



**School Board Special Meeting
Monday, January 4, 2021; 5:30 PM
Virtual Meeting**

I. Determination of Quorum and Call to Order

II. Discussion

A. District Audit Results

Description: The Board Finance & Facilities Committee and administration have reviewed and recommend approval of the report.

Presenters: John Toop, Director of Business Services; Bill Lauer, CPA, Principal, MMKR

B. Elementary Semester One Report Card Recommendations, 2020-2021 School Year

Description: Due to the COVID-19 Pandemic, slight adjustments are recommended for 2020-2021 Semester One Report Card. This report provides background and recommendations for the elementary level. This appears on January 4 for discussion and will be up for approval on January 11.

Presenters: Dr. Randy Smasal (Assistant Superintendent), Jody De St. Hubert (Director of Teaching and Learning), Mark Deyoung (Assistant Principal at Concord Elementary)

III. Leadership Updates



Board Meeting Date: 1/4/2021 Special Meeting

TITLE: Financial Statements for the Fiscal Year Ended June 30, 2020 and Report of Independent Certified Public Accountants - Malloy, Montague, Karnowski, Radosevich & Co., P.A.

TYPE: Discussion

BACKGROUND: The Board Finance & Facilities Committee and administration have reviewed and recommend approval of the report.

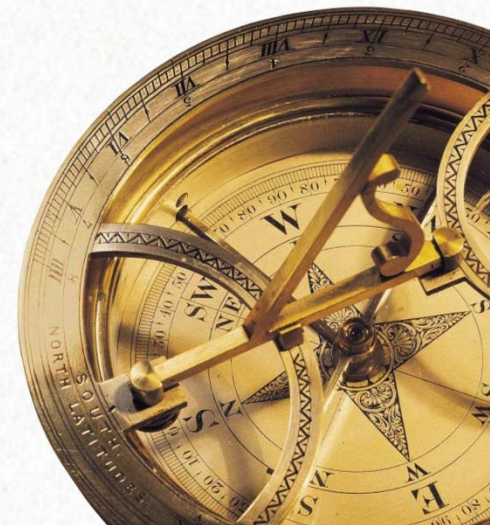
RECOMMENDATION: Approve the financial statements for fiscal year ended June 30, 2020 and the report of the independent certified public accountants- Malloy, Montague, Karnowski, Radosevich & Co., P.A. at the organizational meeting following this special meeting.

ATTACHMENTS:

1. MMKR FY20 Audit Presentation
2. FY20 Summary of Funds
3. 2020 Financial Statements
4. 2020 Management Report
5. 2020 CAP



Independent School District No. 273
Audit Report
Year Ended June 30, 2020
Malloy Montague, Karnowski,
Radosevich, & Co., P.A.





Auditor's Role

- **Opinion on Basic Financial Statements**
- **“Single Audit” of Federal Awards**
- **Test Internal Controls and Compliance**
 - **Financial statement audit**
 - **Federal “Single Audit”**
 - **State laws and regulations**



Audit Results – District Audit

- **Clean Opinion on Basic Financial Statements**
- **Internal Control Over Financial Reporting**
 - *One Finding Reported – Timely Account Reconciliations*
- **Compliance – Financial Reporting**
 - *No findings*
- **Minnesota Legal Compliance**
 - *One Finding Reported – Withholding Affidavit*



Audit Results – Change in Accounting Principle

- **GASB Statement #84 – Fiduciary Activities**
 - **Provided more consistent reporting of fiduciary activities**
 - **Changed financial statement presentation**

- **Changes to Your Financial Statements**
 - **Extracurricular student activities accounts now under Board control and reported in the General Fund**
 - **Beginning net position/fund balance increased by \$25,049**

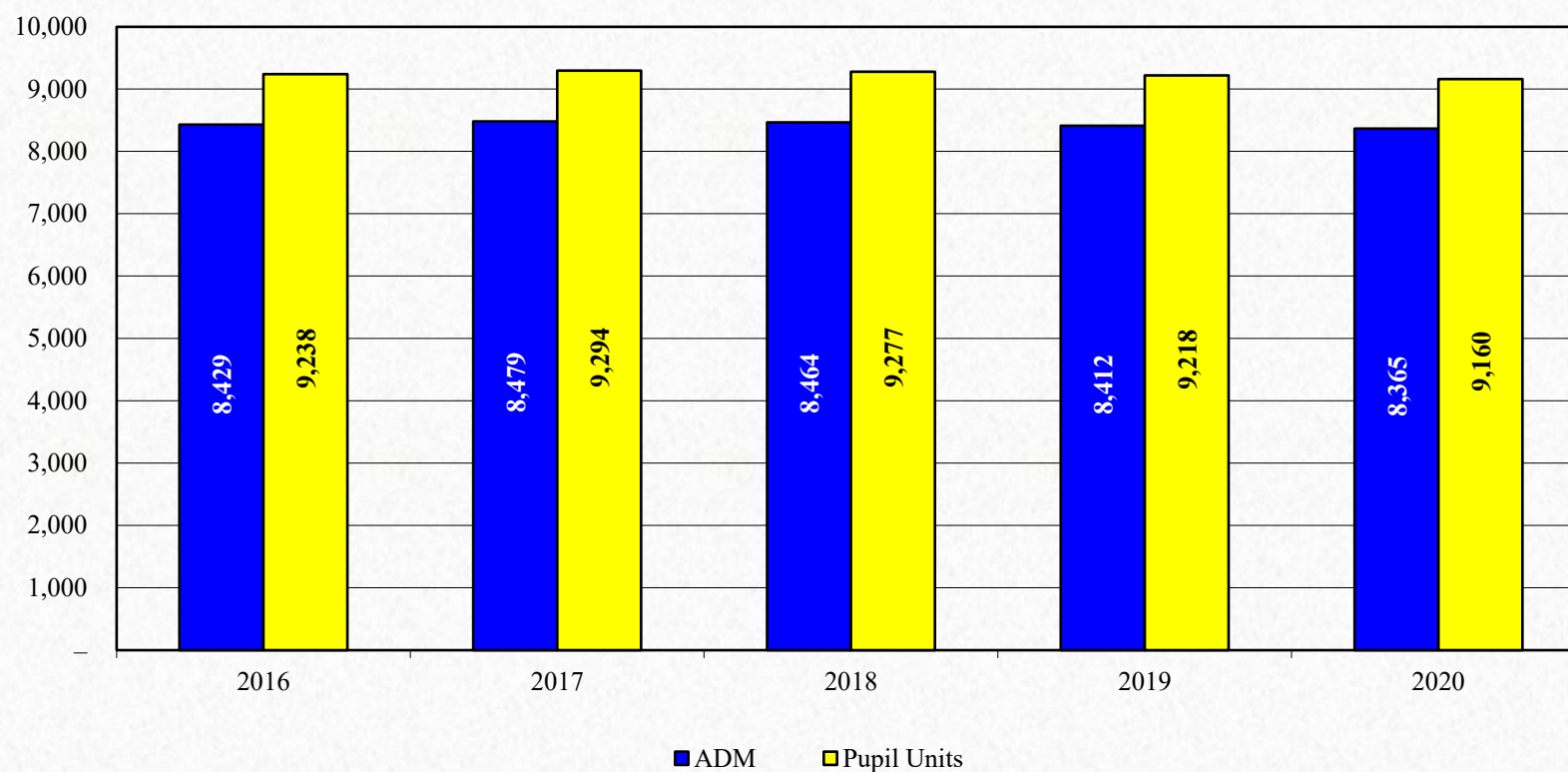


Audit Results – Federal Single Audit

- **Clean Opinion on Schedule of Federal Awards**
 - *Major Program – Child Nutrition Cluster*
- **Internal Control Over Federal Compliance**
 - *One Finding Reported – Suspension and Debarment Verification*
- **Compliance with Federal Program Requirements**
 - *No findings*

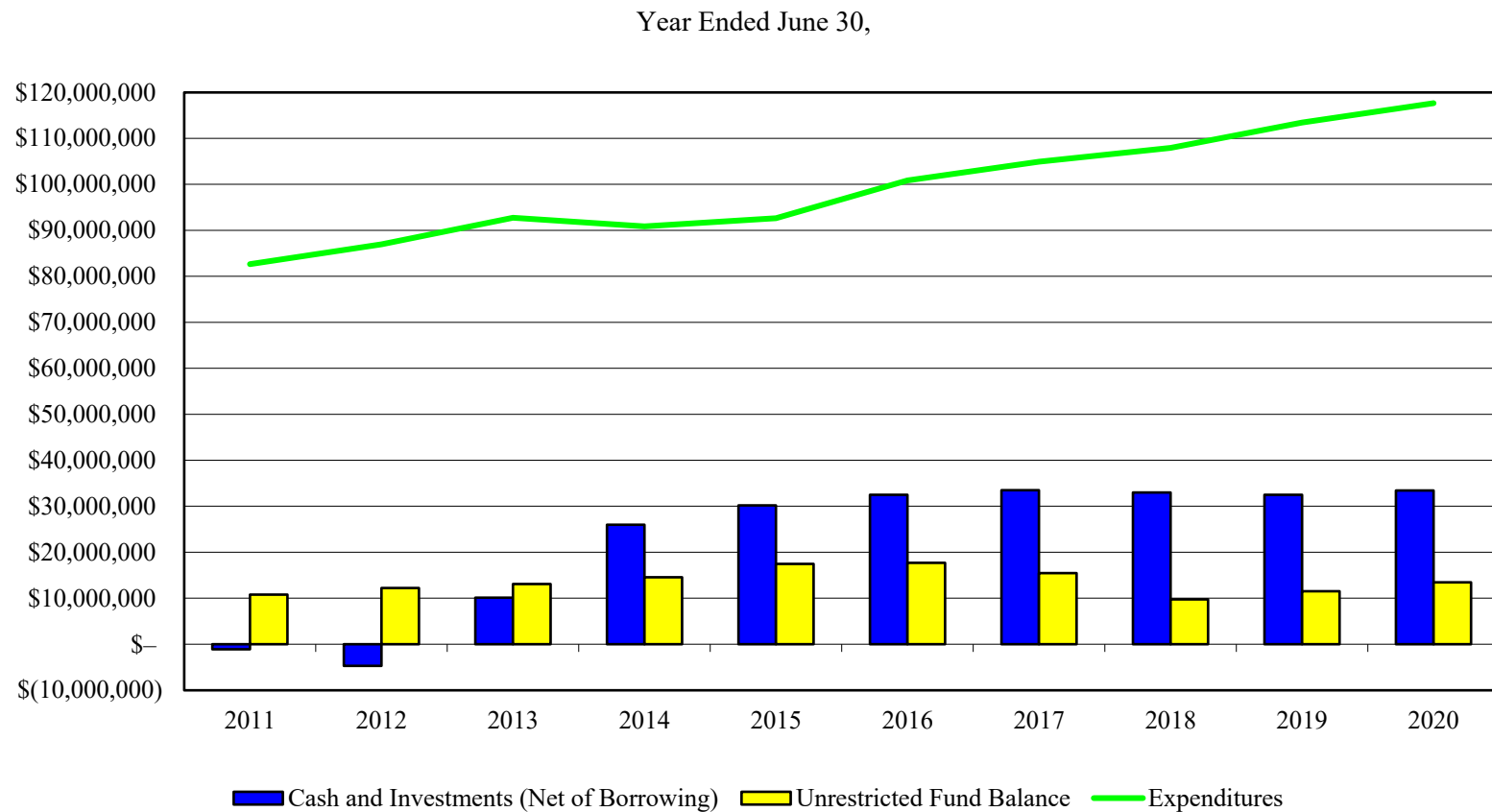
Students Served – ADM and Pupil Units

Adjusted ADM and Pupil Units Served





General Fund Financial Position

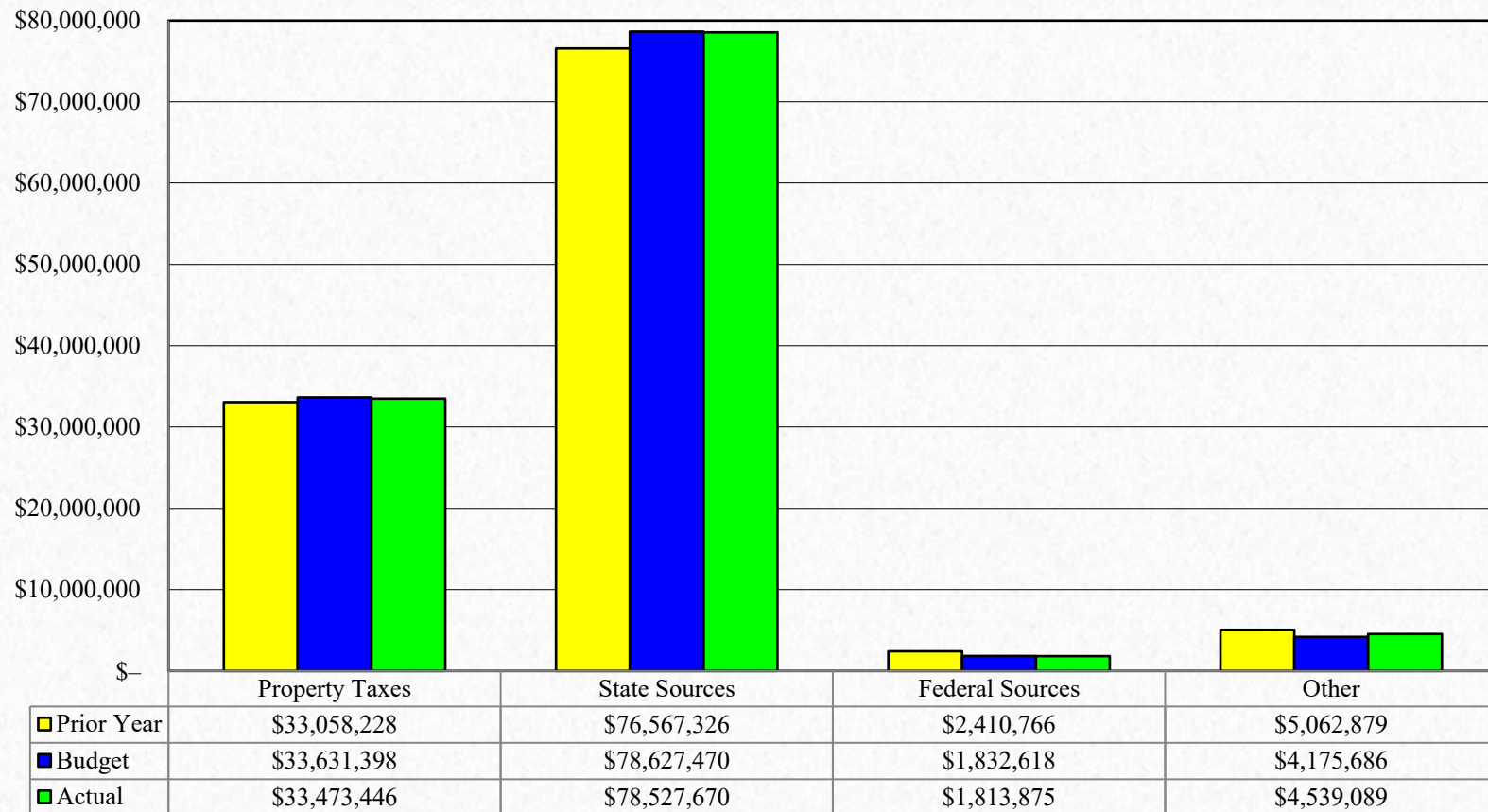




General Fund Financial Position

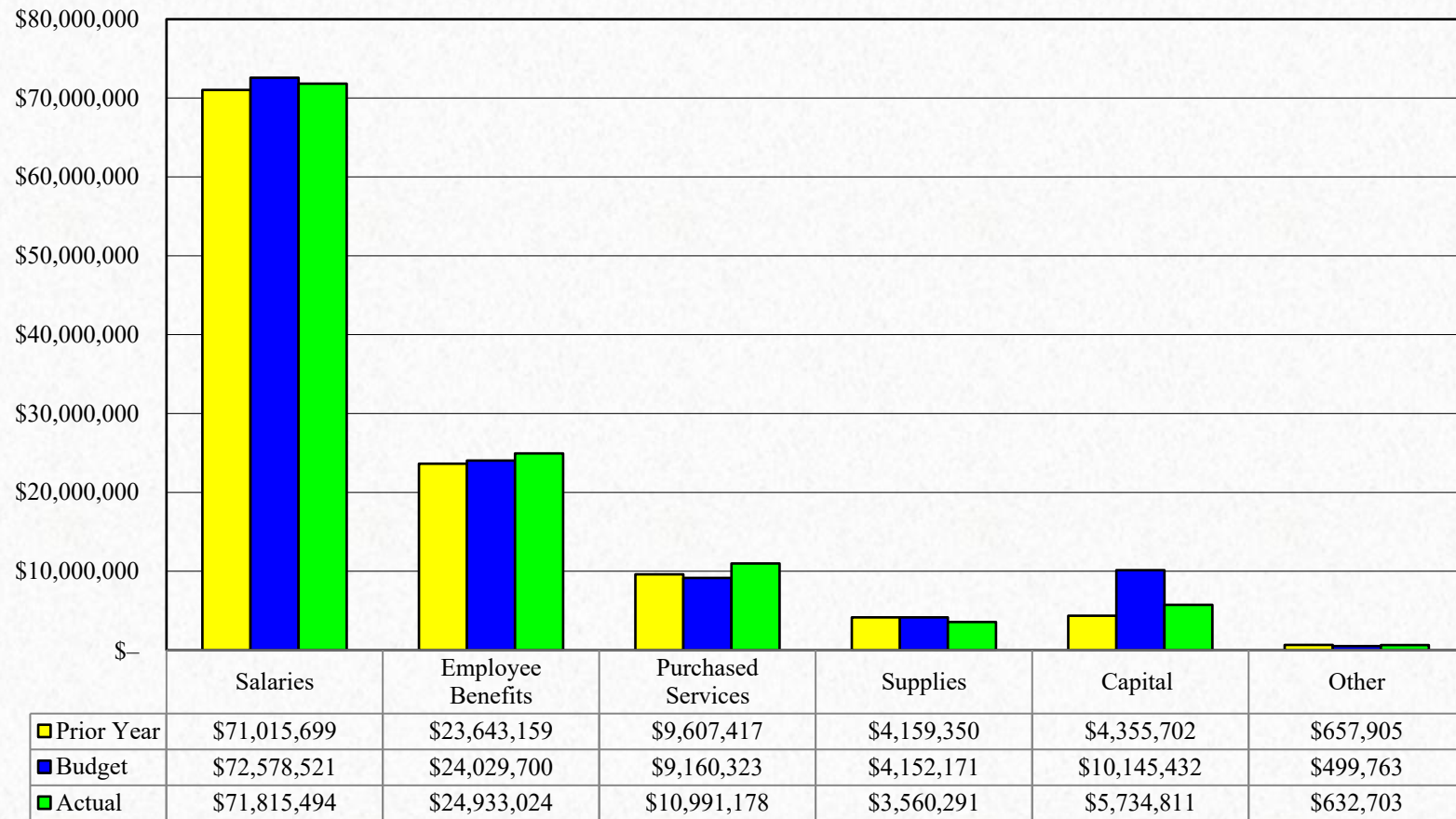
| | June 30, | | |
|--|----------------------|----------------------|----------------------|
| | 2018 | 2019 | 2020 |
| Nonspendable fund balances | \$ 714,427 | \$ 31,133 | \$ — |
| Restricted fund balances | 3,289,820 | 2,624,734 | 1,459,232 |
| Unrestricted fund balances | | | |
| Committed | 927,819 | 1,037,614 | 1,068,409 |
| Assigned | 3,535,342 | 3,534,808 | 3,752,941 |
| Unassigned | 5,268,594 | 6,954,177 | 8,613,512 |
| Total fund balance | <u>\$ 13,736,002</u> | <u>\$ 14,182,466</u> | <u>\$ 14,894,094</u> |
| Unrestricted fund balances as a percentage of expenditures | <u>9.0%</u> | <u>10.2%</u> | <u>11.4%</u> |
| Unassigned fund balances as a percentage of expenditures | <u>4.9%</u> | <u>6.1%</u> | <u>7.3%</u> |

