

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

FINANCIAL STATEMENTS

JUNE 30, 2020

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
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ZUMBROTA-MAZEPPA, MINNESOTA
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**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

INTRODUCTORY SECTION

JUNE 30, 2020

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**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2020**

2019 - 2020

Jean Roth	Chairperson
Jason Lohmann	Vice-Chair
Angie Bredehoft	Clerk
James Wendt	Treasurer
Amanda Peters	Director
Stephanie Miller	Director

2018 - 2019

Jean Roth	Chairperson
Jason Lohmann	Vice-Chair
Angie Bredehoft	Clerk
James Wendt	Treasurer
Amanda Peters	Director
Stephanie Miller	Director

Superintendent

Michael Harvey

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**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

FINANCIAL SECTION

JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Independent School District #2805
Zumbrota, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District #2805, Zumbrota, Minnesota as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District #2805, as of June 30, 2020, and the respective changes in financial position and budgetary comparison for the general fund and each major special revenue 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 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 Governmental Accounting Standards Board 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 response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Summarized Comparative Information

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

The financial statements for the District as of and for the year ended June 30, 2019, were audited by other auditors whose report dated October 10, 2019 expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 24, 2020 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Smith, Schafu and Associates, Ltd.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Independent School District #2805 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- Total assets and deferred outflows of resources: \$73,323,482.
- Overall revenues for the General Fund were \$15,332,604 while overall expenditures totaled \$14,822,687.
- The General Fund Unassigned Fund Balance is \$1,587,162. This represents a decrease of \$197,960 from last fiscal year.
- The Food Service Fund total fund balance increased by \$86,152 from the prior year.
- The Community Service Fund total fund balance decreased by \$38,411 from the prior year.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), 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 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 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.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

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 of 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.

The two district-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is 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 non-financial 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 aids 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 (i.e. repaying its long-term debts) or to show that it is properly using certain revenues (i.e. federal grants).

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The District has two kinds of funds:

- **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 that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or difference) between them.
- **Fiduciary funds.** The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position from Governmental activities was a deficit balance of \$4,080,932 on June 30, 2020. This was an increase in the deficit balance of \$126,190 from the prior year including the impact for the change in accounting standards.

	Total	
	2020	2019
Assets		
Current and other assets	\$ 51,035,896	\$ 9,644,964
Capital assets	15,614,910	12,268,242
Total assets	66,650,806	21,913,206
Deferred Outflows of Resources	6,672,676	9,519,697
Liabilities		
Current liabilities	5,110,294	2,830,372
Long-Term liabilities	57,378,034	17,010,058
Total liabilities	62,488,328	19,840,430
Deferred Inflows of Resources	14,916,086	15,547,215
Net Position		
Net investment in capital assets	2,893,163	2,231,033
Restricted	2,142,205	1,384,682
Unrestricted	(9,116,300)	(7,570,457)
Total net position	\$ (4,080,932)	\$ (3,954,742)

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

District's Revenue. The District's total revenues were \$18,242,864 for the year ended June 30, 2020; compared to \$17,648,022 for the year ended June 30, 2019. State sources accounted for 50% (compared to 51% the previous year) of the total revenue. Local property taxes (levies) accounted for 21% (compared to 21% the previous year) of the total revenue, with the remaining revenue coming from other sources.

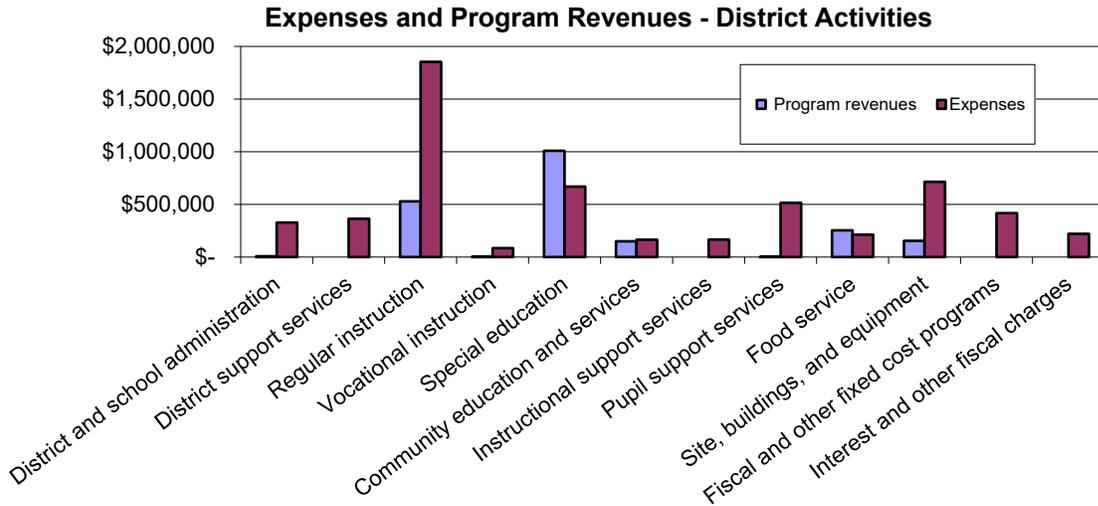
A condensed version of the Statement of Activities follows:

	Total	
	2020	2019
Revenue		
Program revenues:		
Charges for services	\$ 1,512,791	\$ 1,720,653
Operating grants and contributions	3,181,802	2,793,005
Capital grants and contributions	237,650	249,689
General revenues:		
Property taxes	3,832,878	3,752,138
Unrestricted state aid	9,134,849	9,013,865
Investment earnings	322,379	63,355
Other	20,515	55,317
Total revenues	<u>18,242,864</u>	<u>17,648,022</u>
Expenses		
District and school administration	930,526	619,984
District support services	397,758	360,733
Regular instruction	7,969,689	5,241,774
Vocational instruction	693,103	343,855
Special education	2,864,480	2,187,854
Community education and services	983,486	1,026,768
Instructional support services	842,518	639,120
Pupil support services	1,243,423	1,042,557
Food service	565,151	592,322
Site, buildings, and equipment	1,105,431	1,252,706
Fiscal and other fixed cost programs	463,557	56,079
Interest and other fiscal charges	415,216	239,524
Total expenses	<u>18,474,338</u>	<u>13,603,276</u>
Change in net position	<u>(231,474)</u>	<u>4,044,746</u>
Net position - beginning, as originally stated	(3,954,742)	(7,999,488)
Change in accounting standards	105,284	
Net position - beginning, as restated	<u>(3,849,458)</u>	<u>(7,999,488)</u>
Net position, ending	<u>\$ (4,080,932)</u>	<u>\$ (3,954,742)</u>

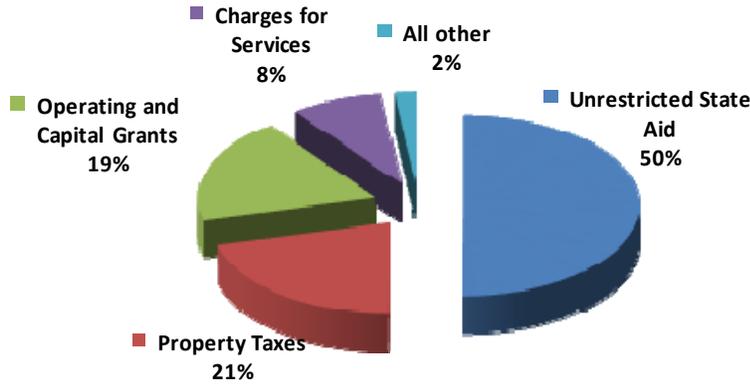
**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Below are specific graphs that provide comparisons of the District activities direct program revenues with their expenses. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.



Sources of District's Revenues



**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FUND BASIS FINANCIAL ANALYSIS

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 \$42,852,275.

History of enrollment measured by adjusted average daily membership (ADM):

<u>Fiscal Year</u>	<u>ADM</u>	<u>% Change</u>
2011	1,069.88	
2012	1,073.42	0.3%
2013	1,082.99	0.9%
2014	1,106.53	2.2%
2015	1,139.06	2.9%
2016	1,164.46	2.2%
2017	1,190.75	2.3%
2018	1,214.59	2.0%
2019	1,204.73	-0.8%
2020	1,234.21	2.4%

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

The most significant fluctuating factors affecting this fund are enrollment, special education needs, inflation, and building and equipment repair/replacement. Over the last five years the District has experienced an increase in average daily membership by 70 students or 8.1%. It is anticipated that the kindergarten and pre-school population will remain steady the next 2-3 years averaging approximately 90-95 per class as compared to approximately 85 students graduating annually. The result of this will be an increase in ADM.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FUND BASIS FINANCIAL ANALYSIS (Continued)

General fund revenues were as follows:

	2020	2019	Increase/ (Decrease)
Local Sources			
Local property tax levies	\$ 2,887,534	\$ 2,879,265	\$ 8,269
Investment income	61,919	74,888	(12,969)
Other local and county sources	641,017	625,227	15,790
State sources	11,623,287	11,105,217	518,070
Federal sources	118,847	170,372	(51,525)
Total General Fund Revenues	\$ 15,332,604	\$ 14,854,969	\$ 477,635

Federal sources decreased in FY20. State sources increased due to increased aid in general education, special education, staff development and basic skills. Property taxes increased in FY20. Earnings from investments saw a slight decrease due to fluctuation of interest rates. The category of "other" is revenue primarily from cost sharing of staff and donations.

