of Fiduciary Net Position	
Trust funds	18,189,792
Total deposits and investments	$ 46,855,721

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 4,222,035	$ -	$ -	$ 4,222,035
Construction in progress	1,577,307	1,123,763	1,170,570	1,530,500
Total capital assets not being depreciated	5,799,342	1,123,763	1,170,570	5,752,535
Capital assets being depreciated				
Land improvements	12,088,537	691,800	-	12,780,337
Buildings	131,033,729	471,158	1,310,446	130,194,441
Equipment and vehicles	8,510,974	1,572,102	2,617,880	7,465,196
Total capital assets being depreciated	151,633,240	2,735,060	3,928,326	150,439,974
Less accumulated depreciation for				
Land improvements	3,972,304	559,722	-	4,532,026
Buildings	64,477,674	3,976,304	1,273,433	67,180,545
Equipment and vehicles	6,147,745	672,942	2,537,487	4,283,200
Total accumulated depreciation	74,597,723	5,208,968	3,810,920	75,995,771
Total capital assets being depreciated, net	77,035,517	(2,473,908)	117,406	74,444,203
Governmental activities, capital assets, net	$ 82,834,859	$ (1,350,145)	$ 1,287,976	$ 80,196,738

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of $5,208,968 for the year ended June 30, 2021, was charged to the following governmental functions:

District support services	$ 632
Elementary and secondary regular instruction	2,752,340
Vocational Education Instruction	333
Special education instruction	1,688
Instructional support services	118,815
Pupil support	1,272
Sites and buildings	2,278,176
Food service	48,879
Community service	6,833
Total depreciation expense	$ 5,208,968

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	$ 11,890,000	$ 3,355,000
2013A alternative facilities bonds	05/01/13	1.00%-2.00%	3,855,000	02/01/24	2,440,000	165,000
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	3,840,000	1,935,000
2018A refunding bonds	05/17/18	5.00%	5,710,000	02/01/22	505,000	505,000
Total G.O. bonds					51,295,000	5,960,000
Unamortized bond premium					1,439,032	-
Net bonds payable					52,734,032	5,960,000
Capital leases payable					1,152,860	222,383
Severance payable					1,285,490	46,487
Compensated absences payable					365,647	365,647
Total all long-term liabilities					$ 55,538,029	$ 6,594,517

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.

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 Principal	Interest	Total
2022	$ 5,960,000	$ 1,585,958	$ 7,545,958
2023	6,245,000	1,385,333	7,630,333
2024	6,470,000	1,173,423	7,643,423
2025	5,035,000	956,923	5,991,923
2026	5,205,000	805,873	6,010,873
2027-2030	22,380,000	1,672,258	24,052,258
Total	$ 51,295,000	$ 7,579,765	$ 58,874,765

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 $726,750 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.

In April 2021, the District entered into a lease purchase agreement for the tennis court reconstruction. The total financed was $1,324,474 with an interest rate of 1.85% and is to be paid through the General Fund. The lease agreement requires the District to make annual payments through April 1, 2031.The future minimum lease obligations and the net present value of these minimum lease payments were as follows:

Year Ending June 30,	
2022	$ 246,634
2023	211,306
2024	230,076
2025	79,882
2026	79,882
2027-2031	399,412
Total minimum lease payments	1,247,192
Less amount representing interest	(94,332)
Present value of minimum lease payments	$ 1,152,860

NOTE 5 – LONG-TERM DEBT (CONTINUED)

C. Capital Lease Obligations (Continued)

The carrying value and related accumulated depreciation at June 30, 2021, for the assets purchased was as follows:

Carrying value	$ 2,042,099
Less accumulated depreciation	(842,824)
Assets, net of depreciation	$ 1,199,275

D. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	$ 57,045,000	$ -	$ 5,750,000	$ 51,295,000
Net premium	1,891,747	-	452,715	1,439,032
Capital leases payable	609,795	726,750	183,685	1,152,860
Severance payable	1,344,341	135,842	194,693	1,285,490
Compensated absences payable	365,677	536,968	536,998	365,647
Total long-term liabilities	$ 61,256,560	$ 1,399,560	$ 7,118,091	$ 55,538,029

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.

NOTE 6 – FUND BALANCES (CONTINUED)

A. Restricted/Reserved Fund Balance

	General Fund	Debt Service	Other Nonmajor Funds	Total
Nonspendable for				
Inventory	$ 77,470	$ -	$ 70,868	$ 148,338
Prepaid items	529,540	-	2,887	532,427
Total nonspendable	607,010	-	73,755	680,765
Restricted/reserved for				
Student Activities	21,121	-		21,121
Operating Capital	1,182,366	-	-	1,182,366
Long-Term Facilities and Maintenance	347,494	-	-	347,494
Medical Assistance	482,065	-	-	482,065
Adult Basic Education	-	-	36,961	36,961
Early Childhood and Family Education	-	-	196,617	196,617
School readiness	-	-	44,612	44,612
Food Service	-	-	1,300,662	1,300,662
Debt Service	-	936,001	428,823	1,364,824
Building Construction	-	-	511,180	511,180
Total restricted/reserved	2,033,046	936,001	2,518,855	5,487,902
Committed for				
Separation Benefits	2,187,804	-	-	2,187,804
Assigned for				
Carryover	1,201,806	-	-	1,201,806
Dental Insurance	184,725	-	-	184,725
Capital	1,385,317	-	-	1,385,317
Qcomp	37,353	-	-	37,353
Student Activities	383,104	-	-	383,104
Total assigned	3,192,305	-	-	3,192,305
Unassigned for				
Community Education*	-	-	(438,776)	(438,776)
Community Service*	-	-	(50,687)	(50,687)
Unassigned	10,013,894	-	-	10,013,894
Total unassigned	10,013,894	-	(489,463)	9,524,431
Total fund balance	$ 18,034,059	$ 936,001	$ 2,103,147	$ 21,073,207