General Fund Revenue





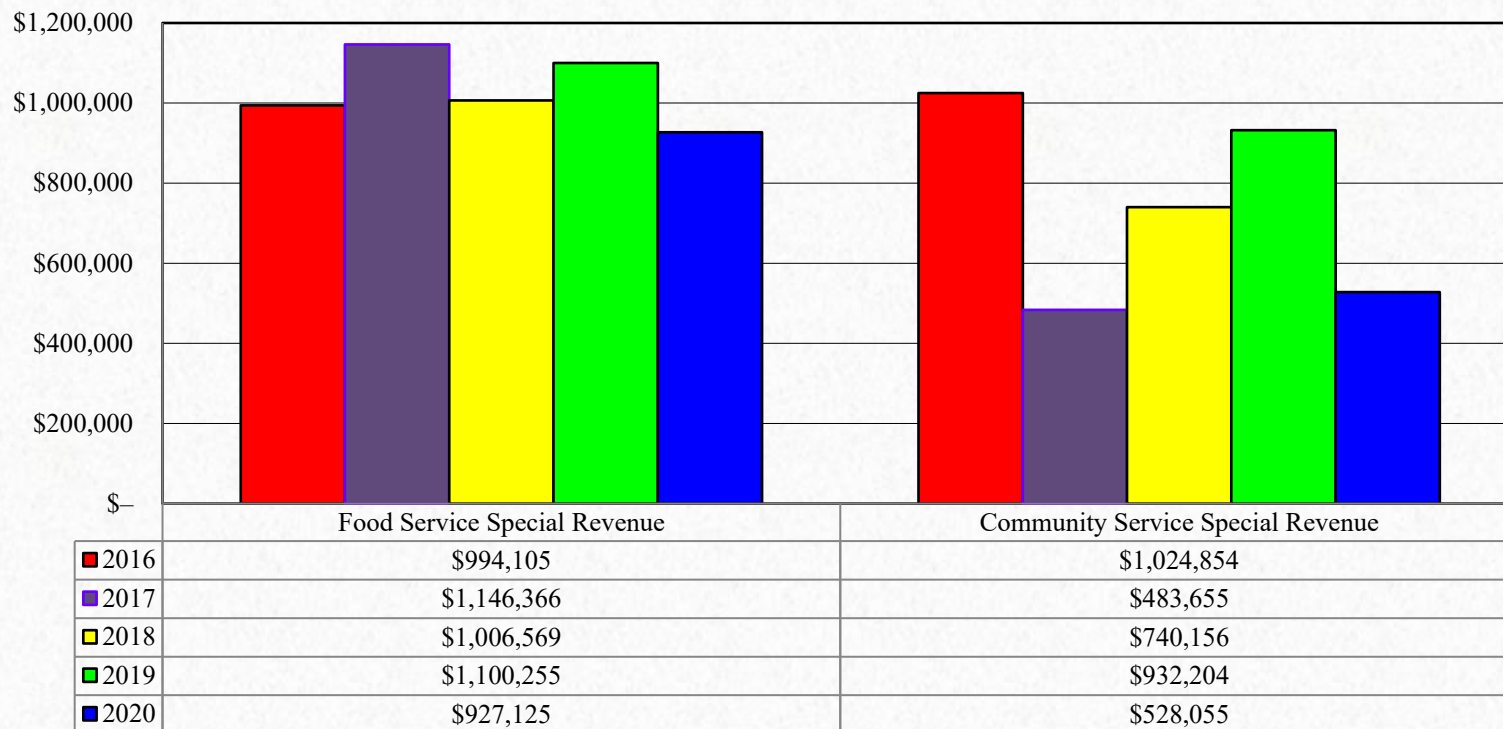
General Fund Expenditures





Other Operating Funds

Other Operating Funds
Total Fund Balances





Statement of Net Position

| | June 30, | | |
|--|------------------------|------------------------|-----------------------|
| | 2020 | 2019 | Change |
| Net position – governmental activities | | | |
| Total fund balances – governmental funds | \$ 31,790,173 | \$ 43,889,112 | \$ (12,098,939) |
| Total capital assets, net of depreciation | 265,650,906 | 258,530,095 | 7,120,811 |
| Bonds, certificates, capital leases, and other | (200,362,447) | (210,461,514) | 10,099,067 |
| Pension and OPEB liabilities and deferrals | (140,684,642) | (132,046,974) | (8,637,668) |
| Other adjustments | (2,299,413) | (2,040,646) | (258,767) |
| Total net position | <u>\$ (45,905,423)</u> | <u>\$ (42,129,927)</u> | <u>\$ (3,775,496)</u> |
| Net position | | | |
| Net investment in capital assets | \$ 69,414,627 | \$ 64,290,068 | \$ 5,124,559 |
| Restricted | 11,777,774 | 14,352,180 | (2,574,406) |
| Unrestricted | (127,097,824) | (120,772,175) | (6,325,649) |
| Total net position | <u>\$ (45,905,423)</u> | <u>\$ (42,129,927)</u> | <u>\$ (3,775,496)</u> |

| | A | B | C | D | E | F | G | H | I | J | K | L | M | N | O |
|----|---|-------------------------------------|---|----------------------|---------------------|--------------------|--------------------------|-------------------------|------------------------|-----------------------------------|----------------------------------|---------------------------------|--|---|---------------------------------|
| 1 | INDEPENDENT SCHOOL DISTRICT #273 | | | | | | | | | | | | | | |
| 2 | COMBINED STATEMENT OF BUDGETED AND ACTUAL REVENUES, EXPENDITURES, | | | | | | | | | | | | | | |
| 3 | AND PROJECTED AND ACTUAL CHANGES IN FUND BALANCE | | | | | | | | | | | | | | |
| 4 | Fiscal Year Ending June 30, 2020 | | | | | | | | | | | | | | |
| | | Audited Balance June 30, 2019 | | Original Revenues | Revised Revenues | Actual Revenues | Original Expenditures | Revised Expenditures | Actual Expenditures | Original Required Transfers | Revised Required Transfers | Actual Required Transfers | Original Projected Balance June 30, 2020 | Revised Projected Balance June 30, 2020 | Actual Balance June 30, 2020 |
| 5 | GENERAL FUND (01) | | | | | | | | | | | | | | |
| 6 | Nonspendable - General | 31,133 | | - | - | - | - | - | 31,133 | - | - | - | 128,765 | 31,133 | - |
| 7 | Nonspendable - Capital | - | | - | - | - | - | - | - | - | - | - | - | - | - |
| 8 | Subtotal Nonspendable | 31,133 | | - | - | - | - | - | 31,133 | - | - | - | 128,765 | 31,133 | - |
| 9 | Restricted for Student Activities | 25,049 | | | | 2,953 | - | - | 3,431 | - | - | 1,960 | - | - | 26,531 |
| 10 | Restricted for Staff Development | 58,820 | | 1,186,375 | 1,181,924 | 1,193,524 | 1,229,916 | 1,247,933 | 1,138,648 | - | - | (113,696) | (47,942) | (7,189) | 0 |
| 11 | Restricted for Capital - Carryover | 2,366,645 | | | - | - | - | 2,366,645 | 2,002,445 | - | - | - | - | - | 364,200 |
| 12 | Restricted for Capital | 388,831 | | 2,266,474 | 3,258,049 | 3,134,711 | 2,205,864 | 3,411,284 | 559,405 | - | - | (2,000,000) | 497,604 | 235,596 | 964,138 |
| 13 | Restricted for Learning & Development | - | | 1,895,622 | 1,884,244 | 1,879,962 | 1,892,265 | 1,899,794 | 1,879,962 | 1,879,962 | 15,550 | - | 3,357 | - | 0 |
| 14 | Restricted for Success Center ALC | - | | 149,738 | 148,235 | 131,259 | 237,643 | 367,153 | 463,865 | 87,905 | 218,918 | 332,607 | - | - | - |
| 15 | Restricted for High School ALP | - | | 330,642 | 358,296 | 307,497 | 376,656 | 375,462 | 367,620 | 46,014 | 17,166 | 60,123 | - | - | - |
| 16 | Restricted for Gifted Education | - | | 132,780 | 132,345 | 126,430 | 1,040,048 | 1,050,201 | 1,137,206 | 907,268 | 917,856 | 1,010,776 | - | - | - |
| 17 | Restricted for Basic Skills-ML | - | | 269,398 | 291,718 | 311,797 | 1,278,218 | 1,285,197 | 1,303,263 | 1,008,820 | 993,479 | 991,466 | - | - | - |
| 18 | Restricted for Basic Skills-Compensatory | - | | 249,405 | 255,147 | 241,113 | 245,877 | 247,018 | 241,113 | - | (8,129) | - | 3,528 | - | (0) |
| 19 | Restricted for Achievement & Integration | - | | 1,145,800 | 1,142,326 | 1,142,079 | 1,121,504 | 1,142,326 | 1,037,715 | 1,142,079 | - | - | - | - | 104,363 |
| 20 | Restricted for Safe Schools | (189,562) | | 465,312 | 759,231 | 759,232 | 611,544 | 824,077 | 797,567 | 146,232 | 64,846 | 227,898 | - | - | - |
| 21 | Restricted for Basic Skills-Compensatory Ext Time | - | | - | - | 14,033 | - | - | 14,033 | - | - | - | - | - | - |
| 22 | Restricted for Long Term Facilities Maintenance | - | | 6,857,801 | 6,857,801 | 6,857,801 | 5,613,311 | 5,669,048 | 6,857,801 | (1,244,490) | (1,188,753) | - | - | - | - |
| 23 | Restricted for Medical Assistance | - | | - | - | 115,553 | - | - | 140,558 | - | - | 25,005 | - | - | - |
| 24 | Subtotal Restricted | 2,649,783 | | 14,949,347 | 15,762,785 | 16,217,944 | 15,852,846 | 19,143,522 | 17,944,634 | 3,973,790 | 794,848 | 536,139 | 456,547 | 228,407 | 1,459,232 |
| 25 | Committed 1% of Unassigned Fund Balance | 1,037,614 | | - | - | - | - | - | 12,670 | 42,652 | 30,795 | 1,029,886 | 1,080,266 | 1,068,409 | - |
| 26 | Subtotal Committed | 1,037,614 | | - | - | - | - | - | 12,670 | 42,652 | 30,795 | 1,029,886 | 1,080,266 | 1,068,409 | - |
| 27 | Assigned for Separation/Retirement Benefits | 3,385,135 | | - | - | - | - | - | - | (187,729) | (115,462) | 2,756,526 | 3,197,406 | 3,269,673 | - |
| 28 | Assigned for Q Comp | 149,673 | | 2,375,570 | 2,218,576 | 2,216,974 | 2,318,231 | 2,409,341 | 2,322,727 | - | 41,092 | 215,028 | - | - | 43,920 |
| 29 | Assigned for Donations Carryover | - | | - | - | 648,398 | - | 538,715 | 209,050 | - | 538,715 | - | - | - | 439,348 |
| 30 | Subtotal Assigned | 3,534,808 | | 2,375,570 | 2,725,107 | 2,865,373 | 2,318,231 | 3,690,671 | 2,531,778 | - | 628,162 | (115,462) | 2,971,554 | 3,197,406 | 3,752,941 |
| 31 | Unassigned - Unemployment | (71,946) | | | | 89,626 | | | 303,169 | | | | (92,422) | (71,946) | (285,490) |
| 32 | Unassigned - Lease Levy | - | | | | | | | | | | | (721,178) | - | - |
| 33 | Unassigned - Career and Technical | - | | 106,364 | | 111,842 | 471,312 | | 405,557 | 364,948 | | 293,715 | - | - | - |
| 34 | Unassigned - General | 7,026,123 | | 98,894,422 | 99,779,280 | 99,069,295 | 95,967,392 | 97,731,718 | 96,451,230 | (2,573,857) | (2,654,416) | (745,187) | 7,230,333 | 6,229,707 | 8,899,001 |
| 35 | Subtotal Unassigned | 6,954,177 | | 98,894,422 | 99,779,280 | 99,270,763 | 96,438,704 | 97,731,718 | 97,159,957 | (2,573,857) | (2,654,416) | (451,472) | 6,416,733 | 6,157,761 | 8,613,512 |
| 36 | Total General | 14,207,514 | | 116,325,703 | 118,267,172 | 118,354,080 | 114,609,781 | 120,565,910 | 117,667,501 | (1,244,490) | (1,188,753) | - | 11,003,485 | 10,694,973 | 14,894,094 |
| 37 | | | | | 108,151,322 | 107,713,170 | | 109,118,935 | 108,247,851 | | | | | | 14,894,094 |
| 38 | | | | | | | | | | | | | | | |
| 39 | FOOD SERVICE FUND (02) | | | | | | | | | | | | | | |
| 40 | Nonspendable | - | | 480 | - | - | - | - | - | - | - | - | 480 | - | - |
| 41 | Restricted | 1,100,255 | | 2,945,804 | 2,945,752 | 2,475,919 | 3,256,453 | 3,205,401 | 2,649,049 | - | - | - | 484,128 | 840,606 | 927,125 |
| 42 | Total Food Service | 1,100,255 | | 2,946,284 | 2,945,752 | 2,475,919 | 3,256,453 | 3,205,401 | 2,649,049 | - | - | - | 484,608 | 840,606 | 927,125 |
| 43 | | | | | | | | | | | | | | | |
| 44 | COMMUNITY SERVICE FUND (04) | | | | | | | | | | | | | | |
| 45 | Nonspendable Community Ed - General | - | | - | - | - | - | - | - | - | - | - | - | - | - |
| 46 | Restricted for Community Ed - General | 660,226 | | 6,433,895 | 7,072,510 | 6,391,105 | 6,385,416 | 6,952,198 | 6,787,071 | - | - | 100,000 | 430,753 | 778,555 | 364,259 |
| 47 | Restricted for ECFE | 80,107 | | 1,166,959 | 825,850 | 614,099 | 931,599 | 806,240 | 633,026 | - | - | - | 622,630 | 99,717 | 61,180 |
| 48 | Restricted for School Readiness | 181,219 | | 189,078 | 216,128 | 252,853 | 119,866 | 246,130 | 258,629 | - | - | (100,000) | 227,528 | 151,217 | 75,443 |
| 49 | Restricted for Other Community Ed | 10,653 | | 274,979 | 212,481 | 195,826 | 265,725 | 239,413 | 179,306 | - | - | - | 9,822 | (14,294) | 27,173 |
| 50 | Total Community Service | 932,204 | | 8,064,911 | 8,326,969 | 7,453,883 | 7,702,606 | 8,243,981 | 7,858,032 | - | - | - | 1,290,733 | 1,015,195 | 528,055 |
| 51 | | | | | | | | | | | | | | | |
| 52 | Total Operating Funds | 16,239,973 | | 127,336,898 | 129,539,893 | 128,283,882 | 125,568,840 | 132,015,292 | 128,174,582 | (1,244,490) | (1,188,753) | - | 12,778,826 | 12,550,774 | 16,349,274 |
| 53 | | | | | | | | | | | | | | | |
| 54 | BUILDING FUND (06) | | | | | | | | | | | | | | |
| 55 | Nonspendable - LTFM Levy | - | | - | - | - | - | - | - | - | - | - | 12,739 | - | - |
| 56 | Restricted for Capital/Technology Levy | 1,278,344 | | 5,914,554 | 5,914,554 | 5,991,425 | 5,845,567 | 6,489,145 | 6,853,237 | - | - | - | 833,510 | 703,752 | 416,531 |
| 57 | Restricted for \$124.9M Building Bond | 798,649 | | | | 11,733 | 1,008,223 | 798,649 | 810,382 | - | - | - | - | (0) | 0 |
| 58 | Restricted for Long Term Facilities Maintenance | 23,000,223 | | 100,000 | 2,232,331 | 1,024,566 | 12,016,970 | 12,016,970 | 12,027,381 | 1,244,490 | 1,188,753 | - | 14,065,710 | 14,404,337 | 11,997,408 |
| 59 | Total Building | 25,077,215 | | 6,014,554 | 8,146,885 | 7,027,724 | 18,870,760 | 19,304,764 | 19,691,000 | 1,244,490 | 1,188,753 | - | 14,911,959 | 15,108,088 | 12,413,939 |
| 60 | | | | | | | | | | | | | | | |
| 61 | DEBT SERVICE FUND (07) | | | | | | | | | | | | | | |
| 62 | Restricted for Bond Refunding | - | | - | 21,951,538 | 21,951,538 | - | 21,951,538 | 21,951,538 | - | - | - | - | - | - |
| 63 | Restricted Fund Balance | 2,596,972 | | 15,984,979 | 15,984,979 | 16,109,011 | 15,050,625 | 15,095,477 | 15,679,022 | - | - | - | 2,988,627 | 3,486,474 | 3,026,960 |
| 64 | Total Debt Service | 2,596,972 | | 15,984,979 | 37,936,517 | 38,060,549 | 15,050,625 | 37,047,015 | 37,630,560 | - | - | - | 2,988,627 | 3,486,474 | 3,026,960 |
| 65 | | | | | | | | | | | | | | | |
| 66 | INTERNAL SERVICE FUND - Dental (20) | | | | | | | | | | | | | | |
| 67 | Unassigned Fund Balance | 489,605 | | 870,000 | 870,000 | 855,860 | 870,000 | 870,000 | 744,260 | - | - | - | 484,367 | 489,605 | 601,205 |
| 68 | Total Internal Service | 489,605 | | 870,000 | 870,000 | 855,860 | 870,000 | 870,000 | 744,260 | - | - | - | 484,367 | 489,605 | 601,205 |
| 69 | TOTAL ALL FUNDS | 44,403,765 | | 150,206,431 | 176,493,295 | 174,228,015 | 160,360,225 | 189,237,071 | 186,240,401 | - | 0 | - | 31,163,779 | 31,634,941 | 32,391,379 |
| 70 | | | | | | | | | | | | | | | |
| 71 | | | | | | | | | | | | | | | |
| 72 | | | | | | | | | | | | | | | |
| 73 | | | | | | | | | | | | | | | |

INDEPENDENT SCHOOL DISTRICT NO. 273
EDINA, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
June 30, 2020

INDEPENDENT SCHOOL DISTRICT NO. 273

Table of Contents

| | Page |
|---|-------|
| INTRODUCTORY SECTION | |
| SCHOOL BOARD AND ADMINISTRATION | 1 |
| FINANCIAL SECTION | |
| INDEPENDENT AUDITOR’S REPORT | 2–4 |
| MANAGEMENT’S DISCUSSION AND ANALYSIS | 5–16 |
| BASIC FINANCIAL STATEMENTS | |
| Government-Wide Financial Statements | |
| Statement of Net Position | 17 |
| Statement of Activities | 18 |
| Fund Financial Statements | |
| Governmental Funds | |
| Balance Sheet | 19–20 |
| Reconciliation of the Balance Sheet to the Statement of Net Position | 21 |
| Statement of Revenue, Expenditures, and Changes in Fund Balances | 22–23 |
| Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities | 24 |
| Statement of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund | 25 |
| Proprietary Fund | |
| Statement of Net Position | 26 |
| Statement of Revenue, Expenses, and Changes in Fund Net Position | 27 |
| Statement of Cash Flows | 28 |
| Notes to Basic Financial Statements | 29–58 |
| REQUIRED SUPPLEMENTARY INFORMATION | |
| Public Employees Retirement Association Pension Benefits Plan | |
| Schedule of District’s and Nonemployer Proportionate Share of Net Pension Liability | 59 |
| Schedule of District Contributions | 59 |
| Teachers Retirement Association Pension Benefits Plan | |
| Schedule of District’s and Nonemployer Proportionate Share of Net Pension Liability | 60 |
| Schedule of District Contributions | 60 |
| Pension Benefits Plan | |
| Schedule of Changes in the District’s Total Pension Liability and Related Ratios | 61 |
| Other Post-Employment Benefits Plan | |
| Schedule of Changes in the District’s Total OPEB Liability and Related Ratios | 62 |
| Notes to Required Supplementary Information | 63–68 |

INDEPENDENT SCHOOL DISTRICT NO. 273

Table of Contents (continued)

| | Page |
|---|-------|
| SUPPLEMENTAL INFORMATION | |
| Nonmajor Governmental Funds | |
| Combining Balance Sheet | 69 |
| Combining Statement of Revenue, Expenditures, and Changes in Fund Balances | 70 |
| General Fund | |
| Comparative Balance Sheet | 71 |
| Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual | 72 |
| Food Service Special Revenue Fund | |
| Comparative Balance Sheet | 73 |
| Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual | 74 |
| Community Service Special Revenue Fund | |
| Comparative Balance Sheet | 75 |
| Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual | 76 |
| Capital Projects – Building Construction Fund | |
| Comparative Balance Sheet | 77 |
| Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual | 78 |
| Debt Service Fund | |
| Comparative Balance Sheet | 79 |
| Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual | 80 |
| OTHER DISTRICT INFORMATION (UNAUDITED) | |
| General Fund Revenue by Source | 81 |
| General Fund Expenditures by Program | 82–83 |
| School Tax Levies and Tax Rates by Fund | 84 |
| Property Tax Levies and Receivables | 85–86 |
| Student Enrollment | 87 |
| SINGLE AUDIT AND OTHER REQUIRED REPORTS | |
| Schedule of Expenditures of Federal Awards | 88 |
| 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 <i>Government Auditing Standards</i> | 89–90 |
| Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance | 91–92 |
| Independent Auditor’s Report on Minnesota Legal Compliance | 93 |
| Schedule of Findings and Questioned Costs | 94–97 |
| Uniform Financial Accounting and Reporting Standards Compliance Table | 98–99 |

INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 273

School Board and Administration
Year Ended June 30, 2020

SCHOOL BOARD

| | <u>Position</u> |
|----------------------|---------------------|
| Erica Allenburg | Chair |
| Leny Wallen-Friedman | Vice Chair |
| Matthew Fox | Treasurer |
| Ellen Jones | Clerk |
| Owen Michaelson | Assistant Treasurer |
| Julie Greene | Assistant Clerk |
| Janie Shaw | Assistant Clerk |

ADMINISTRATION

| | |
|------------------|-------------------------------|
| Dr. John Schultz | Superintendent |
| John Toop | Director of Business Services |
| Ra Chhoth | Controller |

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 273
Edina, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page 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 District as of June 30, 2020, and the respective changes in financial position, and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

EMPHASIS OF MATTER

As described in Note 1 of the notes to basic financial statements, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, during the year ended June 30, 2020. Our opinion is not modified with respect to this matter.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information (RSI), 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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplemental information, and other District information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

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

(continued)

The introductory section and other District information have 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 them.