General fund expenditures were as follows:

	2020	2019	Increase/ (Decrease)
District and school administration	\$ 892,871	\$ 784,225	\$ 108,646
District support services	403,743	373,919	29,824
Regular instruction	6,331,614	6,401,346	(69,732)
Vocational instruction	673,914	422,196	251,718
Special education	2,784,495	2,537,676	246,819
Instructional support services	798,591	819,847	(21,256)
Pupil support services	1,247,440	1,130,872	116,568
Site, buildings, and equipment	1,226,462	1,293,287	(66,825)
Fiscal and other fixed cost programs	463,557	440,420	23,137
Total General Fund Expenditures	\$ 14,822,687	\$ 14,203,788	\$ 618,899

The General Fund expenditures increased by 4.4%.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FUND BASIS FINANCIAL ANALYSIS (Continued)

General Fund Budgetary Highlights. The administration starts looking at the next year's potential budget in the spring of the previous year. Midyear budget revisions will be done if needed based on enrollment changes, salary adjustments based on staff leaving and new staff hires after budget approval in June and unexpected building needs.

Food Service Fund. The Food Service fund ended with a balance of \$143,413 in FY 2020. This was an increase of \$86,152 from the prior year primarily due to the summer food program (SFSP). The SFSP helped offset the lost revenue of normal food service sales due to COVID-19.

Community Service Fund. The Community Service fund ended with a balance of \$177,798 in FY 2020. This was a decrease of \$38,411 from the prior year.

Building Construction Fund. The Building Construction fund reflects investment income of \$234,220 and construction cost of \$3,900,551 for FY 20. Construction is still going on at the District in FY 21, with a remaining fund balance of \$37,782,716 to be used as the construction projects continue.

Debt Service Fund. The Debt Service fund exists to service the principal and interest on long-term debt issued by the District to construct school facilities or acquire school equipment. Annual levies will provide revenue at a rate of 105% or pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payment can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

The fund balance of \$385,524 as of June 30, 2020 along with the levy and state aid is sufficient to make pending principal and interest payments on the remaining outstanding obligations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. Capital assets increased \$3,346,668. This increase is primarily due to the building construction project in construction in progress.

Capital assets are recorded in the District-wide financial statements, but are not reported in the Fund financial statements.

	Total (Net of Depreciation)	
	2020	2019
Land	\$ 92,949	\$ 92,949
Construction in progress	3,900,551	
Land improvements	1,010,904	1,078,336
Buildings and improvements	9,871,622	10,402,608
Equipment	738,884	694,349
Total	\$ 15,614,910	\$ 12,268,242

Construction – Next Five Years. In the fall of 2018, the District voters approved two building bond questions. One for renovation to the MS/HS building and one for a replacement gymnasium. The District is completing updates to HVAC, adding space, and building a replacement gymnasium.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Long Term Liabilities. As of June 30, 2020, the District had \$49,642,330 in bonds payable outstanding and \$862,133 in capital lease payable outstanding. The District also had \$60,596 in compensated absences payable at the end of the year. A summary of outstanding long-term liabilities as of June 30, 2020, is as follows:

	Total	
	2020	2019
Alternative Facilities Refunding 2013A	\$ 6,960,000	\$ 7,740,000
Capital Facilities Bond 2016A	930,000	1,005,000
School Building Bond 2019A	9,970,000	
School Building and Facilities Bond 2020A	30,840,000	
Capital Lease Payable - 2007	535,506	682,173
Capital Lease Payable - 2008	326,627	426,383
Bond Premium	942,330	214,592
Compensated Absences Payable	60,596	49,670
Total	\$ 50,565,059	\$ 10,117,818

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved excess 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. With COVID-19 pandemic currently taking place, the District may potentially see no increases in state aid for the coming years. The full impact of these economic uncertainties is unknown at this time.

The District passed an operating levy referendum in 2017 increasing the amount of revenue per student from \$950 to \$1,250, which has an inflationary factor that started in 2018-2019.

The District voters approved a two-question building bond referendum in the fall of 2018. The District has updated HVAC, added space, and built a replacement gymnasium.

The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and 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 #2805, Zumbrota, Minnesota, 55992.

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**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

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INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2020
With Comparative Data As of June 30, 2019

	Governmental Activities	
	2020	2019
Assets		
Cash and investments	\$ 46,310,508	\$ 6,211,422
Taxes receivable	2,936,191	1,933,816
Other receivables	14,547	20,475
Due from other governmental units	1,651,229	1,170,770
Inventory	19,111	13,931
Prepaid expenses	5,402	3,594
Land held for resale	98,908	290,956
Capital Assets:		
Non-depreciable	3,993,500	92,949
Depreciable, Net	11,621,410	12,175,293
TOTAL ASSETS	66,650,806	21,913,206
Deferred Outflows of Resources		
Deferred outflow from pension activity	6,577,317	9,386,860
Deferred outflows from OPEB activity	68,061	101,898
Deferred outflows from loss on bond refunding	27,298	30,939
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,672,676	9,519,697
Liabilities		
Accounts payable	1,197,456	155,228
Due to other governmental units	51,373	55,816
Unearned revenue	40,501	41,650
Accrued liabilities	1,408,313	1,334,190
Accrued interest payable	556,627	93,171
Long-Term Liabilities:		
Due within one year	1,856,024	1,150,317
Due in more than one year	48,709,035	8,967,501
Net pension liability	7,807,137	7,577,494
Other postemployment benefits payable	861,862	465,063
TOTAL LIABILITIES	62,488,328	19,840,430
Deferred Inflows of Resources		
Deferred inflows from pension activity	9,350,217	11,799,044
Deferred inflows from OPEB activity	117,789	
Property taxes levied for subsequent year	5,448,080	3,748,171
TOTAL DEFERRED INFLOWS OF RESOURCES	14,916,086	15,547,215
Net Position		
Net investment in capital assets	2,893,163	2,231,033
Restricted		
Operating capital purposes	423,872	187,769
State-mandated reserves	1,005,045	561,156
Technology	6,553	8,348
Food service	143,413	57,261
Community service	177,798	371,293
Debt Service	385,524	198,855
Unrestricted	(9,116,300)	(7,570,457)
TOTAL NET POSITION	\$ (4,080,932)	\$ (3,954,742)

See Notes to Financial Statements

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2020

With Partial Comparative Data for the Year Ended June 30, 2019

<u>Functions/Programs</u>	2020			
	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
District and school administration	\$ 930,526	\$	\$ 21,638	\$
District support services	397,758			
Regular instruction	7,969,689	182,885	607,036	
Vocational instruction	693,103	218,449	2,703	
Special education	2,864,480	181,730	1,466,533	
Community education and services	983,486	605,534	103,029	
Instructional support services	842,518	36,910	372,663	
Pupil support services	1,243,423		11,320	
Food service	565,151	283,245	369,228	
Site, buildings, and equipment	1,105,431	4,038	227,152	237,650
Fiscal and other fixed cost programs	463,557		500	
Interest and other fiscal charges	415,216			
Total governmental activities	\$ 18,474,338	\$ 1,512,791	\$ 3,181,802	\$ 237,650

General Revenues:

Property taxes levied for:

General purposes

Community Service

Debt Service

State aid not restricted to specific purposes

Gain on sale of assets

Miscellaneous

Investment income

Total general revenues

Change in net position

Net position - beginning, as originally stated

Change in accounting standards

Net position - beginning, as restated

Net position - ending

See Notes to Financial Statements

	2020	2019
Net (Expense) Revenue and Changes in Net Position Total Governmental Activities	Net (Expense) Revenue and Changes in Net Position Total Governmental Activities	Net (Expense) Revenue and Changes in Net Position Total Governmental Activities
\$	(908,888)	\$ (603,733)
	(397,758)	(270,739)
	(7,179,768)	(4,298,501)
	(471,951)	(91,862)
	(1,216,217)	(745,443)
	(274,923)	(132,564)
	(432,945)	(236,439)
	(1,232,103)	(1,021,467)
	87,322	18,123
	(636,591)	(1,193,951)
	(463,057)	(56,079)
	(415,216)	(207,274)
	(13,542,095)	(8,839,929)
	2,900,907	2,883,755
	209,878	160,213
	722,093	708,170
	9,134,849	9,013,865
	5,840	
	14,675	55,317
	322,379	63,355
	13,310,621	12,884,675
	(231,474)	4,044,746
	(3,954,742)	(7,999,488)
	105,284	
	(3,849,458)	(7,999,488)
\$	(4,080,932)	\$ (3,954,742)

INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2020
With Partial Comparative Data as of June 30, 2019

	General	Food Service	Community Service
Assets			
Cash and investments	\$ 5,446,207	\$ 213,460	\$ 329,262
Current property taxes receivable	1,342,512		109,504
Delinquent property taxes receivable	27,536		2,083
Accounts receivable	11,316	3,163	68
Due from other districts	109,173		
Due from Minnesota Department of Education	1,456,616		9,464
Due from Federal through Minnesota Department of Education	25,803	17,278	
Inventory		19,111	
Land held for resale	98,908		
Prepaid items	5,402		
TOTAL ASSETS	\$ 8,523,473	\$ 253,012	\$ 450,381
Liabilities, Deferred Inflows of Resources, and Fund Balance			
Liabilities			
Accounts payable	\$ 87,997	\$ 80,981	\$ 1,387
Salaries and accrued liabilities payable	1,382,698	250	25,365
Due to other districts	34,754		2,429
Due to other governments	14,365		
Unearned revenue		28,368	12,133
TOTAL LIABILITIES	1,519,814	109,599	41,314
Deferred Inflows of Resources			
Unavailable revenue:			
Property taxes levied for subsequent year	2,613,299		229,186
Delinquent property taxes	27,536		2,083
TOTAL DEFERRED INFLOWS OF RESOURCES	2,640,835		231,269
Fund Balances			
Nonspendable	104,310	19,111	
Restricted	1,435,470	124,302	355,767
Committed	1,210,000		
Assigned	25,882		
Unassigned	1,587,162		(177,969)
TOTAL FUND BALANCES	4,362,824	143,413	177,798
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,523,473	\$ 253,012	\$ 450,381