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

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 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).

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.

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 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, 2021, was $6,218,668. 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.

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.

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

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)
Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other 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 Minnesota State.

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 1 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).

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, 2019, June 30, 2020, and June 30, 2021, were:

	June 30, 2019		June 30, 2020		June 30, 2021	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.0%	11.71%	11.0%	11.92%	11.0%	12.13%
Coordinated	7.5%	7.71%	7.5%	7.92%	7.5%	8.13%

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 ACFR Statement of Changes in Fiduciary Net Position	$ 425,223
Deduct employer contributions not related to future contribution efforts	(56)
Deduct TRA's contributions not included in allocation	(508)
Total employer contributions	424,659
Total non-employer contributions	35,587
Total contributions reported in Schedule of Employer and Non-Employer Allocations	$ 460,246

Amounts reported in the allocation schedules may not precisely agree with basic 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.

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2020, 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	
Actuarial Information	
Valuation date	July 1, 2020
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 2020 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.

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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	100 %	

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 and methods for the July 1, 2020, valuation:

- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back five years, and female rates set back seven years. Generational projection uses the MP 2015 scale.
- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

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

Teachers' Retirement Association (Continued)

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 2020 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, 2021, the District reported a liability of $38,004,561 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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 0.5144% at the end of the measurement period and 0.5295% 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	$ 38,004,561
State's proportionate share of the net pension liability associated with the District	3,184,845

For the year ended June 30, 2021, the District recognized pension expense of $5,985,415. Included in this amount, the District recognized $291,753 as pension expense for the support provided by direct aid.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

On June 30, 2021, 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	$ 762,145	$ 594,660
Net difference between projected and actual earnings on plan investments	512,963	-
Changes of assumptions	13,876,779	32,766,621
Changes in proportion	907,954	1,360,995
Contributions to TRA subsequent to the measurement date	2,503,975	-
Total	$ 18,563,816	$ 34,722,276

The $2,503,975 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, 2022.

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
2022	$ 734,461
2023	(11,751,874)
2024	(8,358,703)
2025	715,940
2026	(2,259)
Total	$ (18,662,435)

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 in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% increase in Discount Rate (8.5%)
$ 58,184,581	$ 38,004,561	$ 21,377,245

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, 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

The General Employees Retirement Plan covers certain full time and part time employees of the District. 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.

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% for each of the first 10 years of service 1.7% for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% 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.

Benefit increases are provided to benefit recipients each January. The postretirement increase is 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. 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 2021 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, 2021, were $744,482. The District's contributions were equal to the required contributions as set by state statute.

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, 2021, the District reported a liability of $8,423,617 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. 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 $225,261. The net pension liability was measured as of June 30, 2020, 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0,1405% at the end of the measurement period and 0,1362% for the beginning of the period.

School's proportionate share of net pension liability	$ 8,423,617
State of Minnesota's proportionate share of the net pension liability associated with the School	225,261
Total	$ 8,648,878

For the year ended June 30, 2021, the District recognized pension expense of $233,253 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $19,605 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.

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, 2021, 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	$ 74,639	$ 31,871
Changes in actuarial assumptions	-	312,530
Difference between projected and actual investments earnings	111,653	-
Change in proportion	178,302	303,981
Contributions paid to PERA subsequent to the measurement date	744,482	-
Total	$ 1,109,076	$ 648,382

The $744,482 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, 2022. 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
2022	$ (633,600)
2023	(72,909)
2024	219,203
2025	203,518
Total	$ (283,788)

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, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.25 %	Per year
Active member payroll growth	3.00 %	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 the Pub-2010 General Employee Mortality table. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2020, valuation was based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020, actuarial valuation.

The following changes in actuarial assumptions and plan provisions occurred in 2020:

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changes as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was change from two years older for females to one year older.

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

Changes in Actuarial Assumptions (Continued)

- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation or current privatized members was reduced to 2.0% for the period July 1, 2020, through December 31, 2023, and 0.0% thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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.

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

Asset Class	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	35.5 %	5.10 %
International stocks	17.5	5.30
Bonds (fixed income)	20.0	0.75
Alternative assets (private markets)	25.0	5.90
Cash	2.0	0.00
Total	100 %	

F. Discount Rates

The discount rate used to measure the total pension liability in 2020 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.