Prior Year Comparative Information

We have previously audited the District's 2019 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated November 13, 2019. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 28, 2020

INDEPENDENT SCHOOL DISTRICT NO. 273

Management's Discussion and Analysis Fiscal Year Ended June 30, 2020

This section of Independent School District No. 273, Edina, Minnesota's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2020 by \$45,905,423 (net position deficit). The District's total net position decreased by \$3,800,545 during the fiscal year ended June 30, 2020, excluding the change in accounting principle discussed below.
- The District recorded a change in accounting principle in the current year with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, which changed the way the District reports certain fiduciary activities. The implementation of this standard increased both beginning governmental net position and beginning fund balance in the General Fund by \$25,049.
- Government-wide revenues totaled \$151,356,618, and were \$3,800,545 less than expenses of \$155,157,163.
- The General Fund's total fund balance (under the governmental fund presentation) increased \$686,579 during the year, compared to a \$3,487,491 decrease projected in the final budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of the following parts:

- Independent Auditor's Report;
- Management's discussion and analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Combining and individual fund statements and schedules, presented as supplemental information.

The following explains the two types of statements included in the basic financial statements:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (Statement of Net Position and Statement of Activities) 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 government-wide financial statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the District's financial health or *position*.

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

In the government-wide financial statements, the District's activities are all shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds, rather than the District as a whole. Funds (Food Service and Community Service Special Revenue) that do not meet the threshold to be classified as major funds are called "nonmajor" funds. Detailed financial information for nonmajor funds is presented as supplemental information.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America. Some funds are required by state law and by bond covenants. The District can establish other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The District maintains the following kinds of funds:

Governmental Funds – 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 financial statements provide a detailed *short-term* view that helps to determine whether there are more or less 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 government-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental funds financial statements that explain the relationship (or differences) between these two types of financial statement presentations.

Proprietary Funds – The District maintains one type of proprietary fund. Internal Service Funds are used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses its Internal Service Fund to account for its self-insured employee dental program. These services have been included within governmental activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 is a summarized view of the District's Statement of Net Position:

| Table 1 Summary Statement of Net Position as of June 30, 2020 and 2019 | | |
|---|------------------------|------------------------|
| | 2020 | 2019 |
| Assets | | |
| Current and other assets | \$ 105,091,262 | \$ 115,151,833 |
| Capital assets, net of depreciation | 265,650,906 | 258,530,095 |
| Total assets | <u>\$ 370,742,168</u> | <u>\$ 373,681,928</u> |
| Deferred outflows of resources | <u>\$ 63,408,060</u> | <u>\$ 91,317,446</u> |
| Liabilities | | |
| Current and other liabilities | \$ 20,108,608 | \$ 20,581,933 |
| Long-term liabilities, including due within one year | 309,256,097 | 318,756,300 |
| Total liabilities | <u>\$ 329,364,705</u> | <u>\$ 339,338,233</u> |
| Deferred inflows of resources | <u>\$ 150,690,946</u> | <u>\$ 167,791,068</u> |
| Net position | | |
| Net investment in capital assets | \$ 69,414,627 | \$ 64,290,068 |
| Restricted | 11,777,774 | 14,352,180 |
| Unrestricted | <u>(127,097,824)</u> | <u>(120,772,175)</u> |
| Total net position | <u>\$ (45,905,423)</u> | <u>\$ (42,129,927)</u> |

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, may produce a significant difference in the calculated amounts. Another major difference between net position and fund balances are the liabilities for long-term severance, pension, and other post-employment benefits (OPEB), which impact the unrestricted portion of net position.

The District's total net position decreased by \$3,800,545 in fiscal 2020, excluding the change in accounting principle as previously discussed. The increase in net investment in capital assets is due to the relationship between the rate at which the capital assets are added and depreciated, versus the rate at which the related debt is repaid. Reductions in resources restricted for capital asset acquisition, food service, and community service resulted in the decrease in restricted net position. The change in the District's share of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) pension plans contributed to the change in deferred outflows of resources, long-term liabilities, deferred inflows of resources, and unrestricted net position.

Table 2 presents a condensed version of the Statement of Activities of the District:

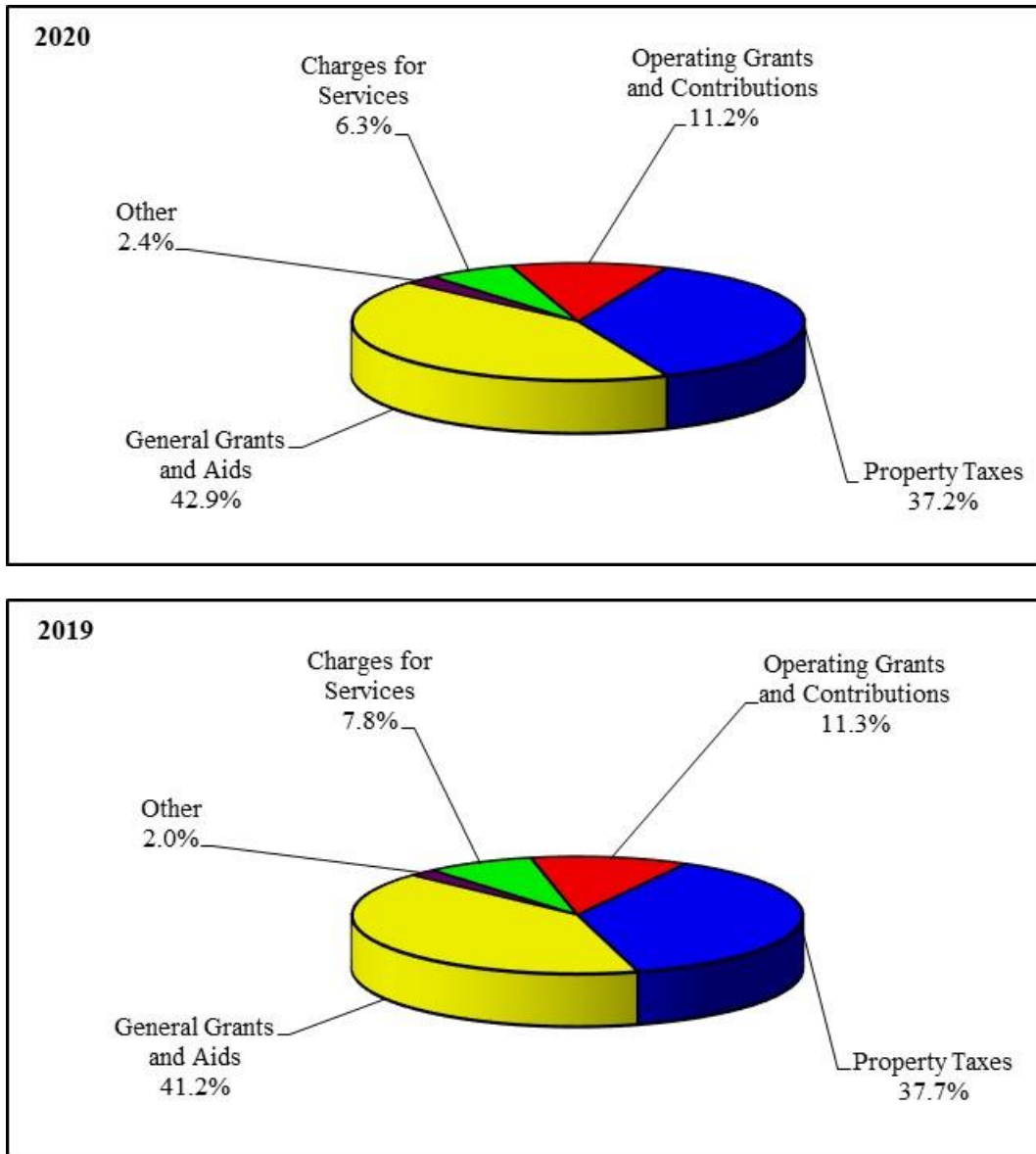
| Table 2 Summary Statement of Activities for the Years Ended June 30, 2020 and 2019 | | |
|---|------------------------|------------------------|
| | 2020 | 2019 |
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 9,600,637 | \$ 11,348,284 |
| Operating grants and contributions | 16,936,588 | 16,423,646 |
| General revenues | | |
| Property taxes | 56,335,374 | 54,615,541 |
| General grants and aids | 64,777,362 | 59,507,776 |
| All other | 3,706,657 | 2,840,116 |
| Total revenues | <u>151,356,618</u> | <u>144,735,363</u> |
| Expenses | | |
| Administration | 3,355,426 | 2,218,112 |
| District support services | 2,831,412 | 2,656,587 |
| Elementary and secondary regular instruction | 64,939,467 | 40,403,099 |
| Vocational education instruction | 584,027 | 238,186 |
| Special education instruction | 24,253,131 | 15,671,871 |
| Instructional support services | 6,123,950 | 4,044,870 |
| Pupil support services | 11,019,797 | 10,039,710 |
| Sites and buildings | 24,750,786 | 23,315,175 |
| Fiscal and other fixed cost programs | 305,513 | 252,778 |
| Food service | 2,637,069 | 2,922,698 |
| Community service | 8,103,181 | 7,444,575 |
| Interest and fiscal charges | 6,253,404 | 6,186,183 |
| Total expenses | <u>155,157,163</u> | <u>115,393,844</u> |
| Change in net position | (3,800,545) | 29,341,519 |
| Net position – beginning, as previously reported | (42,129,927) | (71,471,446) |
| Change in accounting principle | 25,049 | – |
| Net position – beginning, as restated | <u>(42,104,878)</u> | <u>(71,471,446)</u> |
| Net position – ending | <u>\$ (45,905,423)</u> | <u>\$ (42,129,927)</u> |

This format is similar to the fund financial statements, except it is presented on an accrual basis of accounting, and includes all governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

Total revenues for fiscal year 2020 were \$6,621,255 greater than last year, mainly due to increases in property taxes, state general and special education aid, and state pass-through pension contributions. Expenses increased \$39,763,319 compared to fiscal year 2019 levels, mainly due to the change in the PERA and the TRA pension plans mentioned earlier, along with natural inflationary increases.

Figures A and B show further analysis of these revenue sources and expense functions:

Figure A – Sources of Revenues for Fiscal Years 2020 and 2019

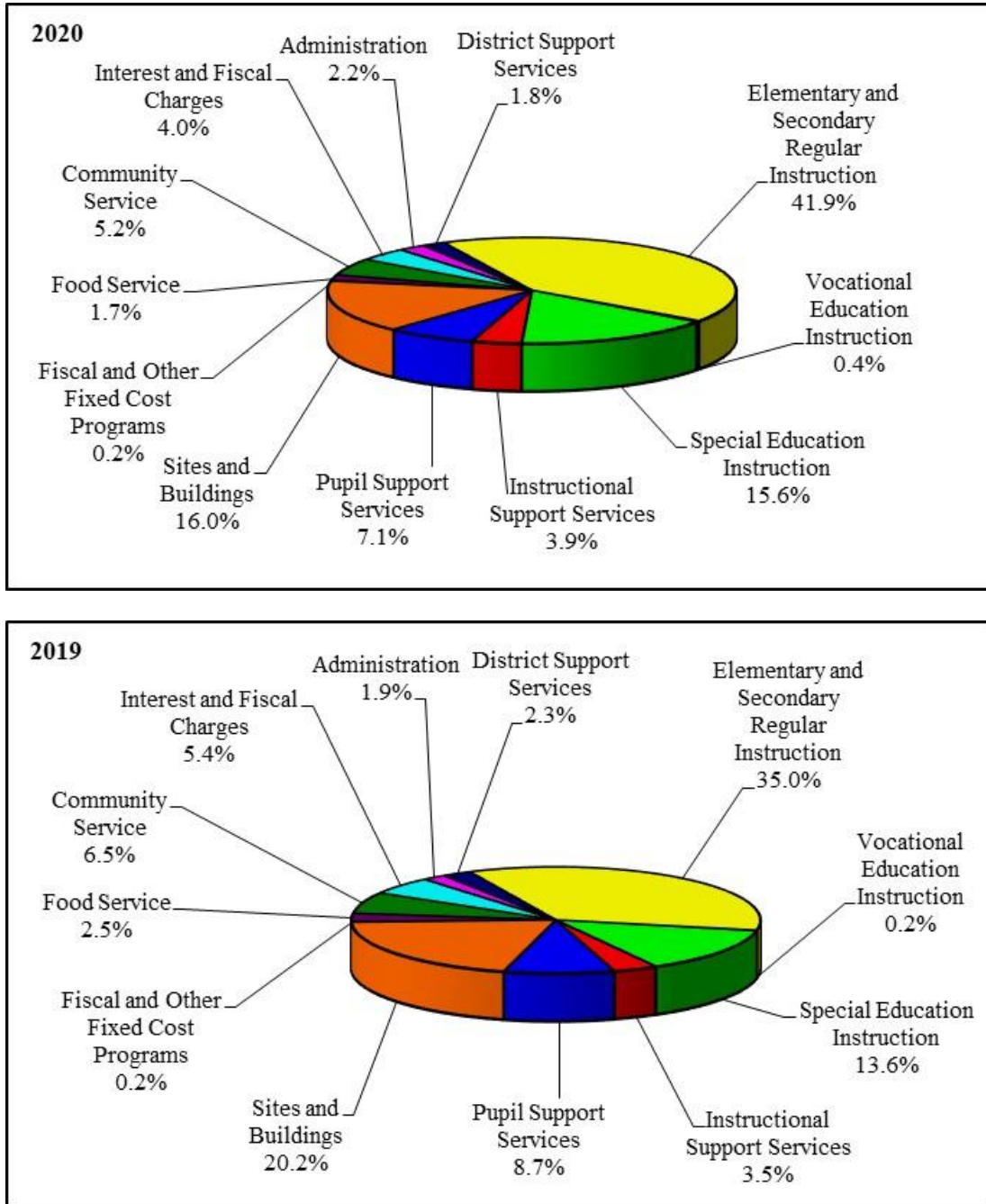


The largest share of the District's revenue is received from the state, including the aid formula and most of the operating grants.

Property taxes are the next largest source of funding. The level of funding property tax sources provide is not only dependent on taxpayers of the District by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

The decrease in charges for services, compared to the prior year, was directly related to the COVID-19 pandemic, which caused the cancellation of numerous activities beginning in March through the end of the fiscal year.

Figure B – Expenses for Fiscal Years 2020 and 2019



The District's expenses are predominately related to educating students. Programs (or functions), such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

The significant year-to-year change in the percentage of expenses incurred in several program areas shown above, was attributable to the change in expenses related to the two state-wide pension plans, which caused greater fluctuations in program areas with a higher proportion of salaries.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances in each of the District's governmental funds:

| Table 3 Governmental Fund Balances as of June 30, 2020 and 2019 | | | |
|--|----------------------|----------------------|------------------------|
| | <u>2020</u> | <u>2019</u> | <u>Change</u> |
| Major funds | | | |
| General | \$ 14,894,094 | \$ 14,182,466 | \$ 711,628 |
| Capital Projects – Building Construction | 12,413,939 | 25,077,215 | (12,663,276) |
| Debt Service | 3,026,960 | 2,596,972 | 429,988 |
| Nonmajor funds | | | |
| Food Service Special Revenue | 927,125 | 1,100,255 | (173,130) |
| Community Service Special Revenue | <u>528,055</u> | <u>932,204</u> | <u>(404,149)</u> |
| Total governmental funds | <u>\$ 31,790,173</u> | <u>\$ 43,889,112</u> | <u>\$ (12,098,939)</u> |

In the General Fund, nonspendable fund balances for prepaid items decreased \$31,133. Fund balances restricted for various purposes decreased \$14,165,631, mainly due to the District spending down restricted fund balance in the Capital Projects – Building Construction Fund for construction projects. Fund balances committed by School Board resolution for cash flow needs increased \$30,795. Fund balances assigned for various purposes increased \$218,133. Unassigned fund balances, which include Uniform Financial Accounting and Reporting Standards fund balance restrictions with deficit balances, increased \$1,848,897 during the year, due to General Fund operations.

General Fund

The General Fund is used to account for all revenues and expenditures of the District not accounted for elsewhere. The General Fund is used to account for: K–12 educational activities, district instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and other legal school district expenditures not specifically designated to be accounted for in any other fund.

Table 4 summarizes the amendments to the General Fund budget:

| Table 4 General Fund Budget | | | | |
|--|------------------------|-----------------------|---------------------|-----------------------|
| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Change</u> | <u>Percent Change</u> |
| Revenue | <u>\$ 116,325,703</u> | <u>\$ 118,267,172</u> | <u>\$ 1,941,469</u> | <u>1.7%</u> |
| Expenditures | <u>\$ 114,609,781</u> | <u>\$ 120,565,910</u> | <u>\$ 5,956,129</u> | <u>5.2%</u> |
| Transfers (out) | <u>\$ (1,244,490)</u> | <u>\$ (1,188,753)</u> | <u>\$ 55,737</u> | <u>(4.5%)</u> |

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. In the fall and spring, the District amends the budget for known changes in circumstances such as enrollment levels, legislative funding, staffing changes, employee contract settlements, and prior year carryover balances. Between the original and final budget, the District increased both the revenue and expenditure budgets for these factors.

Table 5 summarizes the operating results of the General Fund:

| Table 5 General Fund Operating Results | | | | | |
|---|--------------------|----------------------------------|----------------|--------------------------------|----------------|
| | <u>2020 Actual</u> | <u>Over (Under) Final Budget</u> | | <u>Over (Under) Prior Year</u> | |
| | | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Revenue | \$ 118,354,080 | \$ 86,908 | 0.1% | \$ 1,254,881 | 1.1% |
| Expenditures | 117,667,501 | \$ (2,898,409) | (2.4%) | \$ 4,228,269 | 3.7% |
| Transfers (out) | <u>—</u> | \$ 1,188,753 | 100.0% | \$ 3,213,503 | 100.0% |
| Net change in fund balances | <u>\$ 686,579</u> | | | | |

Actual revenues for fiscal year 2020 were 0.1 percent over budget. The revenue variance was primarily in other local revenue sources such as rent and fees from patrons, which the District budgets conservatively due to their unpredictable nature.

The budget-to-actual variance in expenditures was spread across several programs, with the largest savings occurring in elementary and secondary regular instruction, instructional support services, and sites and buildings, primarily due to the District implementing a distance learning model and COVID-19 restrictions.

An increase in the District's voter-approved operating referendum tax levy, along with additional state funding for general education and special education, contributed to the 1.1 percent increase in total General Fund revenue.

The increase in expenditures compared to the prior year, was mainly due to higher special education costs, and more long-term facilities maintenance (LTFM) projects accounted for in the General Fund than the previous year, along with growth in remaining expenditures consistent with regional inflationary trends.

The District did not make a planned transfer of \$1.2 million to the Capital Projects – Building Construction Fund for LTFM projects. A transfer out of \$3.2 million was made for this purpose in the prior year.

Food Service Special Revenue Fund

Food Service Special Revenue Fund revenue for fiscal year 2020 totaled \$2,475,919, and expenditures were \$2,649,049. The June 30, 2020 fund balance is \$927,125, a decrease of \$173,130 from fiscal year 2019, compared to a budgeted decrease of \$259,649. Revenue and expenditures were under budget by \$469,833 and \$556,352, respectively, due to changes in the District's child nutrition program resulting from the COVID-19 pandemic.

Community Service Special Revenue Fund

Community Service Special Revenue Fund revenue for fiscal year 2020 totaled \$7,453,883, and expenditures were \$7,858,032. The June 30, 2020 fund balance is \$528,055, a decrease of \$404,149 from fiscal year 2019, compared to a budgeted increase of \$82,988. Revenue and expenditures were under budget by \$873,086 and \$385,949, respectively, due to the cancellation of numerous activities beginning in March through the end of the fiscal year, due to COVID-19 restrictions.

Capital Projects – Building Construction Fund

Capital Projects – Building Construction Fund revenue for fiscal year 2020 totaled \$7,027,724, and expenditures were \$19,691,000. The June 30, 2020 fund balance is \$12,413,939, a decrease of \$12,663,276 from fiscal year 2019, compared to a planned decrease of \$11,157,879. This variance was mainly due to the timing of capital projects.