See Notes to Financial Statements

Building		Total Governmental Funds	
		2020	2019
Construction	Debt Service		
\$ 38,809,632	\$ 1,511,947	\$ 46,310,508	\$ 6,211,422
	1,446,277	2,898,293	1,909,291
	8,279	37,898	24,525
		14,547	20,475
		109,173	78,455
	32,895	1,498,975	1,045,224
		43,081	47,091
		19,111	13,931
		98,908	290,956
		5,402	3,594
<u>\$ 38,809,632</u>	<u>\$ 2,999,398</u>	<u>\$ 51,035,896</u>	<u>\$ 9,644,964</u>

\$ 1,026,916	\$	\$ 1,197,281	\$ 155,228
		1,408,313	1,334,190
		37,183	55,816
		14,365	
		40,501	41,650
<u>1,026,916</u>		<u>2,697,643</u>	<u>1,586,884</u>

	2,605,595	5,448,080	3,748,171
	8,279	37,898	24,525
	<u>2,613,874</u>	<u>5,485,978</u>	<u>3,772,696</u>

		123,421	308,481
37,968,832	385,524	40,269,895	1,498,751
		1,210,000	1,210,000
		25,882	45,098
(186,116)		1,223,077	1,223,054
<u>37,782,716</u>	<u>385,524</u>	<u>42,852,275</u>	<u>4,285,384</u>
<u>\$ 38,809,632</u>	<u>\$ 2,999,398</u>	<u>\$ 51,035,896</u>	<u>\$ 9,644,964</u>

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2020
With Partial Comparative Data for the Year Ended June 30, 2019

	General	Food Service	Community Service
Revenues			
Local sources:			
Property tax levies	\$ 2,887,534	\$	\$ 209,878
Other local and county sources	641,017		604,433
Investment income	61,919	1,830	5,074
State sources	11,623,287	23,973	109,895
Federal sources	118,847	342,255	
Sales and other conversions of assets		283,245	
TOTAL REVENUES	15,332,604	651,303	929,280
Expenditures			
District and school administration	892,871		
District support services	403,743		
Regular instruction	6,331,614		
Vocational instruction	673,914		
Special education	2,784,495		
Community education and services			967,691
Instructional support services	798,591		
Pupil support services	1,247,440		
Food service		565,151	
Site, buildings, and equipment	1,226,462		
Fiscal and other fixed cost programs	463,557		
TOTAL EXPENDITURES	14,822,687	565,151	967,691
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	509,917	86,152	(38,411)
Other Financing Sources			
Insurance recovery	15,940		
Premium on issuance of bonds			
Proceeds from issuance of bonds			
Proceeds from sale of equipment	5,840		
NET CHANGE IN FUND BALANCES	531,697	86,152	(38,411)
FUND BALANCE - BEGINNING AS ORIGINALLY STATED	3,725,843	57,261	216,209
Change in accounting standards	105,284		
FUND BALANCE - BEGINNING AS RESTATED	3,831,127	57,261	216,209
FUND BALANCE - ENDING	\$ 4,362,824	\$ 143,413	\$ 177,798

See Notes to Financial Statements

		Total Governmental Funds	
Building Construction	Debt Service	2020	2019
\$	\$ 722,093	\$ 3,819,505	\$ 3,746,985
		1,245,450	1,422,803
243,220	10,336	322,379	95,605
	318,875	12,076,030	11,573,123
		461,102	399,651
		283,245	348,413
243,220	1,051,304	18,207,711	17,586,580
		892,871	784,225
		403,743	373,919
		6,331,614	6,401,346
		673,914	422,196
		2,784,495	2,537,676
		967,691	1,107,081
		798,591	819,847
		1,247,440	1,130,872
		565,151	590,053
4,022,234		5,248,696	1,293,287
	951,851	1,415,408	1,403,670
4,022,234	951,851	21,329,614	16,864,172
(3,779,014)	99,453	(3,121,903)	722,408
		15,940	35,257
751,730		751,730	
40,810,000		40,810,000	
		5,840	11,500
37,782,716	99,453	38,461,607	769,165
	286,071	4,285,384	3,516,219
		105,284	
	286,071	4,390,668	3,516,219
\$ 37,782,716	\$ 385,524	\$ 42,852,275	\$ 4,285,384

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
DISTRICT-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
June 30, 2020**

Amounts reported for governmental activities in the statement of net position are different because:

Total governmental fund balances (pages 15 and 16)		\$ 42,852,275
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Governmental funds - capital assets	\$ 30,532,914	
Less: Accumulated depreciation	14,918,004	15,614,910
Other long-term assets not available soon enough to pay for current-period expenditures and, therefore, are unavailable in the funds:		
Delinquent property taxes		37,898
Long-term liabilities, including bonds and capital leases payable, bond premiums, accrued interest, net pension liability, severance payable, other postemployment benefits payable, and compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Capital leases payable	\$ (862,133)	
Deferred amount on bond refunding	27,298	
Bonds payable	(48,700,000)	
Bond premium	(942,330)	
Accrued interest	(556,627)	
Net pension liability	(10,580,037)	
Other postemployment benefits payable	(911,590)	
Accrued compensated absences	(60,596)	(62,586,015)
Net position of governmental activities (page 12)		\$ (4,080,932)

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (pages 17 and 18) \$ 38,461,607

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 4,179,937	
Depreciation expense	<u>(833,269)</u>	3,346,668

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Delinquent property taxes	13,373
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The governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligations bonds and related items is as follows.

Issuance of bonds payable, including premium	\$ (41,561,730)	
Principal retirement on long-term debt	855,000	
Deferred charges on refunding bonds	(3,641)	
Change in accrued interest	(463,456)	
Amortization of bond premium	<u>23,992</u>	(41,149,835)

Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.

Repayment of capital lease principal	246,423
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In the statement of activities, certain operating expenses - net pension liability, compensated absences, severance, and other postemployment benefits - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).

Net pension liability	(590,359)	
Change in accrued compensated absences	(10,926)	
Other postemployment benefits payable	<u>(548,425)</u>	

Change in net position of governmental activities (pages 13 and 14)	<u>\$ (231,474)</u>
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See Notes to Financial Statements

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2020
With Partial Comparative Data for the Year Ended June 30, 2019

	Budgeted Amounts		2020 Actual	Over	2019 Actual
	Original	Final		(Under) Final Budget	
Revenues					
Local sources:					
Property tax levies	\$ 2,897,448	\$ 2,907,448	\$ 2,887,534	\$ (19,914)	\$ 2,879,265
Other local and county sources	554,957	667,075	641,017	(26,058)	625,227
Investment income	30,000	70,000	61,919	(8,081)	74,888
State sources	11,071,541	11,599,608	11,623,287	23,679	11,105,217
Federal sources	121,961	174,993	118,847	(56,146)	170,372
TOTAL REVENUES	14,675,907	15,419,124	15,332,604	(86,520)	14,854,969
Expenditures					
District and school administration	817,080	804,282	892,871	88,589	784,225
District support services	362,915	394,046	403,743	9,697	373,919
Regular instruction	6,399,689	6,565,107	6,331,614	(233,493)	6,401,346
Vocational instruction	527,051	617,699	673,914	56,215	422,196
Special education	2,738,108	2,613,362	2,784,495	171,133	2,537,676
Instructional support services	900,788	839,709	798,591	(41,118)	819,847
Pupil support services	1,279,269	1,177,912	1,247,440	69,528	1,130,872
Site, buildings, and equipment	1,414,986	1,162,487	1,226,462	63,975	1,293,287
Fiscal and other fixed cost programs	482,724	453,632	463,557	9,925	440,420
TOTAL EXPENDITURES	14,922,610	14,628,236	14,822,687	194,451	14,203,788
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(246,703)	790,888	509,917	(280,971)	651,181
Other Financing Sources					
Insurance recovery		15,940	15,940		35,257
Proceeds from sale of equipment		2,520	5,840	3,320	11,500
NET CHANGE IN FUND BALANCE	(246,703)	809,348	531,697	(277,651)	697,938
FUND BALANCE - BEGINNING AS ORIGINALLY STATED	3,725,843	3,725,843	3,725,843		3,027,905
Change in accounting standards	105,284	105,284	105,284		
FUND BALANCE - BEGINNING AS RESTATED	3,831,127	3,831,127	3,831,127		3,027,905
FUND BALANCE - ENDING	\$ 3,584,424	\$ 4,640,475	\$ 4,362,824	\$ (277,651)	\$ 3,725,843

See Notes to Financial Statements

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOOD SERVICE FUND**

For the Year Ended June 30, 2020
With Partial Comparative Data for the Year Ended June 30, 2019

	Budgeted Amounts		2020 Actual	Over (Under) Final Budget	2019 Actual
	Original	Final			
Revenues					
State sources	\$ 29,461	\$ 29,500	\$ 23,973	\$ (5,527)	\$ 27,223
Federal sources	235,411	237,400	342,255	104,855	229,279
Investment income		1,500	1,830	330	1,781
Sales and other conversions of assets	373,465	361,800	283,245	(78,555)	348,413
TOTAL REVENUES	638,337	630,200	651,303	21,103	606,696
Expenditures					
Food service	626,650	601,960	565,151	(36,809)	590,053
NET CHANGE IN FUND BALANCES	11,687	28,240	86,152	57,912	16,643
FUND BALANCES - BEGINNING	57,261	57,261	57,261		40,618
FUND BALANCES - ENDING	\$ 68,948	\$ 85,501	\$ 143,413	\$ 57,912	\$ 57,261

See Notes to Financial Statements

INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
For the Year Ended June 30, 2020
With Partial Comparative Data for the Year Ended June 30, 2019