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

Public Employees' Retirement Association (Continued)

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:

	1% Decrease in Discount Rate (6.5%)	Current Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proprionate share of the PERA net pension liability	$ 13,500,136	$ 8,423,617	$ 4,235,897

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 basic financial statements and required supplementary information. That report may be obtained on the Internet at 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 $73,027 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 $361,526.

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.

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 basic 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.

NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Members

As of June 30, 2021, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	32
Active employees	557
Total	589

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 2021, the District contributed $248,266 to the plan.

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	
Investment rate of return	5.00%, net of investment expense
Inflation	2.25%
Healthcare cost trend increases	6.7% for FY2021, gradually decreasing over several decades to an ultimate rate of 3.8% in FY2076 and later years.
Mortality Assumption	
Teachers	From the July1, 2020 Teachers Retirement Association of Minnesota (TRA)actuarial valuation, mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments.
Non-Teachers	From the July1, 2020 PERA of Minnesota General Employees Retirement Plan actuarial valuation, mortality rates were based on the Pub-2010 General mortality tables with projected mortality improvements based on scale MP-2019, and other adjustments.

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period July 1, 2020 – June 30, 2021.

NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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 %	4.42 %	6.67 %
International equity	13	4.91	7.16
Fixed income	48	1.00	3.25
Real estate and alternatives	1	3.98	6.23
Cash and equivalents	2	-0.33	1.92
Total	100 %		

The details of the investments and the investment policy are described in Note 2 of the District's basic financial statements. For the year ended June 30, 2021, the annual money-weighed rate of return on investments, net of investment expense, was 24.34%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

E. Discount Rate

The discount rate used to measure the total OPEB liability was 5.00%. 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.

NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. 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, 2020	$ 11,738,264	$ 12,999,797	$ (1,261,533)
Changes for the year			
Service cost	545,648	-	545,648
Interest	648,234	-	648,234
Differences between expected and actual experience	(2,060,899)	-	(2,060,899)
Change in assumptions	(446,131)	-	(446,131)
Employer contributions	-	248,266	(248,266)
Net investment income	-	3,109,598	(3,109,598)
Benefit payments	(1,038,455)	(1,038,455)	-
Net changes	(2,351,603)	2,319,409	(4,671,012)
Balances at June 30, 2021	$ 9,386,661	$ 15,319,206	$ (5,932,545)

H. OPEB Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 5.00% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease in Discount Rate (4.00%)	Current Discount Rate (5.00%)	1% increase in Discount Rate (6.00%)
Net OPEB liability (asset)	$ (5,363,436)	$ (5,932,545)	$ (6,485,523)

NOTE 10 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Liability Sensitivity (Continued)

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 (5.7% decreasing to 2.8%)	Current (6.7% decreasing to 3.8%)	1% increase (7.7% decreasing to 4.8%)
Net OPEB liability (asset)	$ (6,546,137)	$ (5,932,545)	$ (5,228,838)

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

For the year ended June 30, 2021, the District recognized OPEB expense of ($342,251). At June 30, 2021, 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	$ -	$ 1,604,861
Differences between expected and actual economic experience	319,553	1,835,171
Changes of assumptions	77,713	1,439,028
Total	$ 397,266	$ 4,879,060

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
2022	$ (735,749)
2023	(764,213)
2023	(762,727)
2024	(824,812)
2025	(373,001)
2026	(1,021,292)
Thereafter	
Total	$ (4,481,794)

J. Payable to the OPEB Plan

At June 30, 2021, 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 basic 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.

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, 2021, the District had outstanding construction commitments as follows:

Project	Project Authorization	Expended through June 30, 2021	Commitment
BCMS Media Center	$ 767,573	$ 756,110	$ 11,463
Tennis Court Reconstruction	580,780	166,949	413,831
Parkside Office	134,900	41,715	93,185
Total	$ 1,483,253	$ 964,774	$ 518,479

NOTE 12 –SUBSEQUENT EVENTS

On September 27, 2021, the School Board approved the sale of $8,135,000 General Obligation School Building Refunding Bonds, Series 2021A, at interest rate ranging from 0.6% to 4.0% due in semi-annual payments through February 1, 2024.

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.

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

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

	June 30, 2020	June 30, 2021
	$ 539,822	$ 545,648
	668,010	648,234
	-	(2,060,899)
	(415,739)	(446,131)
	-	-
	(1,014,013)	(1,038,455)
	(221,920)	(2,351,603)
	11,960,184	11,738,264
	$ 11,738,264	$ 9,386,661
	$ 286,132	$ 248,266
	380,306	3,109,598
	(1,014,013)	(1,038,455)
	-	-
	(347,575)	2,319,409
	13,347,372	12,999,797
	$ 12,999,797	$ 15,319,206
	$ (1,261,533)	$ (5,932,545)
	110.75%	163.20%
	$ 35,294,307	$ 41,538,636
	-3.57%	-14.28%

Independent School District No. 877
Schedule of Investment Returns

	June 30, 2017	June 30, 2018	June 30, 2019	June 30, 2020	June 30, 2021
Annual money-weighted rate of return, net of investment expense	7.79%	5.42%	6.56%	2.90%	24.34%

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 Net Pension Liability and District's 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%
2020	0.1405%	8,423,617	225,261	8,648,878	10,022,320	84.0%	79.10%

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 Net Pension Liability and District's 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%
2020	0.5144%	38,004,561	3,184,845	41,189,406	29,894,217	127.1%	75.48%

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	751,674	751,674	-	10,022,320	7.50%
2021	744,482	744,482	-	9,926,427	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	2,367,622	2,367,622	-	29,894,217	7.92%
2021	2,503,975	2,503,975	-	30,799,200	8.13%

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

2020 Changes
Changes in Actuarial Assumptions

- Assumed termination rates were changed to more closely reflect actual experience.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP 2015 scale.
- Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

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.