Debt Service Fund

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, or for initial or refunding bonds. Debt Service Fund revenue for fiscal year 2020 totaled \$16,109,011, and expenditures were \$15,735,561. The District also issued refunding bonds during the year to redeem \$21,895,000 of outstanding debt and replace it with bonds at a more favorable interest rate. The June 30, 2020 fund balance is \$3,026,960, an increase of \$429,988 from fiscal year 2019, as compared to a \$889,502 increase anticipated in the budget.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

By the end of 2020, the District had invested \$265,650,906 in a broad range of capital assets, including school buildings, athletic facilities, and technology and equipment (see Table 6). Total depreciation expense for this year was \$12,135,663.

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ended June 30, 2020 and 2019.

| Table 6 | | | |
|-------------------------------|-----------------------|-----------------------|---------------------|
| Capital Assets | | | |
| | <u>2020</u> | <u>2019</u> | <u>Change</u> |
| Land | \$ 5,240,001 | \$ 5,240,001 | \$ — |
| Land improvements | 26,542,807 | 25,704,218 | 838,589 |
| Buildings | 346,558,478 | 298,445,773 | 48,112,705 |
| Furniture and equipment | 21,677,137 | 18,787,927 | 2,889,210 |
| Construction in progress | 13,579,584 | 46,163,614 | (32,584,030) |
| Less accumulated depreciation | <u>(147,947,101)</u> | <u>(135,811,438)</u> | <u>(12,135,663)</u> |
| Total | <u>\$ 265,650,906</u> | <u>\$ 258,530,095</u> | <u>\$ 7,120,811</u> |
| Depreciation expense | <u>\$ 12,135,663</u> | <u>\$ 10,132,336</u> | <u>\$ 2,003,327</u> |

The changes presented in the table above reflect the ongoing construction activity at various district sites during fiscal year 2020. The most significant change from last year is in buildings and construction in progress, which reflects the completion of several significant projects related to previously issued building bonds and the 10-year LTFM plan.

The District capitalizes furniture, equipment, and also land improvements valued at \$5,000 or more.

Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities, together with the change from the prior year:

| Table 7 Outstanding Long-Term Liabilities | | | |
|--|-----------------------|-----------------------|-----------------------|
| | 2020 | 2019 | Change |
| General obligation bonds payable | \$ 181,575,000 | \$ 191,720,000 | \$ (10,145,000) |
| Certificates of participation payable | 845,000 | 950,000 | (105,000) |
| Unamortized premiums | 13,282,191 | 15,481,849 | (2,199,658) |
| Capital leases payable | 1,477,131 | 1,615,060 | (137,929) |
| Severance benefits payable | 626,667 | 694,605 | (67,938) |
| Net pension liabilities | 90,846,264 | 89,050,545 | 1,795,719 |
| Total OPEB liability | 20,603,844 | 19,244,241 | 1,359,603 |
| Total | <u>\$ 309,256,097</u> | <u>\$ 318,756,300</u> | <u>\$ (9,500,203)</u> |

The decreases in general obligation bonds payable, certificates of participation payable, and capital leases payable were due to scheduled principal repayments during fiscal year 2020, along with the bond refunding discussed previously. The difference in the net pension and OPEB liabilities reflects the changes in the District's proportionate share of the state-wide PERA and TRA pension plans, along with changes in the District's pension and OPEB plans.

The state limits the amount of general obligation debt the District can issue to 15.0 percent of the market value of all taxable property within the District's corporate limits (see Table 8).

| Table 8 Limitations on Debt | |
|--|-------------------------|
| District's market value | \$ 10,497,608,075 |
| Limit rate | <u>15.0%</u> |
| Legal debt limit | <u>\$ 1,574,641,211</u> |

Additional details of the District's capital assets and long-term debt activity can be found in the notes to basic financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Aside from local voter-approved excess operating referenda, the majority of the District's revenue authority is derived from state funding formulas. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs, due to inflation. The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and consequently, school districts rely heavily on the state of Minnesota for educational resources. The Legislature has added \$129, or 2 percent, per pupil to the formula for fiscal year 2021.

Annually, the School Board approves a rolling 10-year LTFM plan. Goals of the plan are to support learning environment and initiatives for students, staff, and community; increase long-term facilities funding of annual deferred maintenance to meet ongoing needs; address backlog of deferred maintenance in buildings; improve energy efficiency; support strategic plan initiatives; and minimize impact to taxpayers. In conformance with this 10-year plan, the District issued in Spring 2019, \$24.1 million in LTFM bonds. The plan invests approximately \$15.0 million biannually in the remaining years of the LTFM plan to improve mechanical systems, exterior envelope, and paving throughout the District. In accordance with the District's approved 10-year LTFM plan, the District intends to issue LTFM bonds of approximately \$13,575,000 in Spring 2021.

In Fall 2020, the District refinanced its 2013 Building Bonds and continued to maintain its top credit rating from one of the leading global rating agencies. Moody's Investors Service reaffirmed its Aaa rating of the District, the highest assigned by Moody's. The Aaa rating allows the District to obtain the lowest interest rates available when borrowing money by issuing bonds and certificates. The District is one of three districts in the state to have the highest rating.

In November 2017, the District was successful in its request to renew and increase the existing operating levy scheduled to sunset in 2018–2019. The voters approved the increase in a two-step process, with an increase for taxes payable in 2018 of \$445 per pupil unit, and an increase of \$217.61 per pupil unit for taxes payable starting in 2020. The increase in the operating referendum has maintained the quality of programs and services expected in Edina.

The District strives to maintain its longstanding commitment to academic excellence and educational opportunity for learners within a framework of financial fiduciary responsibility.

The COVID-19 pandemic has impacted how the District provides instruction, completing the 2019–2020 school year with distance learning. Increased expenditures for staffing, personal protective equipment, sanitation supplies, and technology are expected in the upcoming fiscal year as the pandemic continues. The amount of funding a district receives is also dependent on the number of students it serves, meaning attracting and retaining students is critical to the District's financial well-being. The COVID-19 pandemic may impact District enrollment, which in turn could impact district revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about these statements or need additional financial information, contact the Business Services Department, Independent School District No. 273, 5701 Normandale Road, Edina, Minnesota 55424, or visit the District's website at www.edinaschools.org.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Net Position
as of June 30, 2020
(With Partial Comparative Information as of June 30, 2019)

| | Governmental Activities | |
|--|-------------------------|-----------------------|
| | 2020 | 2019 |
| Assets | | |
| Cash and temporary investments | \$ 63,085,769 | \$ 75,342,730 |
| Receivables | | |
| Current taxes | 30,910,894 | 28,163,663 |
| Delinquent taxes | 473,701 | 437,198 |
| Accounts and interest | 290,250 | 704,643 |
| Due from other governmental units | 10,330,648 | 10,472,466 |
| Prepaid items | — | 31,133 |
| Capital assets | | |
| Not depreciated | 18,819,585 | 51,403,615 |
| Depreciated, net of accumulated depreciation | 246,831,321 | 207,126,480 |
| Total assets | <u>370,742,168</u> | <u>373,681,928</u> |
| Deferred outflows of resources | | |
| Pension plan deferments | 61,864,735 | 90,306,489 |
| OPEB Plan deferments | 1,543,325 | 1,010,957 |
| Total deferred outflows of resources | <u>63,408,060</u> | <u>91,317,446</u> |
| Total assets and deferred outflows of resources | <u>\$ 434,150,228</u> | <u>\$ 464,999,374</u> |
| Liabilities | | |
| Salaries and benefits payable | \$ 10,964,182 | \$ 11,278,469 |
| Accounts and contracts payable | 4,733,470 | 5,267,795 |
| Accrued interest payable | 3,295,919 | 3,019,481 |
| Due to other governmental units | 540,644 | 279,392 |
| Unearned revenue | 574,393 | 736,796 |
| Long-term liabilities | | |
| Net pension liabilities | 90,846,264 | 89,050,545 |
| Total OPEB liability | 20,603,844 | 19,244,241 |
| Bonds, certificates, capital leases, and other due within one year | 7,599,598 | 8,685,972 |
| Bonds, certificates, capital leases, and other due in more than one year | 190,206,391 | 201,775,542 |
| Total liabilities | <u>329,364,705</u> | <u>339,338,233</u> |
| Deferred inflows of resources | | |
| Bond refunding deferments | 2,556,458 | — |
| Property taxes levied for subsequent year | 55,491,894 | 52,721,434 |
| Pension plan deferments | 91,498,816 | 113,762,458 |
| OPEB Plan deferments | 1,143,778 | 1,307,176 |
| Total deferred inflows of resources | <u>150,690,946</u> | <u>167,791,068</u> |
| Net position | | |
| Net investment in capital assets | 69,414,627 | 64,290,068 |
| Restricted for | | |
| Capital asset acquisition | 10,242,776 | 12,305,809 |
| Food service | 927,125 | 1,100,255 |
| Community service | 476,979 | 887,296 |
| Other state restrictions | 130,894 | 58,820 |
| Unrestricted | (127,097,824) | (120,772,175) |
| Total net position | <u>(45,905,423)</u> | <u>(42,129,927)</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 434,150,228</u> | <u>\$ 464,999,374</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Activities
Year Ended June 30, 2020
(With Partial Comparative Information for the Year Ended June 30, 2019)

| | 2020 | | | 2019 | |
|--|-----------------------|-------------------------|-----------------------------|--|--|
| | | | | Net (Expense) Revenue and Changes in Net Position | Net (Expense) Revenue and Changes in Net Position |
| | | Program Revenues | | | |
| | | | Operating | | |
| Functions/Programs | Expenses | Charges for Services | Grants and Contributions | Governmental Activities | Governmental Activities |
| Governmental activities | | | | | |
| Administration | \$ 3,355,426 | \$ 44,794 | \$ — | \$ (3,310,632) | \$ (2,184,600) |
| District support services | 2,831,412 | — | — | (2,831,412) | (2,656,587) |
| Elementary and secondary regular instruction | 64,939,467 | 1,430,084 | 354,424 | (63,154,959) | (38,262,799) |
| Vocational education instruction | 584,027 | — | — | (584,027) | (238,186) |
| Special education instruction | 24,253,131 | 115,553 | 14,327,311 | (9,810,267) | (1,373,724) |
| Instructional support services | 6,123,950 | — | — | (6,123,950) | (4,044,870) |
| Pupil support services | 11,019,797 | 23,487 | 912,378 | (10,083,932) | (9,213,347) |
| Sites and buildings | 24,750,786 | 569,743 | — | (24,181,043) | (22,805,415) |
| Fiscal and other fixed cost programs | 305,513 | — | — | (305,513) | (252,778) |
| Food service | 2,637,069 | 1,640,049 | 810,134 | (186,886) | 87,759 |
| Community service | 8,103,181 | 5,776,927 | 532,341 | (1,793,913) | (491,184) |
| Interest and fiscal charges | 6,253,404 | — | — | (6,253,404) | (6,186,183) |
| Total governmental activities | <u>\$ 155,157,163</u> | <u>\$ 9,600,637</u> | <u>\$ 16,936,588</u> | (128,619,938) | (87,621,914) |
| General revenues | | | | | |
| Taxes | | | | | |
| Property taxes, levied for general purposes | | | | 33,408,171 | 33,151,451 |
| Property taxes, levied for community service | | | | 1,116,918 | 1,074,332 |
| Property taxes, levied for capital projects | | | | 5,914,554 | 5,300,000 |
| Property taxes, levied for debt service | | | | 15,895,731 | 15,089,758 |
| General grants and aids | | | | 64,777,362 | 59,507,776 |
| Other general revenues | | | | 2,674,991 | 1,852,396 |
| Investment earnings | | | | 1,031,666 | 987,720 |
| Total general revenues | | | | <u>124,819,393</u> | <u>116,963,433</u> |
| Change in net position | | | | (3,800,545) | 29,341,519 |
| Net position – beginning, as previously reported | | | | (42,129,927) | (71,471,446) |
| Change in accounting principle | | | | 25,049 | — |
| Net position – beginning, as restated | | | | <u>(42,104,878)</u> | <u>(71,471,446)</u> |
| Net position – ending | | | | \$ (45,905,423) | \$ (42,129,927) |

INDEPENDENT SCHOOL DISTRICT NO. 273

Balance Sheet
Governmental Funds
as of June 30, 2020
(With Partial Comparative Information as of June 30, 2019)

| | General Fund | Capital Projects – Building Construction Fund | Debt Service Fund |
|--|----------------------|---|----------------------|
| Assets | | | |
| Cash and temporary investments | \$ 33,419,553 | \$ 16,351,081 | \$ 10,056,001 |
| Receivables | | | |
| Current taxes | 22,662,888 | – | 7,674,548 |
| Delinquent taxes | 342,628 | – | 120,382 |
| Accounts and interest | 246,751 | 2,362 | – |
| Due from other governmental units | 10,155,617 | – | – |
| Prepaid items | – | – | – |
| Total assets | <u>\$ 66,827,437</u> | <u>\$ 16,353,443</u> | <u>\$ 17,850,931</u> |
| Liabilities | | | |
| Salaries and benefits payable | \$ 10,758,562 | \$ 18,615 | \$ – |
| Accounts and contracts payable | 690,549 | 3,920,889 | – |
| Due to other governmental units | 530,457 | – | – |
| Unearned revenue | – | – | – |
| Total liabilities | <u>11,979,568</u> | <u>3,939,504</u> | <u>–</u> |
| Deferred inflows of resources | | | |
| Property taxes levied for subsequent year | 39,665,864 | – | 14,725,692 |
| Unavailable revenue – delinquent taxes | 287,911 | – | 98,279 |
| Total deferred inflows of resources | <u>39,953,775</u> | <u>–</u> | <u>14,823,971</u> |
| Fund balances | | | |
| Nonspendable | – | – | – |
| Restricted | 1,459,232 | 12,413,939 | 3,026,960 |
| Committed | 1,068,409 | – | – |
| Assigned | 3,752,941 | – | – |
| Unassigned | 8,613,512 | – | – |
| Total fund balances | <u>14,894,094</u> | <u>12,413,939</u> | <u>3,026,960</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 66,827,437</u> | <u>\$ 16,353,443</u> | <u>\$ 17,850,931</u> |

| Nonmajor Funds | Total Governmental Funds | |
|---------------------|--------------------------|-----------------------|
| | 2020 | 2019 |
| \$ 2,642,248 | \$ 62,468,883 | \$ 74,835,080 |
| 573,458 | 30,910,894 | 28,163,663 |
| 10,691 | 473,701 | 437,198 |
| 16,181 | 265,294 | 680,810 |
| 175,031 | 10,330,648 | 10,472,466 |
| — | — | 31,133 |
| <u>\$ 3,417,609</u> | <u>\$ 104,449,420</u> | <u>\$ 114,620,350</u> |
| \$ 187,005 | \$ 10,964,182 | \$ 11,278,469 |
| 81,395 | 4,692,833 | 5,225,917 |
| 10,187 | 540,644 | 279,392 |
| 574,393 | 574,393 | 736,796 |
| <u>852,980</u> | <u>16,772,052</u> | <u>17,520,574</u> |
| 1,100,338 | 55,491,894 | 52,721,434 |
| 9,111 | 395,301 | 489,230 |
| <u>1,109,449</u> | <u>55,887,195</u> | <u>53,210,664</u> |
| — | — | 31,133 |
| 1,455,180 | 18,355,311 | 32,520,942 |
| — | 1,068,409 | 1,037,614 |
| — | 3,752,941 | 3,534,808 |
| — | 8,613,512 | 6,764,615 |
| <u>1,455,180</u> | <u>31,790,173</u> | <u>43,889,112</u> |
| <u>\$ 3,417,609</u> | <u>\$ 104,449,420</u> | <u>\$ 114,620,350</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2020
(With Partial Comparative Information as of June 30, 2019)

| | 2020 | 2019 |
|--|------------------------|------------------------|
| Total fund balances – governmental funds | \$ 31,790,173 | \$ 43,889,112 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources. | | |
| Cost of capital assets | 413,598,007 | 394,341,533 |
| Accumulated depreciation | (147,947,101) | (135,811,438) |
| Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses. | | |
| General obligation bonds payable | (181,575,000) | (191,720,000) |
| Certificates of participation payable | (845,000) | (950,000) |
| Unamortized premiums | (13,282,191) | (15,481,849) |
| Capital leases payable | (1,477,131) | (1,615,060) |
| Severance benefits payable | (626,667) | (694,605) |
| Net pension liabilities | (90,846,264) | (89,050,545) |
| Total OPEB liability | (20,603,844) | (19,244,241) |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Position. | | |
| | 601,205 | 489,605 |
| Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable. | | |
| | (3,295,919) | (3,019,481) |
| The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements. | | |
| Deferred outflows of resources – pension plan deferments | 61,864,735 | 90,306,489 |
| Deferred outflows of resources – OPEB Plan deferments | 1,543,325 | 1,010,957 |
| Deferred inflows of resources – bond refunding deferments | (2,556,458) | – |
| Deferred inflows of resources – pension plan deferments | (91,498,816) | (113,762,458) |
| Deferred inflows of resources – OPEB Plan deferments | (1,143,778) | (1,307,176) |
| Deferred inflows of resources – unavailable revenue – delinquent taxes | 395,301 | 489,230 |
| Total net position – governmental activities | <u>\$ (45,905,423)</u> | <u>\$ (42,129,927)</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2020
(With Partial Comparative Information for the Year Ended June 30, 2019)

| | General Fund | Capital Projects – Building Construction Fund | Debt Service Fund |
|--|---------------|---|----------------------|
| Revenue | | | |
| Local sources | | | |
| Property taxes | \$ 33,473,446 | \$ 5,914,554 | \$ 15,922,424 |
| Investment earnings | 402,060 | 391,547 | 186,587 |
| Other | 4,137,029 | 721,623 | – |
| State sources | 78,527,670 | – | – |
| Federal sources | 1,813,875 | – | – |
| Total revenue | 118,354,080 | 7,027,724 | 16,109,011 |
| Expenditures | | | |
| Current | | | |
| Administration | 3,009,563 | – | – |
| District support services | 2,800,341 | – | – |
| Elementary and secondary regular instruction | 56,626,943 | – | – |
| Vocational education instruction | 417,775 | – | – |
| Special education instruction | 22,535,544 | – | – |
| Instructional support services | 5,600,116 | – | – |
| Pupil support services | 10,138,725 | – | – |
| Sites and buildings | 15,903,909 | – | – |
| Fiscal and other fixed cost programs | 305,513 | – | – |
| Food service | – | – | – |
| Community service | – | – | – |
| Capital outlay | – | 19,691,000 | – |
| Debt service | | | |
| Principal | 242,929 | – | 8,140,000 |
| Interest and fiscal charges | 86,143 | – | 7,595,561 |
| Total expenditures | 117,667,501 | 19,691,000 | 15,735,561 |
| Excess (deficiency) of revenue over expenditures | 686,579 | (12,663,276) | 373,450 |
| Other financing sources (uses) | | | |
| Bonds issued | – | – | 19,890,000 |
| Premium on bonds issued | – | – | 2,061,538 |
| Payment on refunded debt | – | – | (21,895,000) |
| Transfers in | – | – | – |
| Transfers (out) | – | – | – |
| Total other financing sources (uses) | – | – | 56,538 |
| Net change in fund balances | 686,579 | (12,663,276) | 429,988 |
| Fund balances | | | |
| Beginning of year, as previously reported | 14,182,466 | 25,077,215 | 2,596,972 |
| Change in accounting principle | 25,049 | – | – |
| Beginning of year, as restated | 14,207,515 | 25,077,215 | 2,596,972 |
| End of year | \$ 14,894,094 | \$ 12,413,939 | \$ 3,026,960 |

| Nonmajor Funds | Total Governmental Funds | |
|----------------|--------------------------|---------------|
| | 2020 | 2019 |
| \$ 1,118,879 | \$ 56,429,303 | \$ 54,484,845 |
| 51,472 | 1,031,666 | 987,720 |
| 7,416,976 | 12,275,628 | 13,200,680 |
| 640,965 | 79,168,635 | 77,151,756 |
| 701,510 | 2,515,385 | 3,059,848 |
| 9,929,802 | 151,420,617 | 148,884,849 |
| — | 3,009,563 | 3,301,695 |
| — | 2,800,341 | 2,918,207 |
| — | 56,626,943 | 55,976,301 |
| — | 417,775 | 371,717 |
| — | 22,535,544 | 21,165,695 |
| — | 5,600,116 | 5,720,643 |
| — | 10,138,725 | 10,536,840 |
| — | 15,903,909 | 12,863,141 |
| — | 305,513 | 252,778 |
| 2,371,549 | 2,371,549 | 2,934,016 |
| 7,805,415 | 7,805,415 | 7,885,155 |
| 330,117 | 20,021,117 | 27,983,835 |
| — | 8,382,929 | 7,643,316 |
| — | 7,681,704 | 7,552,759 |
| 10,507,081 | 163,601,143 | 167,106,098 |
| (577,279) | (12,180,526) | (18,221,249) |
| — | 19,890,000 | 24,075,000 |
| — | 2,061,538 | 1,208,440 |
| — | (21,895,000) | — |
| — | — | 3,213,503 |
| — | — | (3,213,503) |
| — | 56,538 | 25,283,440 |
| (577,279) | (12,123,988) | 7,062,191 |
| 2,032,459 | 43,889,112 | 36,826,921 |
| — | 25,049 | — |
| 2,032,459 | 43,914,161 | 36,826,921 |
| \$ 1,455,180 | \$ 31,790,173 | \$ 43,889,112 |