	Budgeted Amounts		2020 Actual	Over	2019 Actual
	Original	Final		(Under) Final Budget	
Revenues					
Local sources:					
Property tax levies	\$ 217,131	\$ 217,131	\$ 209,878	\$ (7,253)	\$ 160,187
Other local and county sources	836,360	566,360	604,433	38,073	797,576
Investment income			5,074	5,074	7,117
State sources	97,228	97,228	109,895	12,667	105,036
TOTAL REVENUES	1,150,719	880,719	929,280	48,561	1,069,916
Expenditures					
Community education and services	1,138,668	1,149,108	967,691	(181,417)	1,107,081
TOTAL EXPENDITURES	1,138,668	1,149,108	967,691	(181,417)	1,107,081
NET CHANGE IN FUND BALANCES	12,051	(268,389)	(38,411)	229,978	(37,165)
FUND BALANCES - BEGINNING	216,209	216,209	216,209		253,374
FUND BALANCES - ENDING	\$ 228,260	\$ (52,180)	\$ 177,798	\$ 229,978	\$ 216,209

See Notes to Financial Statements

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION**
June 30, 2020

	Custodial
ASSETS	
Cash and cash equivalents	\$ 55,016
TOTAL ASSETS	\$ 55,016
NET POSITION	\$ 55,016

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**
For the Year Ended June 30, 2020

	Custodial
Deductions	
Scholarships awarded	\$ 5,000
CHANGE IN NET POSITION	(5,000)
NET POSITION - BEGINNING, AS ORIGINALLY STATED	
CHANGE IN ACCOUNTING STANDARDS	60,016
NET POSITION - BEGINNING, AS RESTATED	60,016
NET POSITION - ENDING	\$ 55,016

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**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The financial statements of Independent School District #2805 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

Financial Reporting Entity

Independent School District #2805 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, account groups, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds and account groups of the District. There are no other entities for which the District is financially accountable.

Basic Financial Statement Presentation

The District-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 fund. Fiduciary funds are reported only in the Statements of Fiduciary Net Position and Changes in Fiduciary Fund Net Position at the fund financial statement level.

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 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) 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*. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter-fund activity has been removed from the District-wide financial statements.

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 each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the District-wide financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type; custodial. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amount advance recognized in accordance with a statutory "tax shift" described later in these notes. Grant and similar items are recognized when all eligibility requirements imposed by the provided have been met.

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 the accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenue when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes are recognized in the year for which the tax is levied. Revenue from grants and donations are recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements including timing requirements, which specify the year in which the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements other than time requirements are met and recorded as unearned revenue. Grants received before time requirements are met are recorded as deferred inflow of resources.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. A description of each fund included in this report is as follows:

The *general fund* is used to account for all financial resources except those required to be accounted for in another fund. It 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 projects, and disabled accessibility projects.

The *food service* fund is used to account for food service revenues and expenditures.

The *community service* fund is used to account for service provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services.

The *building construction* fund accounts for the resources designated to the building construction.

The *debt service* fund accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and other related costs.

The District reports the following fiduciary fund:

The *custodial fund* is custodial in nature and does not present results of operations or have a measurement focus. The District uses agency funds to account for scholarship accounts that have no administrative or direct financial involvement. This fund accounts for funds that the District is a fiscal host of flow-through funds for scholarships without a legally binding trust.

Budgets and Budgetary Accounting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, and Community Service Funds. The approved budget is published in summary form in the District's legal newspaper by October 1 of each year. Reported budgeted amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control for most funds is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Cash and Investments

Cash and investments consist of demand deposits, money market accounts, cash on hand, and investments with Minnesota Liquid Asset Fund. Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivable not expected to be collected within one year is current property taxes receivable.

Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section of 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) until that time. The District has three types of items that qualify for reporting in this category. The deferred outflows from pension activity, OPEB activity, and deferred loss on refunding.

Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate financial statement element, deferred inflows of resources. This separate financial statement element, deferred inflows of resources, 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 three items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The third type, pension related, is reported in the statement of net position. These amounts are deferred and will be recognized as an inflow of resources in the period that the amounts become available.

Inventories

Inventories are recorded using the consumption method of accounting and consist of food and surplus commodities received from the federal government. Food purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

Land Held for Resale

Land held for resale is recorded at the lower of cost or fair value and consists of lots to be used for building homes for vocational construction classes.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Property Taxes

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of District revenue in the General fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift". Currently, the mandated tax shift recognizes \$207,945 of the property tax levy collectible in 2020 as revenue to the District is fiscal year 2019-2020. The remaining portion of the taxes collectible in 2020 is recorded as deferred inflows of resources.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2020, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Capital Assets

Capital 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 their estimated acquisition value at the date of donation. The District maintains a capitalization threshold level of \$1,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statements, but are not reported in the Fund financial statements. 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 purposes.

	Useful Life in Years
Buildings	20 - 50
Furniture and fixtures	5 - 15

Capital assets not being depreciated include land.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Long-term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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 from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The District has employee and union contracts with several different employee groups. Employee benefits under the contracts are different, but generally include provisions for sick leave and vacation leave. The District accounts for the employee benefits as follows:

Vacation pay is earned for full-time, noncertified employees based on length of service in the District. The amount of vacation days the employees earn is based on their years of service and their agreed upon contracts. All outstanding unpaid vacation is payable upon termination of employment. At June 30, 2020, unpaid vacation is payable upon termination of employment. At June 30, 2020, unpaid vacation pay totaling \$60,596 is recorded in the financial statements and is included in compensated absences payable.

Other Postemployment Benefits

Under the terms of certain collectively bargained employment contracts, including the teachers' and administrators' contracts, the District makes no contributions toward the health insurance premiums of retired employees. However, the District has an implicit rate or subsidy for OPEB. This amount was actuarially determined in accordance with GASB Statement No. 75.

Fund Equity

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned. Nonspendable portions of fund balance relate to inventory, land held for resale, and prepaid items. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently doesn't report any committed fund balances. The Board of Education passed a resolution authorizing the Board Chair, Superintendent and the Business Manager the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

Comparative Data

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

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources in the District-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 District-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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. This 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 in 2015.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Change in Accounting Standards

During the year ended June 30, 2020, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, which establishes criteria for identifying and reporting fiduciary activities. The implementation of this statement has resulted in changing the presentation of the financial statements by including student activities that were previously separately reported and scholarships previously reported under a fiduciary scholarship fund now included in the General Fund. The beginning fund balance/net position has been restated to reflect this change.

Activities/Fund	Fund Balance June 30, 2019 as Previously Reported	Restatement for Change in Accounting Standard	Fund Balance June 30, 2019 as Restated
General Fund	\$ 3,725,843	\$ 105,284	\$ 3,831,127
Activities/Fund	Net Position June 30, 2019 as Previously Reported	Restatement for Change in Accounting Standard	Net Position June 30, 2019 as Restated
Fiduciary Scholarship Fund	\$ 60,016	\$ (60,016)	\$
Activities/Fund	Net Position June 30, 2019 as Previously Reported	Restatement for Change in Accounting Standard	Net Position June 30, 2019 as Restated
Governmental Activities	\$ (3,954,742)	\$ 105,284	\$ (3,849,458)

2. Stewardship and accountability

Excess expenditures over appropriations at the individual fund level during 2020 is as follows:

General Fund	\$ 194,451
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**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Cash and Investments

Summary of Cash and Investments

As of June 30, 2020, the District's cash and cash investments consisted of the following items, all of which are held in an internal investment pool:

Deposits	\$	4,655,711
Cash on hand		5,393
Money market		1,195
Negotiable certificates of deposit		41,648,209
Total Cash and Investments reported on the Statement of Net Position	\$	<u>46,310,508</u>

Investments Authorized by Minnesota Statutes

The District is authorized by Minnesota Statutes to invest idle funds as follows:

- a) Direct obligations or obligations guaranteed by the United States or its agencies.
- b) Shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- c) General obligations rated "A" or better; revenue obligations rated "AA" or better.
- d) General obligations of the Minnesota Housing Finance Agency rated "A" or better.
- e) Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- f) Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
- g) Repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- h) Guaranteed Investments Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's policy for custodial credit risk follows Minnesota Statutes for deposits. The District's deposits are entirely covered by federal depository insurance or by collateral held by the District's custodial banks in the District's name.

Minnesota Statutes require that all District deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds. Authorized collateral includes certain state of local government obligations and legal investments. Minnesota Statutes also require that securities pledged as collateral be held in safekeeping by the Treasurer, or in a financial institution other than the institution furnishing the collateral.

Concentration of Credit Risk

The investment policy of the District contains no limitation on the amount that can be invested in any one issuer. Investments in any one issuer that represent 5% or more of total investments are as follows:

Negotiable certificates of deposit	\$	41,648,202
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Fair Value Measurement

Fair value measurements are determined utilizing the framework established by the Governmental Accounting Standards Board. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access
- Level 2: Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical assets or liabilities in inactive markets
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specific (contractual) term, Level 2 input must be observable for substantially the full term of the asset or liability

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Cash and Investments (Continued)

The District's investments within the fair value hierarchy at June 30, 2020 and 2019 were as follows:

	At June 30, 2020			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Negotiable certificates of deposit	\$ 41,648,202	\$	\$ 41,648,202	\$

	At June 30, 2019			
	Assets Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
None	\$	\$	\$	\$

4. Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2020 are as follows:

Fund	Minnesota Department of Education	Federal through Minnesota Department of Education	Other Districts	Total
General	\$ 1,456,616	\$ 25,803	\$ 109,173	\$ 1,591,592
Community Service	9,464			9,464
Debt Service	32,895			32,895
Food Service		17,278		17,278
	\$ 1,498,975	\$ 43,081	\$ 109,173	\$ 1,651,229

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

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

Governmental Activities	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 92,949	\$	\$	\$ 92,949
Construction in progress		3,900,551		3,900,551
Total capital assets, not being depreciated	92,949	3,900,551		3,993,500
Capital assets, being depreciated:				
Buildings and improvements	22,001,948	120,273		22,122,221
Land improvements	1,809,687			1,809,687
Equipment	2,448,393	159,113		2,607,506
Total capital assets, being depreciated	26,260,028	279,386		26,539,414
Less accumulated depreciation for:				
Buildings and improvements	11,599,340	651,259		12,250,599
Land improvements	731,351	67,432		798,783
Equipment	1,754,044	114,578		1,868,622
Total accumulated depreciation	14,084,735	833,269		14,918,004
Total capital assets, being depreciated, net	12,175,293	(553,883)		11,621,410
Governmental activities capital assets, net	\$ 12,268,242	\$ 3,346,668	\$	\$ 15,614,910

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Administration	\$ 4,873
District support services	6,907
Regular instruction	684,875
Vocational instruction	1,608
Special education	4,366
Community service education	8,757
Instructional support services	1,147
Pupil support services	19,905
Site and building	100,831
Total depreciation expense - governmental activities	\$ 833,269

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Liabilities

The long-term debt obligations outstanding and related maturities and interest rates are summarized in the following schedules. General Obligation Bond is serviced by the Debt Service Fund. They are backed by the full faith and credit of the District. The remaining debt is serviced by the General Fund.