TRA Retirement Fund (Continued)

2017 Changes (Continued)
Changes in Actuarial Assumptions (Continued)

- 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.
- 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.

TRA Retirement Fund (Continued)

2015 Changes (Continued)
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%.

General Employees Fund

2020 Changes

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.0%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019, experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019, experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changes as recommended in the June 30, 2019, experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019, experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the Pub-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint and Survivor option changed from 35% to 45%. The assumed number of married female new retires electing the 100% Joint and Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023, and 0.0% thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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.

General Employees Fund (Continued)

2018 Changes (Continued)
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.

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.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

General Employees Fund (Continued)

2015 Changes

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.

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.

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, 2021

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 11,864,957	$ 11,925,955	$ 11,890,038	$ (35,917)
Other local and county revenues	1,824,729	1,147,548	1,201,745	54,197
Revenue from state sources	58,036,612	56,471,942	55,596,866	(875,076)
Revenue from federal sources	2,163,388	4,335,236	4,294,003	(41,233)
Sales and other conversion of assets	24,312	22,000	9,745	(12,255)
Total revenues	73,913,998	73,902,681	72,992,397	(910,284)
Expenditures				
Administration				
Salaries	1,317,780	1,297,970	1,308,544	10,574
Employee benefits	523,419	510,982	516,704	5,722
Purchased services	45,208	46,842	26,250	(20,592)
Supplies and materials	13,743	13,943	10,602	(3,341)
Capital expenditures	450	450	-	(450)
Other expenditures	15,715	(17,802)	27,747	45,549
Total administration	1,916,315	1,852,385	1,889,847	37,462
District support services				
Salaries	928,596	910,173	913,017	2,844
Employee benefits	454,696	427,701	437,525	9,824
Purchased services	326,451	296,915	240,415	(56,500)
Supplies and materials	22,200	29,700	20,244	(9,456)
Capital expenditures	8,458	4,458	1,158	(3,300)
Other expenditures	36,017	26,050	16,687	(9,363)
Total district support services	1,776,418	1,694,997	1,629,046	(65,951)
Elementary and secondary regular instruction				
Salaries	20,945,392	20,870,547	20,586,633	(283,914)
Employee benefits	8,446,962	8,469,359	8,557,153	87,794
Purchased services	1,312,873	1,174,591	1,146,089	(28,502)
Supplies and materials	1,389,788	1,224,659	942,498	(282,161)
Capital expenditures	82,872	95,623	123,687	28,064
Other expenditures	240,320	212,709	275,261	62,552
Total elementary and secondary regular instruction	32,418,207	32,047,488	31,631,321	(416,167)

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual Detail - General Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Expenditures				
Vocational education instruction				
Salaries	$ 935,536	$ 808,289	$ 753,890	$ (54,399)
Employee benefits	360,256	329,572	311,805	(17,767)
Purchased services	493,290	547,550	481,242	(66,308)
Supplies and materials	28,022	28,024	28,130	106
Capital expenditures	1,000	1,000	-	(1,000)
Other expenditures	6,811	874	705	(169)
Total vocational education instruction	1,824,915	1,715,309	1,575,772	(139,537)
Special education instruction				
Salaries	8,647,374	8,730,641	8,708,374	(22,267)
Employee benefits	3,291,196	3,145,284	3,159,607	14,323
Purchased services	303,457	394,332	195,563	(198,769)
Supplies and materials	183,983	215,014	171,887	(43,127)
Capital expenditures	6,375	2,000	114	(1,886)
Other expenditures	169,257	163,713	121,374	(42,339)
Total special education instruction	12,601,642	12,650,984	12,356,919	(294,065)
Instructional support services				
Salaries	3,179,743	3,174,263	3,073,642	(100,621)
Employee benefits	1,067,287	1,062,437	974,693	(87,744)
Purchased services	523,521	528,627	387,827	(140,800)
Supplies and materials	379,436	1,660,201	1,507,432	(152,769)
Capital expenditures	447,463	340,152	231,693	(108,459)
Other expenditures	122,738	150,742	121,879	(28,863)
Total instructional support services	5,720,188	6,916,422	6,297,166	(619,256)
Pupil support services				
Salaries	1,165,613	1,166,353	1,156,338	(10,015)
Employee benefits	487,215	441,455	415,730	(25,725)
Purchased services	5,693,648	5,046,812	5,136,037	89,225
Supplies and materials	(22,859)	(28,959)	(34,323)	(5,364)
Capital expenditures	2,360	72,380	79,115	6,735
Other expenditures	6,744	500	240	(260)
Total pupil support services	7,332,721	6,698,541	6,753,137	54,596