INDEPENDENT SCHOOL DISTRICT NO. 273

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2020
(With Partial Comparative Information for the Year Ended June 30, 2019)

| | 2020 | 2019 |
|--|-----------------------|----------------------|
| Total net change in fund balances – governmental funds | \$ (12,123,988) | \$ 7,062,191 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Capital assets are recorded in net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase. | | |
| Capital outlays | 19,256,474 | 23,813,888 |
| Depreciation expense | (12,135,663) | (10,132,336) |
| Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is included in the governmental activities in the Statement of Activities. | 111,600 | 5,238 |
| The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities. | | |
| General obligation bonds payable | (19,890,000) | (24,075,000) |
| Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances. | | |
| General obligation bonds and certificates of participation | 30,140,000 | 7,510,000 |
| Capital leases payable | 137,929 | 133,316 |
| Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due. | (276,438) | 24,623 |
| Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses. | 2,199,658 | 133,513 |
| Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances. | | |
| Severance benefits payable | 67,938 | (78,375) |
| Net pension liabilities | (1,795,719) | 129,582,380 |
| Total OPEB liability | (1,359,603) | 666,648 |
| The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements. | | |
| Deferred outflows of resources – pension plan deferments | (28,441,754) | (25,224,208) |
| Deferred outflows of resources – OPEB Plan deferments | 532,368 | 29,250 |
| Deferred inflows of resources – bond refunding deferments | (2,556,458) | – |
| Deferred inflows of resources – pension plan deferments | 22,263,642 | (78,933,129) |
| Deferred inflows of resources – OPEB Plan deferments | 163,398 | (1,307,176) |
| Deferred inflows of resources – unavailable revenue – delinquent taxes | (93,929) | 130,696 |
| Change in net position – governmental activities | <u>\$ (3,800,545)</u> | <u>\$ 29,341,519</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2020

| | Budgeted Amounts | | Actual | Over (Under) Final Budget |
|--|--------------------|-----------------------|----------------------|------------------------------|
| | Original | Final | | |
| Revenue | | | | |
| Local sources | | | | |
| Property taxes | \$ 33,424,868 | \$ 33,631,398 | \$ 33,473,446 | \$ (157,952) |
| Investment earnings | 599,999 | 599,999 | 402,060 | (197,939) |
| Other | 2,624,212 | 3,575,687 | 4,137,029 | 561,342 |
| State sources | 77,673,380 | 78,627,470 | 78,527,670 | (99,800) |
| Federal sources | 2,003,244 | 1,832,618 | 1,813,875 | (18,743) |
| Total revenue | <u>116,325,703</u> | <u>118,267,172</u> | <u>118,354,080</u> | <u>86,908</u> |
| Expenditures | | | | |
| Current | | | | |
| Administration | 3,066,449 | 3,151,830 | 3,009,563 | (142,267) |
| District support services | 2,833,739 | 2,847,650 | 2,800,341 | (47,309) |
| Elementary and secondary regular instruction | 55,250,944 | 57,764,946 | 56,626,943 | (1,138,003) |
| Vocational education instruction | 532,146 | 364,303 | 417,775 | 53,472 |
| Special education instruction | 21,467,445 | 21,856,578 | 22,535,544 | 678,966 |
| Instructional support services | 6,099,491 | 6,792,688 | 5,600,116 | (1,192,572) |
| Pupil support services | 9,972,570 | 10,457,811 | 10,138,725 | (319,086) |
| Sites and buildings | 14,725,870 | 16,660,977 | 15,903,909 | (757,068) |
| Fiscal and other fixed cost programs | 332,000 | 340,000 | 305,513 | (34,487) |
| Debt service | | | | |
| Principal | 238,316 | 238,316 | 242,929 | 4,613 |
| Interest and fiscal charges | 90,811 | 90,811 | 86,143 | (4,668) |
| Total expenditures | <u>114,609,781</u> | <u>120,565,910</u> | <u>117,667,501</u> | <u>(2,898,409)</u> |
| Excess (deficiency) of revenue over expenditures | 1,715,922 | (2,298,738) | 686,579 | 2,985,317 |
| Other financing (uses) | | | | |
| Transfers (out) | <u>(1,244,490)</u> | <u>(1,188,753)</u> | <u>—</u> | <u>1,188,753</u> |
| Net change in fund balances | <u>\$ 471,432</u> | <u>\$ (3,487,491)</u> | <u>686,579</u> | <u>\$ 4,174,070</u> |
| Fund balances | | | | |
| Beginning of year, as previously reported | | | 14,182,466 | |
| Change in accounting principle | | | <u>25,049</u> | |
| Beginning of year, as restated | | | <u>14,207,515</u> | |
| End of year | | | <u>\$ 14,894,094</u> | |

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Net Position
 Proprietary Fund
 Internal Service Fund
 as of June 30, 2020
 (With Partial Comparative Information as of June 30, 2019)

| | <u>2020</u> | <u>2019</u> |
|--------------------------------|-------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and temporary investments | \$ 616,886 | \$ 507,650 |
| Accounts receivable | <u>24,956</u> | <u>23,833</u> |
| Total assets | <u>641,842</u> | <u>531,483</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts and contracts payable | <u>40,637</u> | <u>41,878</u> |
| Net position | | |
| Unrestricted | <u>\$ 601,205</u> | <u>\$ 489,605</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenses, and Changes in Fund Net Position
 Proprietary Fund
 Internal Service Fund
 Year Ended June 30, 2020
 (With Partial Comparative Information for the Year Ended June 30, 2019)

| | <u>2020</u> | <u>2019</u> |
|----------------------------|--------------------------|--------------------------|
| Operating revenue | | |
| Charges for services | \$ 855,860 | \$ 872,731 |
| Operating expenses | | |
| Dental claims and expenses | <u>744,260</u> | <u>867,493</u> |
| Operating income | 111,600 | 5,238 |
| Net position | | |
| Beginning of year | <u>489,605</u> | <u>484,367</u> |
| End of year | <u><u>\$ 601,205</u></u> | <u><u>\$ 489,605</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Cash Flows
 Proprietary Fund
 Internal Service Fund
 Year Ended June 30, 2020
 (With Partial Comparative Information for the Year Ended June 30, 2019)

| | <u>2020</u> | <u>2019</u> |
|---|--------------------------|--------------------------|
| Cash flows from operating activities | | |
| Contributions from governmental funds | \$ 854,737 | \$ 872,407 |
| Dental claims and other expense payments | <u>(745,501)</u> | <u>(863,143)</u> |
| Net cash flows from operating activities | 109,236 | 9,264 |
| Cash and temporary investments | | |
| Beginning of year | <u>507,650</u> | <u>498,386</u> |
| End of year | <u><u>\$ 616,886</u></u> | <u><u>\$ 507,650</u></u> |
| Reconciliation of operating income to net cash flows from operating activities | | |
| Operating income | \$ 111,600 | \$ 5,238 |
| Adjustments to reconcile operating income to net cash flows from operating activities | | |
| Changes in assets and liabilities | | |
| Accounts receivable | (1,123) | (324) |
| Accounts and contracts payable | <u>(1,241)</u> | <u>4,350</u> |
| Net cash flows from operating activities | <u><u>\$ 109,236</u></u> | <u><u>\$ 9,264</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Notes to Basic Financial Statements June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Organization

Independent School District No. 273, Edina, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District serves pre-kindergarten through 12th grade students attending the District either as a resident of the District or through an open enrollment option election. It is governed by a School Board elected by voters of the District to four-year terms. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America 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.

B. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. Generally, the effect of material interfund activity has been removed from the government-wide financial statements. Transactions representing interfund services provided and used are not eliminated in the consolidation process to the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported instead as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory tax shift described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

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. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.
- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Internal service funds are presented in proprietary fund financial statements. Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes. Because the principal users of the internal services are the District’s governmental activities, the internal service funds are consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. An internal service fund accounts for the financing of goods or services provided by one department to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The principal operating revenue of the District’s Internal Service Fund is charges to other district funds for service. Operating expenses for the Internal Service Fund include the costs of providing services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education (MDE). Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund – The General Fund is the government’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue, capital project levies, or the Long-Term Facilities Maintenance Program.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general obligation debt principal, interest, and related costs.

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used to account for the District’s child nutrition program.

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or other similar services.

Proprietary Funds

Internal Service Fund – The District’s Internal Service Fund is used to account for dental insurance offered by the District to its employees as a self-insured plan.

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end. Actual expenditures for the year ended June 30, 2020 exceeded budgeted appropriations by \$386,236 in the Capital Projects – Building Construction Fund and by \$583,546 in the Debt Service Fund. Revenues and other financing sources in excess of budget, along with available fund balances, financed these variances.

F. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Bond proceeds recorded in the Capital Projects – Building Construction Fund are not pooled, and earnings on these proceeds are allocated directly to the fund.

For purposes of the Statement of Cash Flows, the District considers all highly liquid debt instruments with an original maturity from the time of purchase by the District of three months or less to be cash equivalents. The proprietary (internal service) fund's equity in the government-wide cash and investment management pool is considered to be cash equivalent.

Investments are generally stated at fair value, except for investments in certain external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less may also be reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of year-end.

H. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are property taxes receivable.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported as expenses/expenditures at the time of consumption.

J. Property Taxes

The majority of district revenue is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the Legislature based on education funding priorities.

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of 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 property on the following January 1. The county generally remits taxes to the District at periodic intervals as they are collected.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the “tax shift,” which periodically changes the District’s recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year’s levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$3,819,001 of the property tax levy collectible in 2020 as revenue to the District in fiscal year 2019–2020. The remaining portion of the taxes collectible in 2020 is reported as a deferred inflow of resources (property taxes levied for subsequent year).

Taxes which 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 reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District in the current year.

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated acquisition value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$5,000 or more, which benefit more than one fiscal year. 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. The District does not possess material amounts of infrastructure capital assets. Such items are considered to be part of the cost of buildings or other improvable property.

Capital assets are reported in the government-wide financial statements, but not in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for furniture and equipment. Land and construction in progress are not depreciated.

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

M. Compensated Absences

Under the terms of union contracts, certain employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued in governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end. Compensated absences, if material, are accrued when earned in the government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Severance Benefits

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. The severance benefit is calculated by converting a portion of unused accumulated sick leave. No individual can receive severance benefits in excess of one year's salary.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future, and are accrued in the governmental fund financial statements as the liability matures, due to employee termination.

O. State-Wide Pension Plans

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 the Teachers Retirement Association (TRA) and additions to/deductions from the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the 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.

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association in 2015.

The PERA has a special funding situation created by a direct aid contribution made by the state of Minnesota. The direct aid is a result of the merger of the Minneapolis Employees Retirement Fund into the PERA on January 1, 2015.

P. Risk Management and Self-Insurance

- 1. General Insurance** – The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in the current fiscal year.
- 2. Self-Insurance** – The District established an Internal Service Fund to account for and finance its uninsured risk of loss for its employee dental plan. Under this plan, the District provides coverage to participating employees and their dependents for various dental costs as described in the plan.

The District makes premium payments to the Internal Service Fund on behalf of program participants based on provisional rates determined by insurance company estimates of monthly claims paid for each coverage class, plus stop-loss insurance premium costs and administrative service charges.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

District claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. Because actual claim liabilities depend on complex factors, such as inflation, changes in legal doctrines, and damage awards, the process used in computing a claim liability does not necessarily result in an exact amount. Claim liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the balance of dental claim liabilities were as follows:

| Fiscal Year Ended June 30, | Beginning of Fiscal Year Liability | Current Year Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Year-End |
|-------------------------------|--|---|-------------------|----------------------------------|
| 2019 | \$ 37,528 | \$ 867,493 | \$ 863,143 | \$ 41,878 |
| 2020 | \$ 41,878 | \$ 744,260 | \$ 745,501 | \$ 40,637 |

Q. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, statements of financial position or balance sheets will sometimes report separate sections for deferred outflows or inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or an inflow of financial resources (revenue) until then.

The District reports a deferred inflow of resources related to bond refunding deferments in the government-wide Statement of Net Position. A bond refunding deferment results from the difference in the carrying value of refunded debt and its reacquisition price. These amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt.

The District reports deferred outflows and inflows of resources related to pensions and other post-employment benefit plans (OPEB) reported in the government-wide Statement of Net Position. These deferred outflows and inflows result from differences between expected and actual economic experience, changes in actuarial assumptions, difference between projected and actual investment earnings, changes in proportion, and contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension and OPEB standards.

Property taxes levied for subsequent years, which represents property taxes received or reported as a receivable before the period for which the taxes are levied, are reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied, and in the governmental fund financial statements during the year for which they are levied, if available.

Unavailable revenue from property taxes arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Net Position

In the government-wide and proprietary fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

S. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District’s superintendent and director of business services are authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the District’s policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the District’s policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total, but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2019, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

U. Change in Accounting Principle

During the year ended June 30, 2020, the District adopted new accounting guidance by implementing the provisions of GASB Statement No. 84, *Fiduciary Activities*, which establishes new criteria for identifying and reporting fiduciary activities. The implementation of this statement has resulted in changing the presentation of the financial statements by including the District's extracurricular student activity accounts within the reporting entity and reporting them in the General Fund and governmental activities, rather than reporting them in a separate financial statement as it has in the past. This standard required retroactive implementation, which resulted in the restatement of fund balance in the General Fund and net position of governmental activities as of July 1, 2019, increasing both by \$25,049.

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

Cash and temporary investments at year-end consist of the following:

| | |
|--------------------------------|-----------------------------|
| Deposits | \$ 7,143,328 |
| Investments | <u>55,942,441</u> |
| Cash and temporary investments | <u><u>\$ 63,085,769</u></u> |

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and nonnegotiable certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated “A” or better; revenue obligations rated “AA” or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District’s deposit policies do not further limit depository choices.

The year-end bank balances of the District’s deposits totaled \$7,152,572, which were fully covered by federal deposit insurance or collateral held by the District’s agent in the District’s name.

C. Investments

The District has the following investments at year-end:

| Investment Type | Credit Rating | Rating Agency | Fair Value Measurements Using | Interest Rate Risk – Maturity Duration in Years | | | Total |
|-------------------------------------|---------------|---------------|-------------------------------|---|------------------|--------------|----------------------|
| | | | | No Maturity Date | Less Than 1 Year | 1 to 5 | |
| Negotiable certificates of deposits | | Not Rated | Level 2 | \$ – | \$ 1,252,713 | \$ 2,017,967 | \$ 3,270,680 |
| Investment pools | | | | | | | |
| MSDLAF Liquid Class | AAA | S&P | Not Applicable | \$ 12,862,601 | \$ – | \$ – | 12,862,601 |
| MSDLAF MAX Class | AAA | S&P | Not Applicable | \$ 91,052 | \$ – | \$ – | 91,052 |
| MNTrust Investment Shares Portfolio | AAA | S&P | Not Applicable | \$ 31,718,108 | \$ – | \$ – | 31,718,108 |
| MNTrust Term Series | AAA | S&P | Not Applicable | \$ – | \$ 8,000,000 | \$ – | 8,000,000 |
| Total investments | | | | | | | <u>\$ 55,942,441</u> |

Investment pools managed by MNTrust and the Minnesota School District Liquid Asset Fund (MSDLAF) are external investment pools regulated by Minnesota Statutes not registered with the Securities and Exchange Commission. The District’s investments in these investment pools are measured at the net asset value per share provided by the pools, which are based on amortized cost methods that approximate fair value. There are no restrictions or limitations on withdrawals from the MNTrust Investment Shares Portfolio or the MSDLAF Liquid Class investment pools. Investments in the MSDLAF MAX Class must be deposited for a minimum of 14 calendar days, with the exception of direct investments of funds distributed by the state of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24-hour hold on all requests for redemptions. MNTrust Term Series Portfolios are intended to be held until maturity; a participant’s withdrawal prior to maturity will require seven days’ notice of redemption and will likely carry a penalty, which could be substantial in that it would be intended to allow the MNTrust Term Series Portfolio to recoup any associated penalties, charges, losses, or other costs associated with the early redemption of the investments therein.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – This is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment 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; 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; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers.

The District's investment policy also requires that commercial paper be of corporations organized in the United States; having at least \$1 billion of outstanding corporate paper obligations; rated at the highest classification by Standard and Poor's (A-1) or Moody's Investors Service (P-1); and not be on credit watch for potential downgrades. No more than 50 percent of the District's investments can be in commercial paper on any given day. District policy does not allow investments in derivatives.

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5.0 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's policies limit the investment on any given day, in any given corporation, to \$1 million.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District's investment policies do not limit investment maturities; however, the District considers such things as interest rates and cash flow needs when purchasing investments.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year is as follows:

| | Balance – Beginning of Year | Additions | Deletions | Completed Construction | Balance – End of Year |
|--|-----------------------------------|---------------------|-------------|---------------------------|--------------------------|
| Capital assets, not depreciated | | | | | |
| Land | \$ 5,240,001 | \$ – | \$ – | \$ – | \$ 5,240,001 |
| Construction in progress | 46,163,614 | 14,946,894 | – | (47,530,924) | 13,579,584 |
| Total capital assets, not depreciated | 51,403,615 | 14,946,894 | – | (47,530,924) | 18,819,585 |
| Capital assets, depreciated | | | | | |
| Land improvements | 25,704,218 | 838,589 | – | – | 26,542,807 |
| Buildings | 298,445,773 | 581,781 | – | 47,530,924 | 346,558,478 |
| Furniture and equipment | 18,787,927 | 2,889,210 | – | – | 21,677,137 |
| Total capital assets, depreciated | 342,937,918 | 4,309,580 | – | 47,530,924 | 394,778,422 |
| Less accumulated depreciation for | | | | | |
| Land improvements | (5,534,948) | (1,299,632) | – | – | (6,834,580) |
| Buildings | (115,836,900) | (9,791,612) | – | – | (125,628,512) |
| Furniture and equipment | (14,439,590) | (1,044,419) | – | – | (15,484,009) |
| Total accumulated depreciation | (135,811,438) | (12,135,663) | – | – | (147,947,101) |
| Net capital assets, depreciated | 207,126,480 | (7,826,083) | – | 47,530,924 | 246,831,321 |
| Total capital assets, net | <u>\$ 258,530,095</u> | <u>\$ 7,120,811</u> | <u>\$ –</u> | <u>\$ –</u> | <u>\$ 265,650,906</u> |

Depreciation for the year was charged to the following governmental functions:

| | |
|--|----------------------|
| Administration | \$ 144,206 |
| Elementary and secondary regular instruction | 3,203,976 |
| Vocational education instruction | 166,252 |
| Special education instruction | 1,329 |
| Instructional support services | 11,302 |
| Pupil support services | 804,073 |
| Sites and buildings | 7,791,271 |
| Community service | 13,254 |
| Total depreciation expense | <u>\$ 12,135,663</u> |

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

The District currently has the following general obligation bonds payable outstanding:

| Issue | Issue Date | Interest Rate | Face/Par Value | Final Maturity | Principal Outstanding |
|---|------------|---------------|----------------|----------------|-----------------------|
| Alternative facilities bonds | 02/21/2013 | 2.00–3.00% | \$ 11,775,000 | 02/01/2026 | \$ 10,970,000 |
| Alternative facilities bonds | 12/30/2014 | 3.00–3.50% | \$ 6,050,000 | 02/01/2035 | 6,050,000 |
| School building bonds | 07/22/2015 | 4.00–5.00% | \$ 113,385,000 | 02/01/2037 | 104,240,000 |
| Facilities maintenance and building bonds | 04/13/2017 | 2.50–4.00% | \$ 16,350,000 | 02/01/2031 | 16,350,000 |
| Facilities maintenance bonds | 05/02/2019 | 3.00–5.00% | \$ 24,075,000 | 02/01/2036 | 24,075,000 |
| School building refunding bonds | 11/14/2019 | 5.00% | \$ 19,890,000 | 02/01/2024 | 19,890,000 |
| Total general obligation bonds payable | | | | | <u>\$ 181,575,000</u> |

These bonds were issued to finance acquisition and/or construction of capital facilities or to finance (refund) prior bond issues. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

The District issued \$19,890,000 of General Obligation School Building Refunding Bonds, Series 2019B, the proceeds of which were used to refund, in advance of their stated maturities, the 2021–2024 maturities of the District’s General Obligation School Building Refunding Bonds, Series 2011B on their February 1, 2020 call date. This refunding reduced the District’s total future debt service payments by \$1,515,543, and resulted in a net present value savings of \$1,457,524.