	Original Amount of Debt	Range of Interest Rates	Final Maturity	Balance June 30, 2020
General Obligation Bond:				
Alternative Facilities Refunding 2013A	\$ 8,515,000	2.0-2.5%	2/1/2028	\$ 6,960,000
Capital Facilities Bond 2016A	1,080,000	1.65-3.0%	2/1/2031	930,000
School Building Bond 2019A	9,970,000	2.0-2.5%	2/1/2028	9,970,000
School Building and Facilities Bond 2020A	30,840,000	2.0-4.0%	2/1/2028	30,840,000
Other Liabilities:				
Capital Leases Payable - 2007	1,549,370			535,506
Capital Leases Payable - 2008	1,280,000			326,627
Compensated Absences Payable				60,596
Bond Premium				942,330
				\$ 50,565,059

Description of long term debt

General Obligation Bonds. On May 1, 2013, the District issued a General Obligation bond for \$8,515,000 for school building improvements. The proceeds of the issue were used to refund in advance of their stated maturities, the remaining maturities of the District's General Obligation Alternative Facilities Bonds, Series 2008A.

On December 21, 2016, the District issued a General Obligation bond for \$1,080,000 for certain capital projects, including projects to optimize energy use in the District. Future ad valorem tax levies, are dedicated to retire these bonds.

On December 30, 2019, the District issued a General Obligation bond for \$9,970,000 for facilities maintenance and improvements. Annual principal and interest will be paid by the Debt Service Fund.

On February 6, 2020, the District issued a General Obligation bond for \$30,840,000 for facilities maintenance and improvements. Annual principal and interest will be paid by the Debt Service Fund.

Capital Lease Payable. During the fiscal years 2007 and 2008 the District entered into two capital lease purchase agreements. The lease purchase agreement in the amount of \$1,549,70, dated October 30, 2007 was used to finance the addition of various equipment and renovations. The lease purchase agreement in the amount of \$1,280,000, dated February 5, 2008 was used to finance the renovation of roofing throughout the District.

Compensated Absences Payable. Compensated absences payable consists of convertible sick leave benefits payable to non-certified employees upon retirement. These benefits are paid by the General Fund.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Liabilities (Continued)

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
General Obligation Bond:					
Alternative Facilities Refunding 2013A	\$ 7,740,000	\$	\$ 780,000	\$ 6,960,000	\$ 810,000
Capital Facilities Bond 2016A	1,005,000		75,000	930,000	75,000
School Building Bond 2019A		9,970,000		9,970,000	
School Building and Facilities Bond 2020A		30,840,000		30,840,000	705,000
Capital Leases Payable:					
Capital Lease Payable - 2007	682,173		146,667	535,506	161,841
Capital Lease Payable - 2008	426,383		99,756	326,627	104,183
Other Liabilities:					
Bond Premium	214,592	751,730	23,992	942,330	
Compensated Absences	49,670	10,926		60,596	
Governmental Activities					
Long-term Liabilities	<u>\$ 10,117,818</u>	<u>\$ 41,572,656</u>	<u>\$ 1,125,415</u>	<u>\$ 50,565,059</u>	<u>\$ 1,856,024</u>

Minimum annual principal and interest payments required to retire long-term debt, not including severance, are as follows:

Year Ending June 30	General Obligation Bonds		
	Principal	Interest	Total
2021	\$ 1,590,000	\$ 1,296,665	\$ 2,886,665
2022	1,400,000	1,243,131	2,643,131
2023	1,470,000	1,205,206	2,675,206
2024	1,585,000	1,164,886	2,749,886
2025	1,630,000	1,120,166	2,750,166
2026-2030	8,920,000	4,814,594	13,734,594
2031-2035	9,975,000	3,390,429	13,365,429
2036-2040	9,995,000	2,285,610	12,280,610
2041-2045	12,135,000	946,294	13,081,294
	<u>\$ 48,700,000</u>	<u>\$ 17,466,982</u>	<u>\$ 66,166,982</u>

Year Ending June 30	Capital Lease Payable		
	Principal	Interest	Total
2021	\$ 266,024	\$ 45,347	\$ 311,371
2022	286,919	34,467	321,386
2023	309,190	22,726	331,916
	<u>\$ 862,133</u>	<u>\$ 102,540</u>	<u>\$ 964,673</u>

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Fund Equity

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained to due constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

Assignment of fund balances can be made by the District Superintendent, Business Manager, or the School Board. Assignments so made are to be reported to the School Board on a monthly basis.

In accordance with the District's fund balance policy, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

The District has a minimum fund balance policy, which identifies a minimum unassigned balance in the General Fund of \$1.2 million starting in fiscal year 2018, with plans to increase this amount by \$240,000 annually through fiscal year 2022 school year.

Restriction of fund balance indicates that a portion of the fund balance is legally segregated for a specific future use. The following is a summary of the restricted fund balances for the governmental funds:

Restricted for Staff Development – Represents available resources within the General Fund reserved for staff development.

Restricted for Operating Capital – Restricted for operating capital represents general education aid resources to be expended for operating capital.

Restricted for Long Term Facilities Maintenance – Represents the resources available to be used for LTFM projects in accordance with the 10 Year Plan.

Restricted for Medical Assistance – Represents the resources available for Medical Assistance expenditures.

Restricted for Area Learning Center – Represents amounts restricted for students attending area learning centers.

Restricted for Safe Schools – Crime Levy – Represents available resources to provide Safe School programs.

Restricted for Achievement Integration – Represents unspent resources available for the Achievement and Integration program.

Restricted for Student Activities – Represents the resources available for the extracurricular activity funds raised by students.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Fund Equity (Continued)

Restricted for Scholarships – Represents the resources available for the scholarship funds.

Restricted for Community Education Programs – The fund balance restriction represents accumulated resources available to provide general community education programs.

Restricted for Early Childhood and Family Education Programs – The fund balance restriction represents accumulated resources available to provide services for early childhood and family education planning.

Restricted for School Readiness – The fund balance restriction represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Fund Equity (Continued)

The following is a summary of fund balances as of June 30, 2020 with comparative totals for June 30, 2019:

	General	Food Service	Community Service	Building Construction	Debt Service	2020 Totals	2019 Totals
Nonspendable							
Inventory	\$	\$ 19,111	\$	\$	\$	\$ 19,111	\$ 13,931
Land held for sale	98,908					98,908	290,956
Prepaid Items	5,402					5,402	3,594
Total nonspendable	<u>104,310</u>	<u>19,111</u>				<u>123,421</u>	<u>308,481</u>
Restricted							
Staff development	126,293					126,293	87,950
Operating capital	423,872					423,872	187,769
Learning and development							2,342
Long-term facilities maintenance	533,659					533,659	376,381
Medical assistance	112,305					112,305	61,070
Achievement and integration	150					150	
Safe schools - crime levy	75,085					75,085	23,131
Student activities	102,537					102,537	41,993 *
Scholarships	55,016					55,016	*
Teacher development and education							8,070
Gifted and talented							676
Basic Skills							1,536
Restricted for other purposes	6,553					6,553	8,348
Food service		124,302				124,302	43,330
Community education			309,312			309,312	335,803
Early childhood and family education			6,243			6,243	2,602
Community service			40,212			40,212	31,679
Building construction				37,968,832		37,968,832	
Debt service					385,524	385,524	286,071
Total restricted	<u>1,435,470</u>	<u>124,302</u>	<u>355,767</u>	<u>37,968,832</u>	<u>385,524</u>	<u>40,269,895</u>	<u>1,498,751</u>
Committed							
Retirement Benefits	140,000					140,000	140,000
Vehicle replacement	170,000					170,000	170,000
Roof repairs	400,000					400,000	400,000
Land purchase	500,000					500,000	500,000
	<u>1,210,000</u>					<u>1,210,000</u>	<u>1,210,000</u>
Assigned							
BCBS tobacco	10,377					10,377	
Q-comp	14,805					14,805	
S.H.I.P Grant	700					700	45,098
Total assigned	<u>25,882</u>					<u>25,882</u>	<u>45,098</u>
Unassigned							
	<u>1,587,162</u>		<u>(177,969)</u>	<u>(186,116)</u>		<u>1,223,077</u>	<u>1,223,054</u>
Total Fund Balance	<u>\$ 4,362,824</u>	<u>\$ 143,413</u>	<u>\$ 177,798</u>	<u>\$ 37,782,716</u>	<u>\$ 385,524</u>	<u>\$ 42,852,275</u>	<u>\$ 4,285,384</u>

* Included as part of 2020 fund balance restatement per Note 1.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. Fund Equity (Continued)