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Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual Detail - General Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Expenditures				
Sites and buildings				
Salaries	$ 2,221,066	$ 2,140,970	$ 2,005,430	$ (135,540)
Employee benefits	730,959	689,828	656,022	(33,806)
Purchased services	2,250,388	2,467,501	2,042,795	(424,706)
Supplies and materials	556,367	1,304,077	1,221,838	(82,239)
Capital expenditures	2,316,684	2,499,685	2,042,196	(457,489)
Other expenditures	53,724	60,328	44,152	(16,176)
Total sites and buildings	8,129,188	9,162,389	8,012,433	(1,149,956)
Fiscal and other fixed cost programs				
Purchased services	281,040	276,125	464,917	188,792
Debt service				
Principal	183,684	183,684	183,685	1
Interest and fiscal charges	18,396	18,396	18,396	-
Total debt service	202,080	202,080	202,081	1
Total expenditures	72,202,714	73,216,720	70,812,639	(2,404,081)
Excess of revenues over (under) expenditures	1,711,284	685,961	2,179,758	1,493,797
Other Financing Sources				
Proceeds from sale of capital assets	7,963	2,000	16,613	14,613
Insurance proceeds	503	24,922	70,306	45,384
Proceeds from capital leases	-	726,750	-	(726,750)
Total other financing sources	8,466	753,672	86,919	(666,753)
Net change in fund balance	$ 1,719,750	$ 1,439,633	2,266,677	$ 827,044
Fund Balance				
Beginning of year			15,767,382	
End of year			$ 18,034,059	

Independent School District No. 877
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2021
(with Comparative Totals as of June 30, 2020)

	Special Revenue		Debt Service	Capital Project Fund
	Food Service	Community Service	Employment Benefits Debt Service Fund	Building Construction
Assets				
Cash and investments	$ 1,260,878	$ 261,103	$ 1,481,356	$ 678,129
Current property taxes receivable	-	283,542	952,382	-
Delinquent property taxes receivable	-	6,979	27,751	-
Accounts receivable	4,754	9,728	-	-
Due from Department of Education	815	50,673	1,259	-
Due from other Minnesota school districts	-	23,280	-	-
Due from Federal Government through Department of Education	203,158	6,219	-	-
Due from other governmental units	-	1,425	-	-
Inventory	70,868	-	-	-
Prepaid items	850	2,037	-	-
Total assets	$ 1,541,323	$ 644,986	$ 2,462,748	$ 678,129
Liabilities				
Accounts payable	$ 25,413	$ 17,405	$ -	$ 166,949
Salaries and benefits payable	31,100	167,476	-	-
Due to other Minnesota districts	-	-	-	-
Due to other governmental units	-	212	-	-
Unearned revenue	112,430	64,845	-	-
Total liabilities	168,943	249,938	-	166,949
Deferred Inflows of Resources				
Unavailable revenue - property taxes levied for subsequent year's expenditures	-	597,305	2,006,174	-
Unavailable revenue - delinquent property taxes	-	6,979	27,751	-
Total deferred inflows of resources	-	604,284	2,033,925	-
Fund Balances				
Nonspendable	71,718	2,037	-	-
Restricted	1,300,662	278,190	428,823	511,180
Unassigned	-	(489,463)	-	-
Total fund balances	1,372,380	(209,236)	428,823	511,180
Total liabilities, deferred inflows of resources, and fund balances	$ 1,541,323	$ 644,986	$ 2,462,748	$ 678,129

Total Nonmajor Funds	
2021	2019
$ 3,681,466	$ 2,048,142
1,235,924	1,227,588
34,730	31,583
14,482	15,441
52,747	120,818
23,280	26,926
209,377	700,769
1,425	-
70,868	83,400
2,887	98,773
$ 5,327,186	$ 4,353,440
$ 209,767	$ 61,145
198,576	219,351
-	3,316
212	-
177,275	180,747
585,830	464,559
2,603,479	2,507,697
34,730	31,583
2,638,209	2,539,280
73,755	182,173
2,518,855	1,444,774
(489,463)	(277,346)
2,103,147	1,349,601
$ 5,327,186	$ 4,353,440

Independent School District No. 877
Combining Statement of Revenues,
Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2021
(with Comparative Totals for the Year Ended June 30, 2020)

	Special Revenue		Debt Service	Capital Project
	Food Service	Community Service	Employment Benefits Debt	Building Construction
Revenues				
Local property taxes	$ -	$ 473,805	$ 2,013,688	$ -
Other local and county revenues	10,059	1,958,522	1,136	-
Revenue from state sources	1,250	575,341	12,643	-
Revenue from federal sources	3,411,038	6,812	-	-
Sales and other conversion of assets	152,288	-	-	-
Total revenues	3,574,635	3,014,480	2,027,467	-
Expenditures				
Current				
Sites and buildings	-	-	-	81,995
Food service	2,992,667	-	-	-
Community education and services	-	3,098,315	-	-
Capital outlay				
Sites and buildings	-	-	-	278,066
Food service	141,323	-	-	-
Community education and services	-	45	-	-
Debt service				
Principal	-	-	1,880,000	-
Interest and fiscal charges	-	-	118,685	-
Total expenditures	3,133,990	3,098,360	1,998,685	360,061
Excess of revenues over (under) expenditures	440,645	(83,880)	28,782	(360,061)
Other Financing Sources				
Proceeds from Sale of Capital Assets	1,310	-	-	-
Lease Issuance	-	-	-	726,750
Total other financing sources	1,310	-	-	726,750
Net change in fund balances	441,955	(83,880)	28,782	366,689
Fund Balances				
Beginning of year	930,425	(125,356)	400,041	144,491
End of year	$ 1,372,380	$ (209,236)	$ 428,823	$ 511,180