B. Certificates of Participation Payable

| Issue | Issue Date | Interest Rate | Face/Par Value | Final Maturity | Principal Outstanding |
|-------------------------------------|------------|---------------|----------------|----------------|-----------------------|
| 2011C Certificates of Participation | 11/17/2011 | 2.00–3.75% | \$ 1,615,000 | 04/01/2027 | <u>\$ 845,000</u> |

The District sold certificates of participation under Minnesota Statutes § 123B.51 to finance the construction of an addition to South View Middle School. Scheduled future ad valorem lease obligation tax levies will be made to finance the retirement of principal and interest payments on the certificates. These certificates of participation are being paid by the General Fund.

C. Capital Leases Payable

The District entered into two capital lease agreements to finance the construction of several building additions. The leases, with an effective interest rate of 3.43 percent, require annual principal and interest payments through January 15, 2029, and are being paid by the General Fund. The leased assets were recorded at \$2,233,000 (the present value of future minimum lease payments as of the inception dates of the leases). Total accumulated depreciation on these assets at June 30, 2020 was \$267,960.

D. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including severance benefits for eligible employees based on unused sick leave. Such benefits are paid primarily from the General Fund.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

E. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds, certificates of participation, and capital leases are as follows:

| Year Ending June 30, | General Obligation Bonds | | Certificates of Participation | | Capital Leases | |
|-------------------------|--------------------------|----------------------|-------------------------------|-------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2021 | \$ 7,050,000 | \$ 7,570,538 | \$ 110,000 | \$ 28,825 | \$ 142,700 | \$ 49,452 |
| 2022 | 7,885,000 | 7,018,825 | 110,000 | 25,525 | 147,636 | 44,516 |
| 2023 | 8,275,000 | 6,642,275 | 115,000 | 22,088 | 152,744 | 39,408 |
| 2024 | 7,890,000 | 6,258,325 | 120,000 | 18,350 | 158,028 | 34,124 |
| 2025 | 6,780,000 | 5,876,331 | 125,000 | 14,150 | 163,494 | 28,658 |
| 2026–2030 | 58,265,000 | 23,912,413 | 265,000 | 14,838 | 712,529 | 56,080 |
| 2031–2035 | 63,890,000 | 11,219,450 | – | – | – | – |
| 2036–2037 | 21,540,000 | 1,207,800 | – | – | – | – |
| | <u>\$181,575,000</u> | <u>\$ 69,705,957</u> | <u>\$ 845,000</u> | <u>\$ 123,776</u> | <u>\$ 1,477,131</u> | <u>\$ 252,238</u> |

F. Changes in Long-Term Liabilities

| | Beginning of Year | Additions | Retirements | End of Year | Due Within One Year |
|---------------------------------------|-----------------------|----------------------|----------------------|-----------------------|------------------------|
| General obligation bonds payable | \$ 191,720,000 | \$ 19,890,000 | \$ 30,035,000 | \$ 181,575,000 | \$ 7,050,000 |
| Certificates of participation payable | 950,000 | – | 105,000 | 845,000 | 110,000 |
| Unamortized premiums | 15,481,849 | 2,061,538 | 4,261,196 | 13,282,191 | – |
| Capital leases payable | 1,615,060 | – | 137,929 | 1,477,131 | 142,700 |
| Severance benefits payable | 694,605 | 25,190 | 93,128 | 626,667 | 296,898 |
| | <u>\$ 210,461,514</u> | <u>\$ 21,976,728</u> | <u>\$ 34,632,253</u> | <u>\$ 197,805,989</u> | <u>\$ 7,599,598</u> |

NOTE 5 – FUND BALANCES

The table on the following page presents a breakdown of governmental fund equity components as defined earlier in these notes. State mandated restrictions that have an accumulated deficit at June 30, if any, are included in unassigned fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. However, a description of any deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

The School Board has formally adopted a fund balance policy regarding maintaining a minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance goal of 6.0 percent of budgeted unassigned General Fund expenditures. At June 30, 2020, the unassigned fund balance (excluding restricted account deficits) of the General Fund was 7.1 percent of budgeted unassigned expenditures for fiscal 2021.

NOTE 5 – FUND BALANCES (CONTINUED)

At June 30, 2020, a summary of the District’s governmental fund balance classifications are as follows:

| | General Fund | Capital Projects – Building Construction Fund | Debt Service Fund | Nonmajor Funds | Total |
|--------------------------------|----------------------|---|----------------------|---------------------|----------------------|
| Restricted | | | | | |
| Student activities | \$ 26,531 | \$ – | \$ – | \$ – | \$ 26,531 |
| Operating capital | 1,328,338 | – | – | – | 1,328,338 |
| Achievement and integration | 104,363 | – | – | – | 104,363 |
| Capital projects levy | – | 416,531 | – | – | 416,531 |
| LTFM | – | 11,997,408 | – | – | 11,997,408 |
| Debt service | – | – | 3,026,960 | – | 3,026,960 |
| Food service | – | – | – | 927,125 | 927,125 |
| Community education | – | – | – | 364,259 | 364,259 |
| ECFE | – | – | – | 61,180 | 61,180 |
| School readiness | – | – | – | 75,443 | 75,443 |
| Community service | – | – | – | 27,173 | 27,173 |
| Total restricted | 1,459,232 | 12,413,939 | 3,026,960 | 1,455,180 | 18,355,311 |
| Committed | | | | | |
| Cash flow | 1,068,409 | – | – | – | 1,068,409 |
| Assigned | | | | | |
| Separation/retirement benefits | 3,269,673 | – | – | – | 3,269,673 |
| Carryover | 439,348 | – | – | – | 439,348 |
| Alternative compensation | 43,920 | – | – | – | 43,920 |
| Total assigned | 3,752,941 | – | – | – | 3,752,941 |
| Unassigned | | | | | |
| Unassigned | 8,613,512 | – | – | – | 8,613,512 |
| Total | <u>\$ 14,894,094</u> | <u>\$ 12,413,939</u> | <u>\$ 3,026,960</u> | <u>\$ 1,455,180</u> | <u>\$ 31,790,173</u> |

NOTE 6 – DEFINED BENEFIT PENSION PLANS

District employees participate in three defined benefit pension plans described later in these notes, including two state-wide, cost-sharing, multiple-employer plans, and a single-employer plan administered by the District. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans as of and for the year ended June 30, 2020:

| Pension Plans | Net Pension Liabilities | Deferred Outflows of Resources | Deferred Inflows of Resources | Pension Expense |
|--------------------------------------|----------------------------|--------------------------------------|-------------------------------------|----------------------|
| State-wide, multiple-employer – PERA | \$ 15,657,494 | \$ 2,216,271 | \$ 3,178,505 | \$ 2,072,710 |
| State-wide, multiple-employer – TRA | 61,898,118 | 58,015,190 | 87,933,458 | 11,961,107 |
| Single-employer – District | 13,290,652 | 1,633,274 | 386,853 | 1,285,033 |
| Total | <u>\$ 90,846,264</u> | <u>\$ 61,864,735</u> | <u>\$ 91,498,816</u> | <u>\$ 15,318,850</u> |

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity, administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

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

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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.

1. GERF Benefits

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 the 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 for Coordinated Plan 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 Plan 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 age 66.

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

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the post-retirement increase will be equal to 50.0 percent of the cost of living adjustment announced by the Social Security Administration, with the minimum increase of at least 1.0 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 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 the Rule of 90 are exempt from the delay to normal retirement.

2. TRA Benefits

The 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 Statutes 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 the TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier I Benefits

| Step-Rate Formula | Percentage per Year |
|---|------------------------|
| Basic Plan | |
| First 10 years of service | 2.2 % |
| All years after | 2.7 % |
| Coordinated Plan | |
| First 10 years if service years are up to July 1, 2006 | 1.2 % |
| First 10 years if service years are July 1, 2006 or after | 1.4 % |
| All other years of service if service years are up to July 1, 2006 | 1.7 % |
| All other years of service if service years are up to July 1, 2006 or after | 1.9 % |

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) Three 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).

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

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statutes. 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 eligible for a refund of their employee contributions plus interest.

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

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.5 percent for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2020, were \$1,527,748. The District's contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

Minnesota Statutes, Chapter 354 sets the rates for employer and employee contributions. Rates for each fiscal year were:

| | Year Ended June 30, | | | | | |
|-------------------------|---------------------|----------|----------|----------|----------|----------|
| | 2018 | | 2019 | | 2020 | |
| | Employee | Employer | Employee | Employer | Employee | Employer |
| Basic Plan | 11.00 % | 11.50 % | 11.00 % | 11.71 % | 11.00 % | 11.92 % |
| Coordinated Plan | 7.50 % | 7.50 % | 7.50 % | 7.71 % | 7.50 % | 7.92 % |

The District's contributions to the TRA for the plan's fiscal year ended June 30, 2020, were \$4,470,670. The District's contributions were equal to the required contributions for each year as set by state statutes.

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

The following is a reconciliation of employer contributions in the TRA’s Comprehensive Annual Financial Report (CAFR) Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Nonemployer Pension Allocations:

| | <i>in thousands</i> |
|---|---------------------|
| Employer contributions reported in the TRA’s CAFR Statement of Changes in Fiduciary Net Position | \$ 403,300 |
| Add employer contributions not related to future contribution efforts | (688) |
| Deduct the TRA’s contributions not included in allocation | <u>(486)</u> |
| Total employer contributions | 402,126 |
| Total nonemployer contributions | <u>35,588</u> |
| Total contributions reported in the Schedule of Employer and Nonemployer Pension Allocations | <u>\$ 437,714</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. The TRA has rounded percentage amounts to the nearest ten thousandths.

D. Pension Costs

1. GERF Pension Costs

At June 30, 2020, the District reported a liability of \$15,657,494 for its proportionate share of the GERF’s 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 received by the 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 the PERA’s participating employers. The District’s proportionate share was 0.2832 percent at the end of the measurement period and 0.2896 percent for the beginning of the period.

The District’s net pension liability reflected a reduction, due to the state of Minnesota’s contribution of \$16.0 million. The state of Minnesota is considered a nonemployer contributing entity and the state’s contribution meets the definition of a special funding situation. The amounts 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 the net pension liability | \$ 15,657,494 |
| State’s proportionate share of the net pension liability associated with the District | \$ 486,646 |

For the year ended June 30, 2020, the District recognized pension expense of \$2,036,265 for its proportionate share of the GERF’s pension expense. In addition, the District recognized an additional \$36,445 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota’s contribution of \$16.0 million to the GERF.

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

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 438,553 | \$ – |
| Changes in actuarial assumptions | – | 1,252,306 |
| Differences between projected and actual investment earnings | – | 1,659,914 |
| Changes in proportion | 249,970 | 266,285 |
| District's contributions to the GERF subsequent to the measurement date | 1,527,748 | – |
| Total | <u>\$ 2,216,271</u> | <u>\$ 3,178,505</u> |

A total of \$1,527,748 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 ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

| Year Ending June 30, | Pension Expense Amount |
|-------------------------|------------------------------|
| 2021 | \$ (731,416) |
| 2022 | \$ (1,374,174) |
| 2023 | \$ (409,624) |
| 2024 | \$ 25,232 |

2. TRA Pension Costs

At June 30, 2020, the District reported a liability of \$61,898,118 for its proportionate share of the TRA's 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 the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.9711 percent at the end of the measurement period and 0.9661 percent for the beginning of the period.

The pension liability amount reflected a reduction, due to direct aid provided to the 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 the net pension liability | \$ 61,898,118 |
| State's proportionate share of the net pension liability associated with the District | \$ 5,477,592 |

For the year ended June 30, 2020, the District recognized pension expense of \$11,544,745. It also recognized \$416,362 as an increase to pension expense (and grant revenue) for the support provided by direct aid.

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

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ — | \$ 1,482,419 |
| Changes in actuarial assumptions | 49,911,660 | 81,377,667 |
| Difference between projected and actual investment earnings | — | 5,073,372 |
| Changes in proportion | 3,632,860 | — |
| District's contributions to the TRA subsequent to the measurement date | 4,470,670 | — |
| Total | <u>\$ 58,015,190</u> | <u>\$ 87,933,458</u> |

A total of \$4,470,670 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

| Year Ending June 30, | Pension Expense Amount |
|-------------------------|------------------------------|
| 2021 | \$ 3,374,859 |
| 2022 | \$ 317,851 |
| 2023 | \$ (22,297,497) |
| 2024 | \$ (15,721,743) |
| 2025 | \$ (62,408) |

E. Actuarial Assumptions

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

| Assumptions | GERF | TRA |
|---------------------------|-------|--|
| Inflation | 2.50% | 2.50% |
| Wage growth rate | | 2.85% for 10 years, and 3.25% thereafter |
| Active member payroll | 3.25% | 2.85% to 8.85% for 10 years, and 3.25% to 9.25% thereafter |
| Investment rate of return | 7.50% | 7.50% |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the GERF and 1.00 percent for January 2019 through January 2023, then increasing by 0.10 percent each year, up to 1.50 percent annually for the TRA.

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

Actuarial assumptions used in the June 30, 2019 valuations were based on the results of actuarial experience studies. The most recent four-year experience study in the GERP plan was completed in 2019. Economic assumptions were updated in 2018, based on a review of inflation and investment return assumptions. The most recent experience study in the TRA plan was completed in 2015, with economic assumptions updated in 2017.

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

1. GERP

CHANGES IN ACTUARIAL ASSUMPTIONS

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

CHANGES IN PLAN PROVISIONS

- The employer supplemental contribution was changed prospectively, decreasing from \$31.0 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.

2. TRA

CHANGES IN ACTUARIAL ASSUMPTIONS

- None.

The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, 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 | 35.50 % | 5.10 % |
| Private markets | 25.00 | 5.90 % |
| Fixed income | 20.00 | 0.75 % |
| International equity | 17.50 | 5.30/5.90 % |
| Cash equivalents | 2.00 | – % |
| Total | 100.00 % | |

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

F. Discount Rate

1. GERF

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 rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF 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

The discount rate used to measure the total pension liability was 7.50 percent. There was no change since the prior measurement. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 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.

G. Pension Liability Sensitivity

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

| | <u>1% Decrease in Discount Rate</u> | <u>Discount Rate</u> | <u>1% Increase in Discount Rate</u> |
|---|---|----------------------|---|
| GERF discount rate | 6.50% | 7.50% | 8.50% |
| District's proportionate share of the GERF net pension liability | \$ 25,740,076 | \$ 15,657,494 | \$ 7,332,317 |
| TRA discount rate | 6.50% | 7.50% | 8.50% |
| District's proportionate share of the TRA net pension liability | \$ 98,680,735 | \$ 61,898,118 | \$ 31,571,393 |

H. Pension Plan Fiduciary Net Position

Detailed information about the GERF's fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the PERA website at www.mnpera.org; by writing to the PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103; or by calling (651) 296-7460 or (800) 652-9026.

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

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

I. 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 the PERA's and the TRA's discount rate, as well as the value of each plan's investments. Any impact caused by the resulting declines have not been included in the schedules as of June 30, 2019.

NOTE 8 – DEFINED BENEFIT PENSION PLAN – DISTRICT

A. Plan Description

The District provides pension benefits to certain eligible employees through its Pension Benefits Plan, a single-employer defined benefit plan administered by the District. The following employee groups receive the benefit: Superintendent, Superintendent's Advisory Council, Administrators (Edina Administrative Council), Controller, Director of Buildings and Grounds, Human Resources Manager, Strategic Planner/Analyst, Teachers, Community Education Services Coordinators, Classified Supervisors, Confidential Employees, Other Support Staff, and Edina Professional Association of Support Staff. All pension benefits are based on contractual agreements with these employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. The benefits are calculated using a predetermined number of days depending on the employee group, multiplied by the employee's daily base pay, or in certain cases, a fixed amount per year of service. Payments are made in either a lump sum or installments to a 403(b) plan or in a lump sum directly to the employee. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a separate financial report.

B. Contributions and Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined periodically by the District. The District has not established a trust fund to finance these pension benefits.

C. Membership

Membership in the plan consisted of the following as of the latest actuarial valuation:

| | |
|---|-------------------|
| Retirees and beneficiaries receiving benefits | 31 |
| Active plan members | <u>752</u> |
| Total members | <u><u>783</u></u> |

D. Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial study with a valuation date as of July 1, 2018 and measurement date as of July 1, 2019, using the entry-age method and the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|------------------------------|-------|
| Discount rate | 3.10% |
| 20-year municipal bond yield | 3.10% |
| Inflation rate | 2.50% |
| Salary increases | 3.00% |

NOTE 8 – DEFINED BENEFIT PENSION PLAN – DISTRICT (CONTINUED)

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale. The previous study used the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale. The actuarial assumptions used in the latest valuation were based on those used to value pension liabilities for Minnesota school district employees. The state pension plans base their assumptions on periodic experience studies.

The municipal bond rate assumption was set by considering published rate information for 20-year high quality, tax-exempt, general obligation municipal bonds as of the measurement date.

E. Discount Rate

The discount rate used to measure the total pension liability was 3.10 percent. The projection of cash flows used to determine the discount rate was determined by estimating the long-term investment yield on the employer funds that will be used to pay benefits as they come due. Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-year municipal bond yield rate. The District's discount rate used in the prior measurement date was 3.50 percent.

F. Changes in the Total Pension Liability

| | <u>Total Pension Liability</u> |
|----------------------|------------------------------------|
| Beginning balance | \$ 12,304,601 |
| Changes for the year | |
| Service cost | 784,741 |
| Interest | 448,042 |
| Assumption changes | 334,570 |
| Benefit payments | <u>(581,302)</u> |
| Total net changes | <u>986,051</u> |
| Ending balance | <u><u>\$ 13,290,652</u></u> |

G. Total Pension Liability Sensitivity to Discount Rate Changes

The following presents the net pension liability of the District, as well as what the District's total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

| | <u>1% Decrease in Discount Rate</u> | <u>Discount Rate</u> | <u>1% Increase in Discount Rate</u> |
|-------------------------|---|----------------------|---|
| Pension discount rate | 2.10% | 3.10% | 4.10% |
| Total pension liability | \$ 14,289,705 | \$ 13,290,652 | \$ 12,338,937 |

NOTE 8 – DEFINED BENEFIT PENSION PLAN – DISTRICT (CONTINUED)

H. Pension Expense and Related Deferred Outflows and Deferred Inflows of Resources

The District recognized pension expense of \$1,285,033 in the current year, and at year-end reported the following deferred outflows and inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience | \$ 630,555 | \$ – |
| Changes in actuarial assumptions | 306,689 | 386,853 |
| District's contributions subsequent to the measurement date | 696,030 | – |
| Total | <u>\$ 1,633,274</u> | <u>\$ 386,853</u> |

A total of \$696,030 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 ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending June 30, | Pension Expense |
|-------------------------|--------------------|
| 2021 | \$ 52,250 |
| 2022 | \$ 52,250 |
| 2023 | \$ 52,250 |
| 2024 | \$ 52,250 |
| 2025 | \$ 52,250 |
| Thereafter | \$ 289,141 |

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description and Benefits Provided

The District provides post-employment benefits to certain eligible employees through a single-employer defined benefit OPEB Plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups, with benefit eligibility based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a separate financial report.

All retirees of the District have the option under state law to continue their health insurance coverage through the District from the time of retirement until the employee reaches the age of eligibility for Medicare. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an “implicit rate subsidy.” This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District’s younger and statistically healthier active employees.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined periodically by the District. The District has not established a trust fund to finance these OPEB benefits.

C. Membership

Membership in the plan consisted of the following as of the latest actuarial valuation:

| | |
|---|---------------------|
| Retirees and beneficiaries receiving benefits | 64 |
| Active plan members | <u>1,157</u> |
| Total members | <u><u>1,221</u></u> |

D. Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial study with a valuation date as of July 1, 2018 and measurement date as of July 1, 2019, using the entry-age method, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|------------------------------|--|
| Discount rate | 3.10% |
| 20-year municipal bond yield | 3.10% |
| Inflation rate | 2.50% |
| Salary increases | 3.00% |
| Medical trend rate | 6.25% as of July 1, 2019 grading to 5.00% over 5 years |
| Dental trend rate | 4.00% |

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale. The previous study used the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale. The actuarial assumptions used in the latest valuation were based on those used to value pension liabilities for Minnesota school district employees. The state pension plans base their assumptions on periodic experience studies.

Future retirees electing coverage is assumed to be 100 percent when a pre-age 65 subsidy is available, and 50 percent when a pre-age 65 subsidy is not available. Married future retirees electing spouse coverage is assumed to be 100 percent when a pre-age 65 subsidy is available, and 25 percent when a pre-age 65 subsidy is not available.

The municipal bond rate assumption was set by considering published rate information for 20-year high quality, tax-exempt, general obligation municipal bonds as of the measurement date.

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)**E. Discount Rate**

The discount rate used to measure the total OPEB liability was 3.10 percent. The projection of cash flows used to determine the discount rate was determined by estimating the long-term investment yield on the employer funds that will be used to pay benefits as they come due. Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-year municipal bond yield rate. The District discount rate used in the prior measurement date was 3.50 percent.