The Uniform Financial Accounting and Reporting Standards (UFARS) fund balance reporting standards are slightly different than the reporting standards under GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Below is a reconciliation between the fund balances following GASB standards and UFARS reporting standards:

	<u>GASB Balance</u>	<u>Reconciling Balance</u>	<u>UFARS Balance June 30, 2020</u>	<u>UFARS Balance June 30, 2019</u>
Nonspendable				
Inventory	\$ 19,111	\$	\$ 19,111	\$ 13,931
Land held for resale	98,908		98,908	290,956
Prepaid Items	5,402		5,402	3,594
Total nonspendable	<u>123,421</u>		<u>123,421</u>	<u>308,481</u>
Restricted				
Staff development	126,293		126,293	87,950
Operating capital	423,872		423,872	187,769
Learning and development				2,342
Long-term facilities maintenance	533,659		533,659	376,381
Medical assistance	112,305		112,305	61,070
Achievement and integration	150		150	
Safe schools - crime levy	75,085		75,085	23,131
Student activities	102,537		102,537	41,993 *
Teacher development and education				8,070
Gifted and talented				676
Basic Skills				1,536
Restricted for other purposes	6,553		6,553	8,348
Scholarships	55,016		55,016	*
Food service	124,302		124,302	43,330
Community education	309,312		309,312	335,803
Early childhood and family education	6,243		6,243	2,602
School readiness		(177,969)	(177,969)	
Community service	40,212		40,212	31,679
Building construction	37,968,832		37,968,832	
Building construction long-term facilities maintenance		(186,116)	(186,116)	
Debt service	385,524		385,524	286,071
Total restricted	<u>40,269,895</u>	<u>(364,085)</u>	<u>39,905,810</u>	<u>1,498,751</u>
Committed				
Retirement Benefits	140,000		140,000	140,000
Vehicle replacement	170,000		170,000	170,000
Roof repairs	400,000		400,000	400,000
Land purchase	500,000		500,000	500,000
	<u>1,210,000</u>		<u>1,210,000</u>	<u>1,210,000</u>
Assigned				
Building donations - UFSB/Matching	10,377		10,377	
Rebel Nation projects	14,805		14,805	
Co-curricular activities	700		700	45,098
Total assigned	<u>25,882</u>		<u>25,882</u>	<u>45,098</u>
Unassigned				
	<u>1,223,077</u>	<u>364,085</u>	<u>1,587,162</u>	<u>1,223,054</u>
Total Fund Balance	<u>\$ 42,852,275</u>	<u>\$</u>	<u>\$ 42,852,275</u>	<u>\$ 4,285,384</u>

* Included as part of 2020 fund balance restatement per Note 1.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide

Plan Description

1. General Employees Retirement Fund

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

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

2. Teachers Retirement Association (TRA)

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

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

Benefits Provided

1. General Employees Plan Benefits

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.

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 accrual rate of Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Benefits Provided (Continued)

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

2. TRA Benefits

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

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

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

With these provisions:

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

Or

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Benefits Provided (Continued)

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for coordinated members and 2.7 percent 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 benefit 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 also 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.

Contributions

1. General Employees Fund Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2020 were \$124,927. The District's contributions were equal to the required contributions as set by the state statute.

2. TRA Contributions

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

	Ended June 30, 2019		Ended June 30, 2020	
	Employee	Employer	Employee	Employer
Basic	11.00%	11.71%	11.00%	11.92%
Coordinated	7.50%	7.71%	7.50%	7.92%

The District's contributions to the TRA Fund for the year ended June 30, 2020 were \$446,745. The District's contributions were equal to the required contributions as set by the state statute.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Contributions (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.

Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	\$ 403,300,000
Add employer contributions not related to future contribution efforts	(688,000)
Deduct TRA's contributions not included in allocation	<u>(486,000)</u>
Total employer contributions	402,126,000
Total non-employer contributions	<u>35,588,000</u>
Total Contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u>\$ 437,714,000</u>

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

Pension Costs

1. General Employees Fund Pension Costs

At June 30, 2020, the District reported a liability of \$1,299,262 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$40,498. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was 0.0235 percent at the end of the measurement period and 0.0224 percent for the beginning of the period.

District's proportionate share of net pension liability	\$ 1,299,262
State's proportionate share of the net pension liability associated with the district	\$ 40,498

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

For the year ended June 30, 2020, the District recognized pension expense of (\$58,918) for its proportionate share of General Employees Plan’s pension expense. In addition, the District recognized an additional \$3,033 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.

At June 30, 2020, the District reported its proportionate share of General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 35,398	\$
Changes in actuarial assumptions	48,426	50,547
Difference between projected and actual investment earnings		125,299
Changes in proportion	45,768	13,635
Contributions paid to PERA subsequent to the measurement date	<u>128,621</u>	
Total	<u>\$ 258,213</u>	<u>\$ 189,481</u>

The \$128,621 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	<u>Pension Expense Amount</u>
2021	\$ 37,473
2022	(89,975)
2023	(9,480)
2024	2,093

2. TRA Pension Costs

At June 30, 2020, the District reported a liability of \$6,507,875 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District’s proportionate share was 0.1021 percent at the end of the measurement period and 0.1009 percent for the beginning of the year.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (Continued)

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	\$	6,507,875
State's proportionate share of the net pension liability associated with the district	\$	575,743

For the year ended June 30, 2020, the District recognized pension expense of \$649,277. It also recognized \$43,763 as an increase to pension expense for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 582	\$ 103,016
Changes in actuarial assumptions	5,099,806	8,490,642
Difference between projected and actual investment earnings		537,407
Changes in proportion	738,604	29,671
Contributions paid to TRA subsequent to the measurement date	480,112	
Total	<u>\$ 6,319,104</u>	<u>\$ 9,160,736</u>

The \$480,112 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	<u>Pension Expense Amount</u>
2021	\$ 405,462
2022	65,447
2023	(2,189,992)
2024	(1,612,286)
2025	9,625

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Aggregate Pension Costs

Pension expense recognized by the District for the year ended June 30, 2020 is as follows:

General Employees Retirement Fund	\$ (55,885)
TRA	693,040
Total	<u>\$ 637,155</u>

Actuarial Assumptions

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

1. General Employees Fund Actuarial Assumptions

Assumptions	General Employees Retirement Fund
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

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

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

The following changes in PERA actuarial assumptions and plan provisions occurred in 2019:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions (Continued)

2. TRA Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation Date	July 1, 2019
Experience Study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Price Inflation	2.50%
Wage Growth Rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85% - 8.85% before July 1, 2028 and 3.25% to 9.25% after June 30, 2028
Cost of Living Adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality Assumptions:	
Pre-Retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-Retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale
Post-Disability:	RP-2014 disabled retiree mortality table, without adjustment.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (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 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	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%
Total	100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for the 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 the Pension Plan Investments* is five years as required by GASB 68.

The following changes in TRA actuarial assumptions since the 2018 valuation:

- The 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% in 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 June 30, 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 is 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.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Discount Rate

1. General Employees Fund Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund 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.

2. TRA Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2019 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

Pension Liability Sensitivity

The following 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 one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
General Employees Retirement Fund Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the General Employees Retirement Fund net pension liability	\$ 2,135,917	\$ 1,299,262	\$ 608,437
TRA Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	\$ 10,375,145	\$ 6,507,875	\$ 3,319,369

Pension Plan Fiduciary Net Position

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

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive 400, St. Paul, Minnesota, 55103-4000; or by calling 651-296-2409 or 800-657-3669.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. Defined Benefit Pension Plans – Statewide (Continued)

Subsequent Events and the COVID-19 Pandemic Subsequent to Year-End

The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on TRA's discount rate as well as the value of the Plan's investments. Any impact caused by the resulting declines have not been included in the Schedules as of June 30, 2019.

9. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's 403(b) 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. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2020, 2019, and 2018, are \$146,313, \$147,811, and \$134,895, respectively. The related employee contributions were \$212,334, \$231,813, and \$224,337, for the years ended June 30, 2020, 2019, and 2018, respectively.

Flexible Benefit Plan

The District has a flexible benefit plan that 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 group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

Before the beginning of the plan year, which is from July 1 to June 30, each participant designates a total amount of pre-tax 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 for the health care portion of the plan, whether or not such contributions have been made.

Payments of health insurance premiums 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, Food Service, and Community Service Funds.

Payments for amounts withheld for medical reimbursement and dependent care are made to participating employees upon submitting a request for reimbursement of eligible expenses.

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 of general creditors of the District in an amount equal to eligible health care and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Other Postemployment Benefit Plan

The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions for the year ended June 30, 2020.

Plan Description

The District operates a single-employer retiree defined benefit plan (the Plan) that provides health insurance to eligible employees and their spouses. There are 115 active participants and 9 inactive participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

Benefits Provided

These retirees will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the District's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active retiree population, the retirees are receiving an implicit rate subsidy. As of June 30, 2020 there were approximately 111 active participants and 3 retired participants in the District's group health plan.

Funding Policy

The required contribution is based on projected pay-as-you-go method under which contributions to the plan are generally made at the same time and in the same amount as retiree benefits and expenses become due.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of date. The components of the net OPEB liability of the District at year-end were as follows:

Total OPEB liability	\$	861,862
Valuation Salary		<u>5,873,111</u>
Total OPEB liability as a percentage of payroll		<u><u>14.7%</u></u>

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Other Postemployment Benefit Plan (Continued)

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

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:

Discount rate	3.13%
Long-term expected investment return	N/A
Inflation rate	2.50%
Mortality	
Teachers	From the July 1, 2019 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 July 1, 2019 PERA of Minnesota General Employees Retirement Plan actuarial valuation, mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2018, and other adjustments.
Health care cost trend rate	6.40% for FY2020, gradually decreasing over several decades to an ultimate rate of 4.0% in FY2076 and later years.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Other Postemployment Benefit Plan (Continued)

Actuarial Methods and Assumptions (continued)

The following changes in OPEB actuarial assumptions since the last valuation have been made:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.40% to 3.10%.
- The retiree plan participation percentage for future teachers eligible for a subsidy was reduced from 95% to 50%
- These changes decreased the liability \$23,777.