Total Nonmajor Funds	
2021	2020
$ 2,487,493	$ 2,465,108
1,969,717	2,493,921
589,234	747,908
3,417,850	1,968,756
152,288	1,293,690
8,616,582	8,969,383
81,995	414,019
2,992,667	3,079,557
3,098,315	3,470,903
278,066	464,403
141,323	43,297
45	1,457
1,880,000	1,830,000
118,685	155,285
8,591,096	9,458,921
25,486	(489,538)
1,310	453
726,750	-
728,060	453
753,546	(489,085)
1,349,601	1,838,686
$ 2,103,147	$ 1,349,601

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Other local and county revenues	$ 4,326	$ 4,491	$ 10,059	$ 5,568
Revenue from state sources	108,832	1,250	1,250	-
Revenue from federal sources	1,498,294	3,269,572	3,411,038	141,466
Sales and other conversion of assets	1,118,732	66,960	152,288	85,328
Total revenues	2,730,184	3,342,273	3,574,635	232,362
Expenditures				
Food service				
Salaries	1,106,985	1,045,593	1,079,928	34,335
Employee benefits	565,552	507,646	503,803	(3,843)
Purchased services	146,544	115,882	124,675	8,793
Supplies and materials	994,056	1,279,631	1,261,274	(18,357)
Capital expenditures	25,000	176,677	141,323	(35,354)
Other expenditures	8,000	8,500	22,987	14,487
Total expenditures	2,846,137	3,133,929	3,133,990	61
Excess of revenues over (under) expenditures	(115,953)	208,344	440,645	232,301
Other Financing Sources				
Proceeds from Sale of Capital Asset	1,000	500	1,310	810
Net change in fund balance	$ (114,953)	$ 208,844	441,955	$ 233,111
Fund Balance				
Beginning of year			930,425	
End of year			$ 1,372,380	

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 480,612	$ 480,612	$ 473,805	$ (6,807)
Other local and county revenues	2,254,954	1,915,969	1,958,522	42,553
Revenue from state sources	558,688	565,633	575,341	9,708
Revenue from federal sources	-	593	6,812	6,219
Total revenues	3,294,254	2,962,807	3,014,480	51,673
Expenditures				
Community education and services				
Salaries	2,017,709	2,039,592	2,050,557	10,965
Employee benefits	764,902	768,901	749,385	(19,516)
Purchased services	289,750	203,845	182,050	(21,795)
Supplies and materials	154,227	111,167	113,177	2,010
Capital expenditures	2,500	1,000	45	(955)
Other expenditures	3,900	3,021	3,146	125
Total expenditures	3,232,988	3,127,526	3,098,360	(29,166)
Net change in fund balance	$ 61,266	$ (164,719)	(83,880)	$ 80,839
Fund Balance				
Beginning of year			(125,356)	
End of year			$ (209,236)	

Independent School District No. 877
Combining Statement of Fiduciary Net Position
June 30, 2021

	OPEB Irrevocable Trust Fund	HRA Trust Fund	Total Trust Funds
Assets			
Investments			
Brokered money market	$ 133,042	$ 2,770,112	$ 2,903,154
Fixed income	5,789,361	-	5,789,361
Equities	9,497,277	-	9,497,277
Total investments	15,419,680	2,770,112	18,189,792
Accounts and interest receivable	63,874	-	63,874
Total assets	$ 15,483,554	$ 2,770,112	$ 18,253,666
Liabilities			
Accounts payable	$ 148,442	$ -	$ 148,442
Unearned revenue	691	-	691
Total liabilities	$ 149,133	$ -	$ 149,133
Net Position			
Held in trust for OPEB	$ 15,334,421	$ -	$ 15,334,421
Held in trust for HRA	-	2,770,112	2,770,112
Total net position	$ 15,334,421	$ 2,770,112	$ 18,104,533

Combining Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2021

	OPEB Irrevocable Trust Fund	HRA Trust Fund	Total Trust Funds
Additions			
Contributions	$ 332,741	$ 650,144	$ 982,885
Investment income			
Interest, dividends, change in fair value	3,187,165	42,441	3,229,606
Less investment expenses	(77,567)	-	(77,567)
Net investment income	3,109,598	42,441	3,152,039
Total additions	3,442,339	692,585	4,134,924
Deductions			
Employee benefit deductions	1,107,715	-	1,107,715
Change in net position	2,334,624	692,585	3,027,209
Net Position			
Beginning of year	12,999,797	2,077,527	15,077,324
End of year	$ 15,334,421	$ 2,770,112	$ 18,104,533