F. Changes in the Total OPEB Liability

| | <u>Total OPEB Liability</u> |
|----------------------|---------------------------------|
| Beginning balance | \$ 19,244,241 |
| Changes for the year | |
| Service cost | 1,187,453 |
| Interest | 697,658 |
| Assumption changes | 480,367 |
| Benefit payments | <u>(1,005,875)</u> |
| Total net changes | <u>1,359,603</u> |
| Ending balance | <u>\$ 20,603,844</u> |

G. Total OPEB Liability Sensitivity to Discount and Healthcare Cost Trend Rate Changes

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

| | <u>1% Decrease in Discount Rate</u> | <u>Discount Rate</u> | <u>1% Increase in Discount Rate</u> |
|----------------------|---|----------------------|---|
| OPEB discount rate | 2.10% | 3.10% | 4.10% |
| Total OPEB liability | \$ 22,020,189 | \$ 20,603,844 | \$ 19,231,092 |

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

| | <u>1% Decrease in Healthcare Trend Rates</u> | <u>Healthcare Trend Rates</u> | <u>1% Increase in Healthcare Trend Rates</u> |
|----------------------|--|---|--|
| Medical trend rate | 5.25% decreasing to 4.00% over 5 years | 6.25% decreasing to 5.00% over 5 years | 7.25% decreasing to 6.00% over 5 years |
| Dental trend rate | 3.00% | 4.00% | 5.00% |
| Total OPEB liability | \$ 18,756,323 | \$ 20,603,844 | \$ 22,765,618 |

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

H. OPEB Expense and Related Deferred Outflows and Deferred Inflows of Resources

The District recognized OPEB expense of \$1,775,724 in the current year, and at year-end reported the following deferred outflows and inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ — | \$ 1,143,778 |
| Changes in actuarial assumptions | 431,438 | — |
| District's contributions subsequent to the measurement date | 1,111,887 | — |
| Total | <u>\$ 1,543,325</u> | <u>\$ 1,143,778</u> |

A total of \$1,111,887 reported as deferred outflows of resources related to OPEB resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ending June 30, | Pension Expense |
|-------------------------|--------------------|
| 2021 | \$ (109,387) |
| 2022 | \$ (109,387) |
| 2023 | \$ (109,387) |
| 2024 | \$ (109,387) |
| 2025 | \$ (109,387) |
| Thereafter | \$ (165,405) |

NOTE 10 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan, which is classified as a “cafeteria plan” (the Plan) under § 125 of the IRC. 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 pretax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant.

Before the beginning of the Plan year, which is from January 1 to December 31, each participant designates a total amount of pretax dollars to be contributed to the Plan during the year. The Plan is administered by the District and is accounted for in the District's General Fund. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

All property of the Plan 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 the eligible healthcare 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.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

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.

B. Construction Commitments

At June 30, 2020, the District had commitments totaling \$22,165,356 under various construction contracts for which the work was not yet completed.

C. Legal Claims

The District is a defendant in various lawsuits. Although the outcomes of these lawsuits are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

NOTE 12 – SUBSEQUENT EVENTS

A. Bond Issue

In November 2020, the District approved the sale of \$9,085,000 of General Obligation Alternative Facilities Refunding Bonds, Series 2020A. The proceeds of the bonds will be used to redeem the 2022 through 2026 maturities of the District's General Obligation Alternative Facilities Bonds, Series 2013A, on their February 1, 2021 call date. The 2020A bonds will have interest rates ranging from 3.0 to 4.0 percent and a final maturity date of February 1, 2026.

B. COVID-19

The COVID-19 pandemic has caused economic and financial market volatility in the United States and around the world, along with significant business and operational disruptions for many organizations. Due to the unknown breadth and duration of this pandemic, any potential impact it may have on the District's future operations and financial condition cannot be determined at this time and has not been reflected in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

Public Employees Retirement Association Pension Benefits Plan
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2020

| District Fiscal Year-End Date | PERA Fiscal Year-End Date (Measurement Date) | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability | District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability | Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability | District's Covered Payroll | District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|----------------------------------|---|--|---|---|--|----------------------------------|---|--|
| 06/30/2015 | 06/30/2014 | 0.2999% | \$ 14,087,800 | \$ — | \$ 14,087,800 | \$ 15,747,600 | 89.46% | 78.70% |
| 06/30/2016 | 06/30/2015 | 0.2742% | \$ 14,210,468 | \$ — | \$ 14,210,468 | \$ 16,108,678 | 88.22% | 78.20% |
| 06/30/2017 | 06/30/2016 | 0.2774% | \$ 22,523,504 | \$ 294,246 | \$ 22,817,750 | \$ 17,218,936 | 130.81% | 68.90% |
| 06/30/2018 | 06/30/2017 | 0.2894% | \$ 18,475,105 | \$ 232,340 | \$ 18,707,445 | \$ 18,646,353 | 99.08% | 75.90% |
| 06/30/2019 | 06/30/2018 | 0.2896% | \$ 16,065,821 | \$ 526,989 | \$ 16,592,810 | \$ 18,550,623 | 86.61% | 79.50% |
| 06/30/2020 | 06/30/2019 | 0.2832% | \$ 15,657,494 | \$ 486,646 | \$ 16,144,140 | \$ 20,000,631 | 78.29% | 80.20% |

Public Employees Retirement Association Pension Benefits Plan
Schedule of District Contributions
Year Ended June 30, 2020

| District Fiscal Year-End Date | Statutorily Required Contributions | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|----------------------------------|--|---|--|--------------------|--|
| 06/30/2015 | \$ 1,195,515 | \$ 1,195,515 | \$ — | \$ 16,108,678 | 7.42% |
| 06/30/2016 | \$ 1,291,318 | \$ 1,291,318 | \$ — | \$ 17,218,936 | 7.50% |
| 06/30/2017 | \$ 1,398,478 | \$ 1,398,478 | \$ — | \$ 18,646,353 | 7.50% |
| 06/30/2018 | \$ 1,391,159 | \$ 1,391,159 | \$ — | \$ 18,550,623 | 7.50% |
| 06/30/2019 | \$ 1,492,966 | \$ 1,492,966 | \$ — | \$ 20,000,631 | 7.46% |
| 06/30/2020 | \$ 1,527,748 | \$ 1,527,748 | \$ — | \$ 20,329,984 | 7.51% |

Note: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 273

Teachers Retirement Association Pension Benefits Plan
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2020

| District Fiscal Year-End Date | TRA Fiscal Year-End Date (Measurement Date) | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability | District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability | Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability | District's Covered Payroll | District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|----------------------------------|--|--|---|---|--|----------------------------------|---|--|
| 06/30/2015 | 06/30/2014 | 0.9949% | \$ 45,844,276 | \$ 3,225,114 | \$ 49,069,390 | \$ 45,414,080 | 100.95% | 81.50% |
| 06/30/2016 | 06/30/2015 | 0.9238% | \$ 57,146,166 | \$ 7,009,435 | \$ 64,155,601 | \$ 46,887,773 | 121.88% | 76.80% |
| 06/30/2017 | 06/30/2016 | 0.9434% | \$ 225,023,410 | \$ 22,586,637 | \$ 247,610,047 | \$ 48,890,860 | 460.26% | 44.88% |
| 06/30/2018 | 06/30/2017 | 0.9473% | \$ 189,098,264 | \$ 18,280,007 | \$ 207,378,271 | \$ 50,958,882 | 371.08% | 51.57% |
| 06/30/2019 | 06/30/2018 | 0.9661% | \$ 60,680,123 | \$ 5,701,256 | \$ 66,381,379 | \$ 53,228,684 | 114.00% | 78.07% |
| 06/30/2020 | 06/30/2019 | 0.9711% | \$ 61,898,118 | \$ 5,477,592 | \$ 67,375,710 | \$ 52,764,016 | 117.31% | 78.21% |

Teachers Retirement Association Pension Benefits Plan
Schedule of District Contributions
Year Ended June 30, 2020

| District Fiscal Year-End Date | Statutorily Required Contributions | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | Covered Payroll | Contributions as a Percentage of Covered Payroll |
|----------------------------------|--|---|--|--------------------|--|
| 06/30/2015 | \$ 3,516,583 | \$ 3,516,583 | \$ — | \$ 46,887,773 | 7.50% |
| 06/30/2016 | \$ 3,680,210 | \$ 3,680,210 | \$ — | \$ 48,890,860 | 7.53% |
| 06/30/2017 | \$ 3,820,933 | \$ 3,820,933 | \$ — | \$ 50,958,882 | 7.50% |
| 06/30/2018 | \$ 3,990,842 | \$ 3,990,842 | \$ — | \$ 53,228,684 | 7.50% |
| 06/30/2019 | \$ 4,071,634 | \$ 4,071,634 | \$ — | \$ 52,764,016 | 7.72% |
| 06/30/2020 | \$ 4,470,670 | \$ 4,470,670 | \$ — | \$ 56,562,354 | 7.90% |

Note: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 273

Pension Benefits Plan
Schedule of Changes in the District's Total
Pension Liability and Related Ratios
Year Ended June 30, 2020

| | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Total pension liability | | | | |
| Service cost | \$ 706,737 | \$ 669,633 | \$ 712,907 | \$ 784,741 |
| Interest | 326,649 | 332,966 | 390,691 | 448,042 |
| Assumption changes | — | (370,946) | (121,816) | 334,570 |
| Plan changes | — | — | 74,470 | — |
| Differences between expected and actual experience | — | — | 756,667 | — |
| Benefit payments | <u>(794,118)</u> | <u>(762,623)</u> | <u>(567,874)</u> | <u>(581,302)</u> |
| Net change in total pension liability | 239,268 | (130,970) | 1,245,045 | 986,051 |
| Total pension liability – beginning of year | <u>10,951,258</u> | <u>11,190,526</u> | <u>11,059,556</u> | <u>12,304,601</u> |
| Total pension liability – end of year | <u>\$ 11,190,526</u> | <u>\$ 11,059,556</u> | <u>\$ 12,304,601</u> | <u>\$ 13,290,652</u> |
| Covered-employee payroll | <u>\$ 48,516,585</u> | <u>\$ 49,972,083</u> | <u>\$ 57,844,851</u> | <u>\$ 59,580,197</u> |
| Total pension liability as a percentage of covered-employee payroll | <u>23.07%</u> | <u>22.13%</u> | <u>21.27%</u> | <u>22.31%</u> |

Note 1: The District has not established a trust fund to finance GASB Statement No. 73 related benefits.

Note 2: The District implemented GASB Statement No. 73 for the year ended June 30, 2017. The schedules within the RSI section require a 10-year presentation. Additional years will be presented as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 273

Other Post-Employment Benefits Plan
Schedule of Changes in the District's Total
OPEB Liability and Related Ratios
Year Ended June 30, 2020

| | 2018 | 2019 | 2020 |
|---|---------------|---------------|---------------|
| Total OPEB liability | | | |
| Service cost | \$ 1,168,447 | \$ 1,082,683 | \$ 1,187,453 |
| Interest | 670,515 | 697,232 | 697,658 |
| Assumption changes | — | 5,718 | 480,367 |
| Differences between expected and actual experience | — | (1,470,574) | — |
| Benefit payments | (953,365) | (981,707) | (1,005,875) |
| Net change in total OPEB liability | 885,597 | (666,648) | 1,359,603 |
| Total OPEB liability – beginning of year | 19,025,292 | 19,910,889 | 19,244,241 |
| Total OPEB liability – end of year | \$ 19,910,889 | \$ 19,244,241 | \$ 20,603,844 |
| Covered-employee payroll | \$ 62,990,740 | \$ 69,887,838 | \$ 71,984,473 |
| Total OPEB liability as a percentage of covered-employee payroll | 31.61% | 27.54% | 28.62% |

Note 1: The District has not established a trust fund to finance GASB Statement No. 75 related benefits.

Note 2: The District implemented GASB Statement No. 75 for the year ended June 30, 2018. The schedules within the RSI section require a 10-year presentation. Additional years will be presented as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 273

Notes to Required Supplementary Information
June 30, 2020

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2019 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.

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2018 CHANGES IN PLAN PROVISIONS

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to zero percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio, to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044, and 2.50 percent per year thereafter, to 1.25 percent per year.

INDEPENDENT SCHOOL DISTRICT NO. 273

Notes to Required Supplementary Information (continued)
June 30, 2020

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

2017 CHANGES IN PLAN PROVISIONS

- The state's contribution for the Minneapolis Employees Retirement Fund equals \$16.0 million in 2017 and 2018, and \$6.0 million thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21.0 million to \$31.0 million in calendar years 2019 to 2031. The state's contribution changed from \$16.0 million to \$6.0 million in calendar years 2019 to 2031.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years, to 1.00 percent per year through 2044, and 2.50 percent per year thereafter.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035, and 2.50 percent per year thereafter, to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth, and 2.50 percent for inflation.

2015 CHANGES IN PLAN PROVISIONS

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Retirement Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892.0 million. Upon consolidation, state and employer contributions were revised; the state's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030, and 2.50 percent per year thereafter, to 1.00 percent per year through 2035, and 2.50 percent per year thereafter.

INDEPENDENT SCHOOL DISTRICT NO. 273

Notes to Required Supplementary Information (continued) June 30, 2020

TEACHERS RETIREMENT ASSOCIATION (TRA)

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The cost of living adjustment (COLA) was reduced from 2.00 percent each January 1 to 1.00 percent, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.10 percent each year until reaching the ultimate rate of 1.50 percent on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.50 percent if the funded ratio was at least 90.00 percent 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 4.00 percent to 3.00 percent, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.50 percent to 7.50 percent, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years, (7.71 percent in 2018, 7.92 percent in 2019, 8.13 percent in 2020, 8.34 percent in 2021, 8.55 percent in 2022, and 8.75 percent in 2023). In addition, the employee contribution rate will increase from 7.50 percent to 7.75 percent on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate changed from 5.12 percent to 7.50 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The COLA was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.
- Adjustments were made to the CSA loads. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested inactive load increased from 4.00 percent to 9.00 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.

INDEPENDENT SCHOOL DISTRICT NO. 273

Notes to Required Supplementary Information (continued)
June 30, 2020

TEACHERS RETIREMENT ASSOCIATION (TRA) (CONTINUED)

2017 CHANGES IN ACTUARIAL ASSUMPTIONS (CONTINUED)

- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for 10 years, followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66 percent to 5.12 percent.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

- The single discount rate was changed from 8.00 percent to 4.66 percent.

2015 CHANGES IN PLAN PROVISIONS

- The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS

- The annual COLA for the June 30, 2015 valuation assumed 2.00 percent. The prior year valuation used 2.00 percent, with an increase to 2.50 percent commencing in 2034.
- The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent.

INDEPENDENT SCHOOL DISTRICT NO. 273

Notes to Required Supplementary Information (continued)
June 30, 2020

PENSION BENEFITS PLAN

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate was changed from 3.50 percent to 3.10 percent.

2018 CHANGES IN PLAN PROVISIONS

- Severance benefits are now available for the Edina Professional Association of Support Staff and the Superintendent.

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The discount rate was changed from 3.40 percent to 3.50 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate was changed from 2.90 percent to 3.40 percent.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality table was updated from RP-2000 projected to 2014 with Scale BB, to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.
- The withdrawal table for all employees and retirement tables for only employees eligible to retire with Rule of 90 also were updated.
- The discount rate was changed from 4.00 percent to 2.90 percent.

INDEPENDENT SCHOOL DISTRICT NO. 273

Notes to Required Supplementary Information (continued)
June 30, 2020

OTHER POST-EMPLOYMENT BENEFITS PLAN

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate was changed from 3.50 percent to 3.10 percent.

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The healthcare 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-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The discount rate was changed from 3.40 percent to 3.50 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate was changed from 2.90 percent to 3.40 percent.

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2020

| | Special Revenue Funds | | |
|---|-----------------------|---------------------|---------------------|
| | Food Service | Community Service | Total |
| Assets | | | |
| Cash and temporary investments | \$ 1,199,074 | \$ 1,443,174 | \$ 2,642,248 |
| Receivables | | | |
| Current taxes | — | 573,458 | 573,458 |
| Delinquent taxes | — | 10,691 | 10,691 |
| Accounts and interest | — | 16,181 | 16,181 |
| Due from other governmental units | 128,952 | 46,079 | 175,031 |
| Total assets | <u>\$ 1,328,026</u> | <u>\$ 2,089,583</u> | <u>\$ 3,417,609</u> |
| Liabilities | | | |
| Salaries and benefits payable | \$ 17,041 | \$ 169,964 | \$ 187,005 |
| Accounts and contracts payable | 79,600 | 1,795 | 81,395 |
| Due to other governmental units | — | 10,187 | 10,187 |
| Unearned revenue | 304,260 | 270,133 | 574,393 |
| Total liabilities | <u>400,901</u> | <u>452,079</u> | <u>852,980</u> |
| Deferred inflows of resources | | | |
| Property taxes levied for subsequent year | — | 1,100,338 | 1,100,338 |
| Deferred revenue – delinquent taxes | — | 9,111 | 9,111 |
| Total deferred inflows of resources | <u>—</u> | <u>1,109,449</u> | <u>1,109,449</u> |
| Fund balances | | | |
| Restricted | <u>927,125</u> | <u>528,055</u> | <u>1,455,180</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 1,328,026</u> | <u>\$ 2,089,583</u> | <u>\$ 3,417,609</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2020

| | Special Revenue Funds | | |
|-----------------------------|-----------------------|-------------------|---------------------|
| | Food Service | Community Service | Total |
| Revenue | | | |
| Local sources | | | |
| Property taxes | \$ — | \$ 1,118,879 | \$ 1,118,879 |
| Investment earnings | 25,736 | 25,736 | 51,472 |
| Other | 1,640,049 | 5,776,927 | 7,416,976 |
| State sources | 108,624 | 532,341 | 640,965 |
| Federal sources | 701,510 | — | 701,510 |
| Total revenue | <u>2,475,919</u> | <u>7,453,883</u> | <u>9,929,802</u> |
| Expenditures | | | |
| Current | | | |
| Food service | 2,371,549 | — | 2,371,549 |
| Community service | — | 7,805,415 | 7,805,415 |
| Capital outlay | <u>277,500</u> | <u>52,617</u> | <u>330,117</u> |
| Total expenditures | <u>2,649,049</u> | <u>7,858,032</u> | <u>10,507,081</u> |
| Net change in fund balances | (173,130) | (404,149) | (577,279) |
| Fund balances | | | |
| Beginning of year | <u>1,100,255</u> | <u>932,204</u> | <u>2,032,459</u> |
| End of year | <u>\$ 927,125</u> | <u>\$ 528,055</u> | <u>\$ 1,455,180</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund
Comparative Balance Sheet
as of June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------------|-----------------------------|
| Assets | | |
| Cash and temporary investments | \$ 33,419,553 | \$ 32,481,865 |
| Receivables | | |
| Current taxes | 22,662,888 | 19,677,882 |
| Delinquent taxes | 342,628 | 318,225 |
| Accounts and interest | 246,751 | 583,514 |
| Due from other governmental units | 10,155,617 | 10,317,391 |
| Prepaid items | <u>—</u> | <u>31,133</u> |
| Total assets | <u><u>\$ 66,827,437</u></u> | <u><u>\$ 63,410,010</u></u> |
| Liabilities | | |
| Salaries and benefits payable | \$ 10,758,562 | \$ 11,072,233 |
| Accounts and contracts payable | 690,549 | 1,867,368 |
| Due to other governmental units | <u>530,457</u> | <u>225,971</u> |
| Total liabilities | <u>11,979,568</u> | <u>13,165,572</u> |
| Deferred inflows of resources | | |
| Property taxes levied for subsequent year | 39,665,864 | 35,708,786 |
| Unavailable revenue – delinquent taxes | <u>287,911</u> | <u>353,186</u> |
| Total deferred inflows of resources | <u>39,953,775</u> | <u>36,061,972</u> |
| Fund balances (deficit) | | |
| Nonspendable for prepaid items | — | 31,133 |
| Restricted for student activities | 26,531 | — |
| Restricted for staff development | — | 58,820 |
| Restricted for operating capital | 1,328,338 | 2,755,476 |
| Restricted for achievement and integration | 104,363 | — |
| Committed for cash flow | 1,068,409 | 1,037,614 |
| Assigned for separation/retirement benefits | 3,269,673 | 3,385,135 |
| Assigned for carryover | 439,348 | — |
| Assigned for alternative compensation | 43,920 | 149,673 |
| Unassigned – safe schools levy account deficit | — | (189,562) |
| Unassigned | <u>8,613,512</u> | <u>6,954,177</u> |
| Total fund balances | <u>14,894,094</u> | <u>14,182,466</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u><u>\$ 66,827,437</u></u> | <u><u>\$ 63,410,010</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

| | 2020 | | 2019 | |
|---|----------------|---------------|------------------------|---------------|
| | Budget | Actual | Over (Under) Budget | Actual |
| Revenue | | | | |
| Local sources | | | | |
| Property taxes | \$ 33,631,398 | \$ 33,473,446 | \$ (157,952) | \$ 33,058,228 |
| Investment earnings | 599,999 | 402,060 | (197,939) | 652,518 |
| Other | 3,575,687 | 4,137,029 | 561,342 | 4,410,361 |
| State sources | 78,627,470 | 78,527,670 | (99,800) | 76,567,326 |
| Federal sources | 1,832,618 | 1,813,875 | (18,743) | 2,410,766 |
| Total revenue | 118,267,172 | 118,354,080 | 86,908 | 117,099,199 |
| Expenditures | | | | |
| Current | | | | |
| Administration | 3,151,830 | 3,009,563 | (142,267) | 3,301,695 |
| District support services | 2,847,650 | 2,800,341 | (47,309) | 2,918,207 |
| Elementary and secondary | | | | |
| regular instruction | 57,764,946 | 56,626,943 | (1,138,003) | 55,976,301 |
| Vocational education instruction | 364,303 | 417,775 | 53,472 | 371,717 |
| Special education instruction | 21,856,578 | 22,535,544 | 678,966 | 21,165,695 |
| Instructional support services | 6,792,688 | 5,600,116 | (1,192,572) | 5,720,643 |
| Pupil support services | 10,457,811 | 10,138,725 | (319,086) | 10,536,840 |
| Sites and buildings | 16,660,977 | 15,903,909 | (757,068) | 12,863,141 |
| Fiscal and other fixed cost programs | 340,000 | 305,513 | (34,487) | 252,778 |
| Debt service | | | | |
| Principal | 238,316 | 242,929 | 4,613 | 238,316 |
| Interest and fiscal charges | 90,811 | 86,143 | (4,668) | 93,899 |
| Total expenditures | 120,565,910 | 117,667,501 | (2,898,409) | 113,439,232 |
| Excess (deficiency) of revenue over expenditures | (2,298,738) | 686,579 | 2,985,317 | 3,659,967 |
| Other financing (uses) | | | | |
| Transfers (out) | (1,188,753) | — | 1,188,753 | (3,213,503) |
| Net change in fund balances | \$ (3,487,491) | 686,579 | \$ 4,174,070 | 446,464 |
| Fund balances | | | | |
| Beginning of year, as previously reported | | 14,182,466 | | 13,736,002 |
| Change in accounting principle | | 25,049 | | — |
| Beginning of year, as restated | | 14,207,515 | | 13,736,002 |
| End of year | | \$ 14,894,094 | | \$ 14,182,466 |