Changes in Net OPEB Liability

	<u>Total OPEB Liability</u>
Beginning Balance 6/30/2019	\$ 465,063
Changes for the Year	
Service cost	50,784
Interest	15,821
Plan changes	559,697
Difference between expected and actual experience	(103,828)
Changes in assumptions	(23,777)
Benefit payments	(101,898)
Net changes	<u>396,799</u>
Balance End of Year 6/30/2020	<u>\$ 861,862</u>

Net OPEB Liability Sensitivity to Discount and Health-Care Cost Trend Rate Changes

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 a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	<u>Total OPEB Liability</u>
1% decrease in Discount Rate (2.13%)	\$ 915,714
Current Discount Rate (3.13%)	861,862
1% increase in Discount Rate (4.13%)	809,154

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. Other Postemployment Benefit Plan (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 a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	<u>Total OPEB Liability</u>	
1% decrease in Trend Rates	\$	813,065
Current Trend Rates		861,862
1% increase in Trend Rates		920,355

OPEB Related Deferred Outflows/Inflows of Resources

As of the year ended June 30, 2020, the District reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions paid to OPEB subsequent to the measurement date	\$ 68,061	\$
Liability gains		95,841
Assumption changes		21,948
Total	<u>\$ 68,061</u>	<u>\$ 117,789</u>

11. Commitments and Contingencies

Federal and State Receivables

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial. The financial assistance received is subject to audits by the grantor agency.

12. Jointly Governed Organization

The Goodhue County Education District No. 61-6051 was established by an act of the 1987 legislature of the state of Minnesota. The primary objective of the District is to provide, by a cooperative effort, comprehensive educational programs and other related services as can be effectively operated by its five member districts. Each member shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements, and other charges for services. The education district is able to recover the cost of its programs through the previously mentioned revenue sources. The jointly governed organization's financial statements are audited and available for inspection.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 24, 2020, the date the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to impact future operations, however, the potential impact is unknown at this time.

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**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2020

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

**Schedule of Changes in District's Net OPEB
Liability and Related Ratios**

Total OPEB Liability	2020	2019	2018
Service cost	\$ 50,784	\$ 28,189	\$ 27,368
Interest	15,821	16,426	18,009
Plan changes	559,697		
Difference between expected and actual experience	(103,828)		
Changes in assumptions	(23,777)		
Benefit payments	(101,898)	(68,404)	(116,716)
Net change in total OPEB liability	<u>396,799</u>	<u>(23,789)</u>	<u>(71,339)</u>
Total OPEB Liability - beginning of year	465,063	488,852	560,191
Total OPEB Liability - end of year	<u>\$ 861,862</u>	<u>\$ 465,063</u>	<u>\$ 488,852</u>
 Net OPEB Liability - End of Year	 \$ 861,862	 \$ 465,063	 \$ 488,852
 OPEB-eligible payroll for measurement period	 \$ 5,873,111	 \$ 6,199,935	 \$ 6,019,354
 Net OPEB Liability as a Percentage of eligible payroll	 14.7%	 7.5%	 8.1%

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

**Schedule of District's Contributions
General Employees Retirement Funds
Last Ten Years (presented prospectively)**

Fiscal Year Ended June 30	Pension Plan	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Payroll (b/c)
2015	PERA	\$ 99,899	\$ 99,899	\$	\$ 1,352,048	7.39%
2016	PERA	99,603	99,603		1,328,040	7.50%
2017	PERA	106,394	106,394		1,418,587	7.50%
2018	PERA	109,586	109,586		1,461,147	7.50%
2019	PERA	113,063	113,063		1,507,507	7.50%
2020	PERA	124,927	124,927		1,665,693	7.50%
2021						
2022						
2023						
2024						

**Schedule of District's Contributions
TRA Retirement Funds
Last Ten Years (presented prospectively)**

Fiscal Year Ended June 30	Pension Plan	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contributions (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Payroll (b/c)
2015	TRA	\$ 365,966	\$ 365,966	\$	\$ 4,879,547	7.50%
2016	TRA	365,734	365,734		4,876,453	7.50%
2017	TRA	372,413	372,413		4,965,507	7.50%
2018	TRA	398,260	398,260		5,310,133	7.50%
2019	TRA	417,923	417,923		5,572,307	7.50%
2020	TRA	446,745	446,745		5,794,358	7.71%
2021						
2022						
2023						
2024						

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

**Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
PERA General Employees Retirement Fund
Last Ten Years (presented prospectively)**

Fiscal Year Ended June 30	District's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) Associated with the District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the District (a+b)		Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0240%	\$ 1,127,400	\$	\$	1,127,400	\$ 1,260,914	89%	78.70%
2015	0.0230%	1,191,979	99,603		1,291,582	1,328,040	97%	78.20%
2016	0.0229%	1,859,366	106,394		1,965,760	1,418,587	139%	68.90%
2017	0.0227%	1,449,153	109,586		1,558,739	1,461,147	107%	75.90%
2018	0.0224%	1,242,660	113,063		1,355,723	1,507,507	90%	79.53%
2019	0.2350%	1,299,262	124,927		1,424,189	1,665,693	86%	80.23%
2020								
2021								
2022								
2023								

**Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
TRA
Last Ten Years (presented prospectively)**

Fiscal Year Ended June 30	District's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) Associated with the District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated With the District (a+b)		Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1006%	\$ 4,635,576	\$ 326,176	\$	4,961,752	\$ 4,593,443	108%	81.50%
2015	0.0961%	5,944,735	365,734		6,310,469	4,876,453	129%	76.80%
2016	0.0955%	22,779,029	372,413		23,151,442	4,965,507	466%	44.90%
2017	0.0986%	19,682,349	398,260		20,080,609	5,310,133	378%	51.57%
2018	0.1009%	6,334,834	419,923		6,754,757	5,572,307	121%	78.07%
2019	0.1021%	6,507,875	446,745		6,954,620	5,794,358	120%	78.07%
2020								
2021								
2022								
2023								

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

SUPPLEMENTARY INFORMATION

JUNE 30, 2020

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
COMPARATIVE BALANCE SHEET
GENERAL FUND**

June 30, 2020 and 2019

	2020	2019
Assets		
Cash and investments	\$ 5,446,207	\$ 5,083,756
Current property taxes receivable	1,342,512	1,335,918
Delinquent property taxes receivable	27,536	17,361
Accounts receivable	11,316	6,278
Due from other districts	109,173	78,455
Due from Minnesota Department of Education	1,456,616	1,005,742
Due from Federal through Minnesota Department of Education	25,803	30,113
Prepaid items	5,402	3,594
Inventory	98,908	290,956
TOTAL ASSETS	\$ 8,523,473	\$ 7,852,173
Liabilities		
Accounts payable	\$ 87,997	\$ 131,757
Salaries and accrued liabilities payable	1,382,698	1,250,645
Due to other districts	34,754	56,122
Due to other governments	14,365	2,192
TOTAL LIABILITIES	1,519,814	1,440,716
Deferred Inflows of Resources		
Unavailable revenue:		
Property taxes levied for subsequent year	2,613,299	2,668,253
Delinquent property taxes	27,536	17,361
TOTAL DEFERRED INFLOWS OF RESOURCES	2,640,835	2,685,614
Fund Balances		
Nonspendable	104,310	3,594
Restricted	1,435,470	394,348
Committed	1,210,000	1,210,000
Assigned	25,882	332,779
Unassigned	1,587,162	1,785,122
TOTAL FUND BALANCES	4,362,824	3,725,843
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 8,523,473	\$ 7,852,173

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

BUILDING CONSTRUCTION FUND

For the Year Ended June 30, 2020

With Partial Comparative Data for the Year Ended June 30, 2019

	Budgeted Amounts		2020 Actual	Over (Under) Final Budget	2019 Actual
	Original	Final			
Revenues					
Local sources:					
Investment income	\$	\$ 10,000	\$ 243,220	\$ 233,220	\$
TOTAL REVENUES		10,000	243,220	233,220	
Expenditures					
Site, buildings, and equipment		3,370,610	4,022,234	651,624	
TOTAL EXPENDITURES		3,370,610	4,022,234	651,624	
DEFICIENCY OF REVENUES UNDER EXPENDITURES		(3,360,610)	(3,779,014)	(418,404)	
Other Financing Sources					
Premium on issuance of bonds			751,730	751,730	
Proceeds from issuance of bonds			40,810,000	40,810,000	
NET CHANGE IN FUND BALANCES		(3,360,610)	37,782,716	41,143,326	
FUND BALANCE - BEGINNING					
FUND BALANCE - ENDING	\$	\$ (3,360,610)	\$ 37,782,716	\$ 41,143,326	\$

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND**

For the Year Ended June 30, 2020
With Partial Comparative Data for the Year Ended June 30, 2019

	Budgeted Amounts		2020 Actual	Over (Under) Final Budget	2019 Actual
	Original	Final			
Revenues					
Local sources:					
Property tax levies	\$ 862,787	\$ 728,883	\$ 722,093	\$ (6,790)	\$ 707,533
Investment income	3,000	10,000	10,336	336	11,819
State sources	205,883	328,955	318,875	(10,080)	335,647
TOTAL REVENUES	1,071,670	1,067,838	1,051,304	(16,534)	1,054,999
Expenditures					
Fiscal and Other Fixed Cost Programs	952,750	952,750	951,851	(899)	963,250
NET CHANGE IN FUND BALANCES	118,920	115,088	99,453	(15,635)	91,749
FUND BALANCE - BEGINNING	286,071	286,071	286,071		194,322
FUND BALANCE - ENDING	\$ 404,991	\$ 401,159	\$ 385,524	\$ (15,635)	\$ 286,071

INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA
SUPPLEMENTAL COST SCHEDULES
For the Year Ended June 30, 2020 and 2019
(Unaudited)

	2019 - 2020 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
Fiscal year Ended June 30, 2020		
District and school administration	\$ 892,871	\$ 723
District support services	403,743	327
Regular instruction	6,331,614	5,130
Vocational instruction	673,914	546
Exceptional instruction	2,784,495	2,256
Community education and services	967,691	784
Instructional support services	798,591	647
Pupil support services	1,247,440	1,011
Food service	565,151	458
Site, buildings, and equipment	* 1,226,462	994
Fiscal and other fixed cost programs	* 1,415,408	1,147
TOTALS	\$ 17,307,380	\$ 14,023

2019 - 2020 Adjusted Average Daily Membership - 1,234.21

* Excludes Building Construction Fund

	2018 - 2019 Expenditures	Cost Per Adjusted Average Daily Membership (All Funds)
Fiscal year Ended June 30, 2019		
District and school administration	\$ 784,225	\$ 651
District support services	373,919	310
Regular instruction	6,401,346	5,314
Vocational instruction	422,196	350
Exceptional instruction	2,537,676	2,106
Community education and services	1,107,081	919
Instructional support services	819,847	681
Pupil support services	1,130,872	939
Food service	590,053	490
Site, buildings, and equipment	629,671	523
Fiscal and other fixed cost programs	* 1,000,970	831
TOTALS	\$ 15,797,856	\$ 13,113

2018 - 2019 Adjusted Average Daily Membership - 1,204.73

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA-MAZEPPA, MINNESOTA**

TAX LEVY HISTORY

	19 Pay 20 Fiscal 21	18 Pay 19 Fiscal 20	17 Pay 18 Fiscal 19	16 Pay 17 Fiscal 18	15 Pay 16 Fiscal 17
Tax Levy*					
General	\$ 2,821,243	\$ 2,869,829	\$ 2,868,933	\$ 2,124,121	\$ 2,112,775
Community Service	229,186	217,131	164,883	186,079	202,148
Debt Redemption (Net)	2,605,594	862,787	842,313	880,486	903,110
TOTAL TAX LEVY	<u>\$ 5,656,023</u>	<u>\$ 3,949,747</u>	<u>\$ 3,876,129</u>	<u>\$ 3,190,686</u>	<u>\$ 3,218,033</u>

* The tax levy includes property tax apportionments from Goodhue, Olmsted and Wabasha County and state aid credits from the State of Minnesota.

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

OTHER REQUIRED REPORTS

JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Independent School District #2805
Zumbrota, Minnesota

We have audited, the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Independent School District #2805, Zumbrota, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated November 24, 2020. We conducted our audit 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; and the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the Legal Compliance Task Force pursuant to Minnesota Statutes Section 6.65.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

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

To the Board of Education
Independent School District #2805
Page Two

Minnesota Legal Compliance

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 Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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.

Smith, Schafu and Associates, Ltd.

Rochester, Minnesota
November 24, 2020

**INDEPENDENT SCHOOL DISTRICT #2805
ZUMBROTA, MINNESOTA**

COMPLIANCE TABLE

JUNE 30, 2020

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Fiscal Compliance Report - 6/30/2020
District: ZUMBROTA-MAZEPPA (2805-1)

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$15,348,544	<u>\$15,348,542</u>	\$2	Total Revenue	\$243,220	<u>\$243,220</u>	\$0
Total Expenditures	\$14,822,687	<u>\$14,822,685</u>	\$2	Total Expenditures	\$4,022,234	<u>\$4,022,233</u>	\$1
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
460 Non Spendable Fund Balance	\$104,310	<u>\$104,310</u>	\$0	460 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
401 Student Activities	\$102,537	<u>\$102,537</u>	\$0	4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0
402 Scholarships	\$55,016	<u>\$55,016</u>	\$0	4.13 Project Funded by COP	\$0	<u>\$0</u>	\$0
403 Staff Development	\$126,293	<u>\$126,293</u>	\$0	4.67 LTFM	(\$186,116)	<u>(\$186,116)</u>	\$0
4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.08 Cooperative Revenue	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$37,968,832	<u>\$37,968,832</u>	\$0
4.13 Project Funded by COP	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.14 Operating Debt	\$0	<u>\$0</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.16 Levy Reduction	\$0	<u>\$0</u>	\$0	07 DEBT SERVICE			
4.17 Taconite Building Maint	\$0	<u>\$0</u>	\$0	Total Revenue	\$1,051,304	<u>\$1,051,304</u>	\$0
4.24 Operating Capital	\$423,872	<u>\$423,872</u>	\$0	Total Expenditures	\$951,851	<u>\$951,850</u>	\$1
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0	<i>Non Spendable:</i>			
4.27 Disabled Accessibility	\$0	<u>\$0</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
4.28 Learning & Development	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.34 Area Learning Center	\$0	<u>\$0</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	\$0	4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	\$0
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	\$0	4.51 QZAB Payments	\$0	<u>\$0</u>	\$0
4.38 Gifted & Talented	\$0	<u>\$0</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.41 Basic Skills Programs	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$385,524	<u>\$385,525</u>	(\$1)
4.48 Achievement and Integration	\$150	<u>\$150</u>	\$0	<i>Unassigned:</i>			
4.49 Safe School Crime - Crime Levy	\$75,085	<u>\$75,085</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.51 QZAB Payments	\$0	<u>\$0</u>	\$0	08 TRUST			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.67 LTFM	\$533,659	<u>\$533,660</u>	(\$1)	4.01 Student Activities	\$0	<u>\$0</u>	\$0
4.72 Medical Assistance	\$112,305	<u>\$112,305</u>	\$0	4.02 Scholarships	\$0	<u>\$0</u>	\$0
4.73 PPP Loan	\$0	<u>\$0</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)\$0			
4.74 EIDL Loan	\$0	<u>\$0</u>	\$0	18 CUSTODIAL			
<i>Restricted:</i>				Total Revenue	\$564	<u>\$564</u>	\$0
4.64 Restricted Fund Balance	\$6,553	<u>\$6,553</u>	\$0	Total Expenditures	\$564	<u>\$564</u>	\$0
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	\$0	4.01 Student Activities	\$0	<u>\$0</u>	\$0
<i>Committed:</i>				4.02 Scholarships	\$0	<u>\$0</u>	\$0
4.18 Committed for Separation	\$140,000	<u>\$140,000</u>	\$0	4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0
4.61 Committed Fund Balance	\$1,070,000	<u>\$1,070,000</u>	\$0	4.64 Restricted Fund Balance			
<i>Assigned:</i>				\$0	<u>\$0</u>	<u>\$0</u>	\$0
4.62 Assigned Fund Balance	\$25,882	<u>\$25,882</u>	\$0	20 INTERNAL SERVICE			
<i>Unassigned:</i>				Total Revenue	\$0	<u>\$0</u>	\$0
4.22 Unassigned Fund Balance	\$1,587,162	<u>\$1,587,164</u>	(\$2)	Total Expenditures	\$0	<u>\$0</u>	\$0
02 FOOD SERVICES				4.22 Unassigned Fund Balance (Net Assets)\$0			
Total Revenue	\$651,303	<u>\$651,300</u>	\$3	25 OPEB REVOCABLE TRUST			
Total Expenditures	\$565,151	<u>\$565,148</u>	\$3	Total Revenue	\$0	<u>\$0</u>	\$0
<i>Non Spendable:</i>				Total Expenditures	\$0	<u>\$0</u>	\$0
4.60 Non Spendable Fund Balance	\$19,111	<u>\$19,111</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)\$0			
<i>Restricted / Reserved:</i>				45 OPEB IRREVOCABLE TRUST			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
4.74 EIDL Loan	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
<i>Restricted:</i>				4.22 Unassigned Fund Balance (Net Assets)\$0			
4.64 Restricted Fund Balance	\$124,302	<u>\$124,302</u>	\$0	47 OPEB DEBT SERVICE			
<i>Unassigned:</i>				Total Revenue	\$0	<u>\$0</u>	\$0
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
04 COMMUNITY SERVICE				<i>Non Spendable:</i>			
Total Revenue	\$929,280	<u>\$929,280</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
Total Expenditures	\$967,691	<u>\$967,693</u>	(\$2)	<i>Restricted:</i>			
<i>Non Spendable:</i>				4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0	4.31 Community Education	\$309,312	<u>\$309,312</u>	\$0
<i>Restricted / Reserved:</i>				4.32 E.C.F.E	\$6,243	<u>\$6,243</u>	\$0
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0	4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0
4.31 Community Education	\$309,312	<u>\$309,312</u>	\$0	4.44 School Readiness	(\$177,970)	<u>(\$177,971)</u>	\$1
4.32 E.C.F.E	\$6,243	<u>\$6,243</u>	\$0	4.47 Adult Basic Education	\$0	<u>\$0</u>	\$0
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0
4.44 School Readiness	(\$177,970)	<u>(\$177,971)</u>	\$1	4.73 PPP Loan	\$0	<u>\$0</u>	\$0
4.47 Adult Basic Education	\$0	<u>\$0</u>	\$0	4.74 EIDL Loan	\$0	<u>\$0</u>	\$0
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.73 PPP Loan	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$40,212	<u>\$40,212</u>	\$0
4.74 EIDL Loan	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
<i>Restricted:</i>				4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.64 Restricted Fund Balance	\$40,212	<u>\$40,212</u>	\$0	03 GENERAL FUND			
<i>Unassigned:</i>				Total Revenue	\$15,348,544	<u>\$15,348,542</u>	\$2
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0	Total Expenditures	\$14,822,687	<u>\$14,822,685</u>	\$2