Independent School District No. 877
Uniform Financial Accounting and Reporting Standards
Compliance Table
For the Year Ended June 30, 2021

	Audit	UFARS	Audit-UFARS
01 GENERAL FUND			
Total Revenue	$ 73,062,703	$ 73,062,706	$ (3)
Total Expenditures	70,812,639	70,812,640	(1)
Nonspendable:			
4.60 Nonspendable fund balance	607,010	607,009	1
Restricted/reserved:			
4.01 Student Activities	21,121	21,121	-
4.02 Scholarships	-	-	-
4.03 Staff Development	-	-	-
4.07 Capital Projects Levy	-	-	-
4.08 Cooperative Program	-	-	-
4.13 Building Projects Funded by COP/LP	-	-	-
4.14 Operating Debt	-	-	-
4.16 Levy Reduction	-	-	-
4.17 Taconite Building Maintenance	-	-	-
4.24 Operating Capital	1,182,366	1,182,367	(1)
4.26 $25 Taconite	-	-	-
4.27 Disabled Accessibility	-	-	-
4.28 Learning and Development	-	-	-
4.34 Area Learning Center	-	-	-
4.35 Contracted Alternative Programs	-	-	-
4.36 State Approved Alternative Program	-	-	-
4.38 Gifted and Talented	-	-	-
4.40 Teacher Development and Evaluations	-	-	-
4.41 Basic Skills Programs	-	-	-
4.45 Career Technical Programs	-	-	-
4.48 Achievement and Integration Revenue	-	-	-
4.49 Safe School Crime	-	-	-
4.51 QZAB Payments	-	-	-
4.52 OPEB Liabilities not Held in Trust	-	-	-
4.53 Unfunded Severance and Retirement Levy	-	-	-
4.59 Basic Skills Extended Time	-	-	-
4.67 Long-Term Facilities Maintenance	347,494	347,494	-
Restricted:			
4.72 Medical Assistance	482,065	482,065	-
4.64 Restricted fund balance	-	-	-
4.75 Title VII - Impact Aid	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-
Committed:			
4.18 Committed for separation	2,187,804	2,187,804	-
4.61 Committed	-	-	-
Assigned:			
4.62 Assigned fund balance	3,192,305	3,192,305	-
Unassigned:			
4.22 Unassigned fund balance (net position)	10,013,894	10,013,895	(1)
02 FOOD SERVCICE FUND			
Total revenue	$ 3,574,635	$ 3,574,636	$ (1)
Total expenditures	3,133,990	3,133,992	(2)
Nonspendable:			
4.60 Nonspendable fund balance	71,718	71,718	-
Restricted/reserved:			
4.52 OPEB liabilities not held in trust	-	-	-
Restricted:			
4.64 Restricted fund balance	1,300,662	1,300,661	1
Unassigned:			
4.63 Unassigned fund balance	-	-	-
04 COMMUNITY SERVICE FUND			
Total revenue	$ 3,014,480	$ 3,014,481	$ (1)
Total expenditures	3,098,360	3,098,359	1
Nonspendable:			
4.60 Nonspendable fund balance	2,037	2,037	-
Restricted/reserved:			
4.26 $25 Taconite	-	-	-
4.31 Community Education	(438,776)	(438,776)	-
4.32 ECFE	196,617	196,617	-
4.40 Teacher Development and Evaluation	-	-	-
4.44 School Readiness	44,612	44,612	-
4.47 Adult Basic Education	36,961	36,961	-
4.52 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
4.64 Restricted fund balance	-	-	-
Unassigned:			
4.63 Unassigned fund balance	(50,687)	(50,685)	(2)

	Audit	UFARS	Audit-UFARS
06 BUILDING CONSTRUCTION FUND			
Total revenue	$ -	$ -	$ -
Total expenditures	360,061	360,060	1
Nonspendable:			
4.60 Nonspendable fund balance	-	-	-
Restricted/Reserved:			
4.07 Capital Projects Levy	-	-	-
4.09 Alternative Facility Program	-	-	-
4.13 Building Projects Funded by COP	-	-	-
Restricted:			
4.64 Restricted fund balance	511,180	511,180	-
Unassigned:			
4.63 Unassigned fund balance	-	-	-
07 DEBT SERVICE FUND			
Total revenue	$ 5,432,177	$ 5,432,178	$ (1)
Total expenditures	5,549,621	5,549,623	(2)
Nonspendable:			
4.60 Nonspendable fund balance	-	-	-
Restricted/reserved:			
4.25 Bond refunding	-	-	-
4.33 Maximum effort load aid	-	-	-
4.51 QZAB Payments	-	-	-
4.67 LTFM	-	-	-
Restricted:			
4.64 Restricted fund balance	936,001	936,001	-
Unassigned:			
4.63 Unassigned fund balance	-	-	-
08 TRUST FUND			
Total revenue	$ 692,585	$ 692,585	$ -
Total expenditures	-	-	-
Unassigned:			
4.01 Student Activities	-	-	-
4.02 Scholarships	-	-	-
4.22 Net position	2,770,112	2,770,112	-
18 CUSTODIAL			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Restricted/Reserved:			
4.01 Student Activities	-	-	-
4.02 Scholarships	-	-	-
4.48 Achievement and Integration	-	-	-
4.64 Restricted	-	-	-
20 INTERNAL SERVICE FUND			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
4.22 Net position	-	-	-
25 OPEB REVOCABLE TRUST			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
4.22 Net position	-	-	-
45 OPEB IRREVOCABLE TRUST			
Total revenue	$ 3,442,339	$ 3,442,338	$ 1
Total expenditures	1,107,715	1,107,715	-
Unassigned:			
4.22 Net position	15,334,421	15,334,421	-
47 OPEB DEBT SERVICE			
Total revenue	$ 2,027,467	$ 2,027,467	$ -
Total expenditures	1,998,685	1,998,685	-
Nonspendable:			
4.60 Nonspendable fund balance	-	-	-
Restricted:			
4.64 Restricted fund balance	428,823	428,823	-
Unassigned:			
4.63 Unassigned fund balance	-	-	-

Independent School District No. 877
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Programs	10.555	$ 203,981
Summer Food Service - COVID	10.559	3,084,663
Total Child Nutrition Cluster and U.S. Department of Agriculture		3,288,644
U.S. Department of Treasury		
Through Minnesota Department of Education		
Coronavirus Relief Fund - COVID	21.019	1,441,587
Through Wright County		
Coronavirus Relief Fund - COVID	21.019	687,348
Total Coronavirus Relief Fund Cluster and U.S. Department of Treasury		2,128,935
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	331,638
Title II, Part A - Improving Teacher Quality	84.367	95,897
Title III, Part A - Language Enhancement	84.365	79
Education Stabilization Fund Cluster		
Elementary and Secondary School Education Relief (ESSER) Fund – 90% Formula Allocation - COVID	84.425D	243,878
Elementary and Secondary Schools Education Relief (ESSER) Fund – 9.5% State-Directed Grants - COVID	84.425D	17,622
Governor's Emergency Education Relief (GEER) Fund - COVID	84.425C	8,166
Through Wright Technical Center		
Expanded Summer Learning – ESSER - COVID	84.425D	5,854
Total Education Stabilization Fund Cluster		275,520
Through Minnesota Department of Education		
Special Education Cluster		
Special Education	84.027	768,852
Coordinated Early Intervening Services	84.027	143,162
Handicapped Early Education	84.173	28,623
Individuals with Disabilities Education Act	84.173A	17,040
Total Special Education Cluster		964,515
Through Wright County Interagency Early Intervention Committee		
Special Education - Infants and Toddlers	84.181	23,488
Through Northwest Suburban Integration District		
Magnet Schools Assistance	84.165A	347,866
Total Department of Education		2,039,003
Total Federal Expenditures		$ 7,456,582

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

Independent School District No. 877
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

NOTE 2 – PASS-THROUGH GRANT NUMBERS

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 3 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

NOTE 4 – INDIRECT COST RATE

The District did not elect to use the 10 percent de minimis indirect cost rate.

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OTHER DISTRICT INFORMATION

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

				School Refunding Bonds of 2012	School Refunding Bond 2017		
Calendar Year Levied	Collected	School Building Refunding Bonds of 2018A	School Building Bonds of 2015	School Building Bonds of 2003	Taxable OPEB Bonds of 2009	Alternative Facilities Bonds of 2013	Total
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
Total		$ 556,763	$ 40,872,113	$ 13,525,260	$ 4,160,647	$ 2,703,724	$ 61,818,507

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
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
2021	42,285,443	0.27200	12,166,462	597,305	5,363,609	2,006,174	20,133,550

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 Basic 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 basic 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, 2021, and the related notes to basic financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 19, 2021.

Internal Control over Financial Reporting
In planning and performing our audit of the basic financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the basic 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 basic 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 basic 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 basic financial statements. 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 results 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.

BerganKDV Ltd.

Minneapolis, Minnesota
October 19, 2021

Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program
We have audited Independent School District No. 877's, Buffalo-Hanover-Montrose, Minnesota compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program
In our opinion, Independent School District No. 877 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control over Compliance
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bergan KDV Ltd.

Minneapolis, Minnesota
October 19, 2021

Independent School District No. 877
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Basic Financial Statements

Type of auditor's report issued:	We issued an unmodified opinion on the fair presentation of the basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Noncompliance material to basic financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No:	20.019
Name of Federal Program or Cluster:	Coronavirus Relief Fund
CFDA No:	84.425
Name of Federal Program or Cluster:	Education Stabilization Fund
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	Yes

SECTION II – BASIC FINANCIAL STATEMENT FINDINGS

There were no basic financial statement findings.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no Federal award findings.

There were no questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None

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 basic 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, 2021, and the related notes to basic financial statements, and have issued our report thereon dated October 19, 2021.

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and uniform financial accounting and reporting standards for school districts sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, insofar as they relate to accounting matters. However, our audit as 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, insofar as they relate to accounting matters.

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.

Minneapolis, Minnesota
October 19, 2021