INDEPENDENT SCHOOL DISTRICT NO. 273

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------|----------------------------|----------------------------|
| Assets | | |
| Cash and temporary investments | \$ 1,199,074 | \$ 1,261,387 |
| Receivables | | |
| Accounts and interest | — | 2,307 |
| Due from other governmental units | <u>128,952</u> | <u>104,033</u> |
| Total assets | <u><u>\$ 1,328,026</u></u> | <u><u>\$ 1,367,727</u></u> |
| Liabilities | | |
| Salaries and benefits payable | \$ 17,041 | \$ 4,143 |
| Accounts and contracts payable | 79,600 | 17,045 |
| Unearned revenue | <u>304,260</u> | <u>246,284</u> |
| Total liabilities | 400,901 | 267,472 |
| Fund balances | | |
| Restricted for food service | <u>927,125</u> | <u>1,100,255</u> |
| Total liabilities and fund balances | <u><u>\$ 1,328,026</u></u> | <u><u>\$ 1,367,727</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

| | 2020 | | | 2019 |
|------------------------------|---------------------|-------------------|------------------------|---------------------|
| | Budget | Actual | Over (Under) Budget | Actual |
| Revenue | | | | |
| Local sources | | | | |
| Investment earnings | \$ 29,000 | \$ 25,736 | \$ (3,264) | \$ 29,749 |
| Other – primarily meal sales | 2,142,700 | 1,640,049 | (502,651) | 2,238,064 |
| State sources | 144,052 | 108,624 | (35,428) | 123,311 |
| Federal sources | 630,000 | 701,510 | 71,510 | 649,082 |
| Total revenue | <u>2,945,752</u> | <u>2,475,919</u> | <u>(469,833)</u> | <u>3,040,206</u> |
| Expenditures | | | | |
| Current | | | | |
| Salaries | 338,733 | 182,436 | (156,297) | 277,618 |
| Employee benefits | 83,991 | 89,027 | 5,036 | 78,757 |
| Purchased services | 2,593,511 | 1,955,573 | (637,938) | 2,395,361 |
| Supplies and materials | 139,166 | 142,722 | 3,556 | 158,497 |
| Other expenditures | – | 1,791 | 1,791 | 23,783 |
| Capital outlay | 50,000 | 277,500 | 227,500 | 12,504 |
| Total expenditures | <u>3,205,401</u> | <u>2,649,049</u> | <u>(556,352)</u> | <u>2,946,520</u> |
| Net change in fund balances | <u>\$ (259,649)</u> | <u>(173,130)</u> | <u>\$ 86,519</u> | <u>93,686</u> |
| Fund balances | | | | |
| Beginning of year | | <u>1,100,255</u> | | <u>1,006,569</u> |
| End of year | | <u>\$ 927,125</u> | | <u>\$ 1,100,255</u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Community Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|----------------------------|----------------------------|
| Assets | | |
| Cash and temporary investments | \$ 1,443,174 | \$ 2,283,732 |
| Receivables | | |
| Current taxes | 573,458 | 557,102 |
| Delinquent taxes | 10,691 | 10,101 |
| Accounts and interest | 16,181 | 28,961 |
| Due from other governmental units | <u>46,079</u> | <u>51,042</u> |
| Total assets | <u><u>\$ 2,089,583</u></u> | <u><u>\$ 2,930,938</u></u> |
| Liabilities | | |
| Salaries and benefits payable | \$ 169,964 | \$ 191,697 |
| Accounts and contracts payable | 1,795 | 135,114 |
| Due to other governmental units | 10,187 | 53,421 |
| Unearned revenue | <u>270,133</u> | <u>490,512</u> |
| Total liabilities | <u>452,079</u> | <u>870,744</u> |
| Deferred inflows of resources | | |
| Property taxes levied for subsequent year | 1,100,338 | 1,116,918 |
| Unavailable revenue – delinquent taxes | <u>9,111</u> | <u>11,072</u> |
| Total deferred inflows of resources | <u>1,109,449</u> | <u>1,127,990</u> |
| Fund balances | | |
| Restricted for community education programs | 364,259 | 660,226 |
| Restricted for early childhood family education programs | 61,180 | 80,107 |
| Restricted for school readiness | 75,443 | 181,219 |
| Restricted for community service | <u>27,173</u> | <u>10,652</u> |
| Total fund balances | <u>528,055</u> | <u>932,204</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u><u>\$ 2,089,583</u></u> | <u><u>\$ 2,930,938</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

| | 2020 | | | 2019 |
|---|--------------|--------------|------------------------|--------------|
| | Budget | Actual | Over (Under) Budget | Actual |
| Revenue | | | | |
| Local sources | | | | |
| Property taxes | \$ 1,148,267 | \$ 1,118,879 | \$ (29,388) | \$ 1,071,855 |
| Investment earnings | 29,000 | 25,736 | (3,264) | 30,344 |
| Other – primarily tuition and fees | 6,632,342 | 5,776,927 | (855,415) | 6,492,272 |
| State sources | 517,360 | 532,341 | 14,981 | 461,119 |
| Total revenue | 8,326,969 | 7,453,883 | (873,086) | 8,055,590 |
| Expenditures | | | | |
| Current | | | | |
| Salaries | 5,080,630 | 4,964,444 | (116,186) | 4,843,894 |
| Employee benefits | 1,323,637 | 1,188,897 | (134,740) | 1,200,575 |
| Purchased services | 1,334,387 | 1,235,397 | (98,990) | 1,411,669 |
| Supplies and materials | 367,601 | 323,857 | (43,744) | 415,428 |
| Other expenditures | 106,226 | 92,820 | (13,406) | 13,589 |
| Capital outlay | 31,500 | 52,617 | 21,117 | 40,504 |
| Total expenditures | 8,243,981 | 7,858,032 | (385,949) | 7,925,659 |
| Excess (deficiency) of revenue over expenditures | 82,988 | (404,149) | (487,137) | 129,931 |
| Other financing sources | | | | |
| Transfers in | – | – | – | 62,117 |
| Net change in fund balances | \$ 82,988 | (404,149) | \$ (487,137) | 192,048 |
| Fund balances | | | | |
| Beginning of year | | 932,204 | | 740,156 |
| End of year | | \$ 528,055 | | \$ 932,204 |

INDEPENDENT SCHOOL DISTRICT NO. 273

Capital Projects – Building Construction Fund
Comparative Balance Sheet
as of June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Cash and temporary investments | \$ 16,351,081 | \$ 28,227,973 |
| Receivables | | |
| Accounts and interest | <u>2,362</u> | <u>66,028</u> |
| Total assets | <u><u>\$ 16,353,443</u></u> | <u><u>\$ 28,294,001</u></u> |
| Liabilities | | |
| Salaries and benefits payable | \$ 18,615 | \$ 10,396 |
| Accounts and contracts payable | <u>3,920,889</u> | <u>3,206,390</u> |
| Total liabilities | <u>3,939,504</u> | <u>3,216,786</u> |
| Fund balances | | |
| Restricted for capital projects levy | 416,531 | 1,278,344 |
| Restricted for long-term facilities maintenance | 11,997,408 | 23,000,223 |
| Restricted for capital projects | <u>–</u> | <u>798,648</u> |
| Total fund balances | <u><u>12,413,939</u></u> | <u><u>25,077,215</u></u> |
| Total liabilities and fund balances | <u><u>\$ 16,353,443</u></u> | <u><u>\$ 28,294,001</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Capital Projects – Building Construction Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

| | 2020 | | | 2019 |
|---|-----------------|---------------|------------------------|---------------|
| | Budget | Actual | Over (Under) Budget | Actual |
| Revenue | | | | |
| Local sources | | | | |
| Property taxes | \$ 5,914,554 | \$ 5,914,554 | \$ – | \$ 5,300,000 |
| Investment earnings | 400,000 | 391,547 | (8,453) | 190,040 |
| Other | 643,578 | 721,623 | 78,045 | 59,983 |
| Total revenue | 6,958,132 | 7,027,724 | 69,592 | 5,550,023 |
| Expenditures | | | | |
| Capital outlay | | | | |
| Salaries | 2,405,638 | 2,566,589 | 160,951 | 1,794,081 |
| Employee benefits | 720,012 | 805,670 | 85,658 | 545,289 |
| Purchased services | 117,800 | 1,339,888 | 1,222,088 | 1,102,147 |
| Supplies and materials | 1,083,309 | – | (1,083,309) | – |
| Capital expenditures | 14,978,005 | 14,978,853 | 848 | 24,489,310 |
| Debt service | | | | |
| Interest and fiscal charges | – | – | – | 191,667 |
| Total expenditures | 19,304,764 | 19,691,000 | 386,236 | 28,122,494 |
| Excess (deficiency) of revenue over expenditures | (12,346,632) | (12,663,276) | (316,644) | (22,572,471) |
| Other financing sources | | | | |
| Bonds issued | – | – | – | 24,075,000 |
| Premium on bonds issued | – | – | – | 618,695 |
| Transfers in | 1,188,753 | – | (1,188,753) | 3,151,386 |
| Total other financing sources | 1,188,753 | – | (1,188,753) | 27,845,081 |
| Net change in fund balances | \$ (11,157,879) | (12,663,276) | \$ (1,505,397) | 5,272,610 |
| Fund balances | | | | |
| Beginning of year | | 25,077,215 | | 19,804,605 |
| End of year | | \$ 12,413,939 | | \$ 25,077,215 |

INDEPENDENT SCHOOL DISTRICT NO. 273

Debt Service Fund
Comparative Balance Sheet
as of June 30, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------------|-----------------------------|
| Assets | | |
| Cash and temporary investments | \$ 10,056,001 | \$ 10,580,123 |
| Receivables | | |
| Current taxes | 7,674,548 | 7,928,679 |
| Delinquent taxes | <u>120,382</u> | <u>108,872</u> |
| Total assets | <u><u>\$ 17,850,931</u></u> | <u><u>\$ 18,617,674</u></u> |
| Deferred inflows of resources | | |
| Property taxes levied for subsequent year | \$ 14,725,692 | \$ 15,895,730 |
| Unavailable revenue – delinquent taxes | <u>98,279</u> | <u>124,972</u> |
| Total deferred inflows of resources | 14,823,971 | 16,020,702 |
| Fund balances | | |
| Restricted for debt service | <u>3,026,960</u> | <u>2,596,972</u> |
| Total deferred inflows of resources and fund balances | <u><u>\$ 17,850,931</u></u> | <u><u>\$ 18,617,674</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 273

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2020
(With Comparative Actual Amounts for the Year Ended June 30, 2019)

| | 2020 | | | 2019 |
|--|---------------|---------------|------------------------|---------------|
| | Budget | Actual | Over (Under) Budget | Actual |
| Revenue | | | | |
| Local sources | | | | |
| Property taxes | \$ 15,894,979 | \$ 15,922,424 | \$ 27,445 | \$ 15,054,762 |
| Investment earnings | 90,000 | 186,587 | 96,587 | 85,069 |
| Total revenue | 15,984,979 | 16,109,011 | 124,032 | 15,139,831 |
| Expenditures | | | | |
| Debt service | | | | |
| Principal | 8,140,000 | 8,140,000 | — | 7,405,000 |
| Interest | 6,895,625 | 7,485,370 | 589,745 | 7,258,595 |
| Fiscal charges and other | 116,390 | 110,191 | (6,199) | 8,598 |
| Total expenditures | 15,152,015 | 15,735,561 | 583,546 | 14,672,193 |
| Excess of revenue over expenditures | 832,964 | 373,450 | (459,514) | 467,638 |
| Other financing sources (uses) | | | | |
| Debt issued | 19,890,000 | 19,890,000 | — | — |
| Premium on bonds issued | 2,061,538 | 2,061,538 | — | 589,745 |
| Payment on refunded debt | (21,895,000) | (21,895,000) | — | — |
| Total other financing sources (uses) | 56,538 | 56,538 | — | 589,745 |
| Net change in fund balances | \$ 889,502 | 429,988 | \$ (459,514) | 1,057,383 |
| Fund balances | | | | |
| Beginning of year | | 2,596,972 | | 1,539,589 |
| End of year | | \$ 3,026,960 | | \$ 2,596,972 |

OTHER DISTRICT INFORMATION

(UNAUDITED)

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund Revenue by Source
Last Ten Fiscal Years

| Year Ended June 30, | Local Property Tax Levies | Other Local and County Revenues | State Revenue | Federal Revenue | Total |
|------------------------|------------------------------|---------------------------------------|----------------------|--------------------|-----------------------|
| 2011 | \$ 28,851,473 33% | \$ 2,520,934 3% | \$ 51,887,383 60% | \$ 3,061,247 4% | \$ 86,321,037 100% |
| 2012 | 23,813,219 27% | 2,754,726 3% | 58,857,487 66% | 3,344,546 4% | 88,769,978 100% |
| 2013 | 27,237,931 29% | 2,487,574 3% | 62,296,085 66% | 1,683,183 2% | 93,704,773 100% |
| 2014 | 10,666,213 12% | 2,593,867 3% | 76,710,991 83% | 1,809,161 2% | 91,780,232 100% |
| 2015 | 22,950,814 24% | 2,794,515 3% | 68,608,136 71% | 1,488,368 2% | 95,841,833 100% |
| 2016 | 23,596,521 23% | 4,100,426 4% | 71,873,064 71% | 1,871,244 2% | 101,441,255 100% |
| 2017 | 30,769,055 28% | 3,788,108 3% | 71,970,881 67% | 1,795,959 2% | 108,324,003 100% |
| 2018 | 30,235,863 27% | 5,029,098 5% | 73,752,106 66% | 1,832,821 2% | 110,849,888 100% |
| 2019 | 33,058,228 28% | 5,062,879 5% | 76,567,326 65% | 2,410,766 2% | 117,099,199 100% |
| 2020 | 33,473,446 28% | 4,539,089 4% | 78,527,670 66% | 1,813,875 2% | 118,354,080 100% |

Note: Legislative changes in the “tax shift” impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. These changes were offset by an adjustment to state aid payments by an equal amount.

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund Expenditures by Program
Last Ten Fiscal Years

| <u>Year Ended June 30,</u> | <u>Administration</u> | <u>District Support Services</u> | <u>Instruction</u> | <u>Instructional Support Services</u> | <u>Pupil Support Services</u> |
|--------------------------------|-----------------------|--------------------------------------|----------------------|---|-----------------------------------|
| 2011 | \$ 2,922,416 3% | \$ 2,731,865 3% | \$ 58,238,240 68% | \$ 6,592,322 8% | \$ 6,669,731 8% |
| 2012 | 2,921,447 3% | 2,701,860 3% | 58,140,863 68% | 6,760,932 8% | 7,329,686 8% |
| 2013 | 3,057,055 3% | 2,517,407 3% | 60,574,774 66% | 5,105,226 6% | 7,608,727 8% |
| 2014 | 3,100,900 4% | 2,969,022 3% | 62,272,584 69% | 4,916,476 5% | 7,544,789 8% |
| 2015 | 3,124,572 3% | 3,063,669 3% | 64,083,923 70% | 5,063,892 5% | 7,745,956 8% |
| 2016 | 3,281,563 3% | 3,093,531 3% | 71,523,452 71% | 5,508,758 5% | 7,922,598 8% |
| 2017 | 3,542,398 3% | 3,097,417 3% | 72,401,269 69% | 5,382,317 5% | 8,118,389 8% |
| 2018 | 3,165,048 3% | 3,252,865 3% | 75,366,526 70% | 5,826,639 5% | 10,026,345 9% |
| 2019 | 3,301,695 3% | 2,918,207 3% | 77,513,713 68% | 5,720,643 5% | 10,536,840 9% |
| 2020 | 3,009,563 3% | 2,800,341 2% | 79,580,262 68% | 5,600,116 5% | 10,138,725 9% |

Note: Instruction includes regular, vocational, and special education instruction.

| Sites and Buildings | Other Programs | Total |
|------------------------|------------------|-----------------------|
| \$ 8,203,146 10% | \$ 300,830 —% | \$ 85,658,550 100% |
| 8,714,030 10% | 381,487 —% | 86,950,305 100% |
| 13,393,834 14% | 469,478 —% | 92,726,501 100% |
| 9,691,920 11% | 362,556 —% | 90,858,247 100% |
| 9,006,454 10% | 543,004 1% | 92,631,470 100% |
| 8,954,875 9% | 579,502 1% | 100,864,279 100% |
| 11,733,576 11% | 652,731 1% | 104,928,097 100% |
| 9,665,421 9% | 636,414 1% | 107,939,258 100% |
| 12,863,141 11% | 584,993 1% | 113,439,232 100% |
| 15,903,909 13% | 634,585 <1% | 117,667,501 100% |

INDEPENDENT SCHOOL DISTRICT NO. 273

School Tax Levies and Tax Rates by Fund
Last Ten Fiscal Years

| | Year Collectible | General Fund | Community Service Special Revenue Fund | Capital Projects – Building Construction Fund | Debt Service Fund | Total All Funds |
|--------------------|---------------------|---------------|--|---|----------------------|--------------------|
| Levies | | | | | | |
| | 2011 | \$ 21,276,283 | \$ 982,373 | \$ 1,885,932 | \$ 10,554,475 | \$ 34,699,063 |
| | 2012 | 26,739,844 | 1,053,989 | 1,730,064 | 10,281,370 | 39,805,267 |
| | 2013 | 26,641,579 | 1,093,196 | 4,383,529 | 7,194,307 | 39,312,611 |
| | 2014 | 27,084,132 | 1,142,821 | 4,640,567 | 7,094,461 | 39,961,981 |
| | 2015 | 28,429,772 | 1,129,162 | 6,921,752 | 6,488,222 | 42,968,908 |
| | 2016 | 35,838,469 | 1,190,018 | – | 14,164,398 | 51,192,885 |
| | 2017 | 35,477,140 | 1,119,670 | – | 15,398,423 | 51,995,233 |
| | 2018 | 38,556,680 | 1,074,335 | – | 15,089,798 | 54,720,813 |
| | 2019 | 39,451,014 | 1,116,918 | – | 15,895,731 | 56,463,663 |
| | 2020 | 43,484,864 | 1,100,338 | – | 14,725,692 | 59,310,894 |
| Tax rates | | | | | | |
| Tax capacity rates | | | | | | |
| | 2011 | 7.288 | 1.136 | 1.157 | 12.205 | 21.786 |
| | 2012 | 13.939 | 1.267 | – | 12.359 | 27.565 |
| | 2013 | 17.649 | 1.334 | – | 8.779 | 27.762 |
| | 2014 | 17.566 | 1.386 | – | 8.604 | 27.556 |
| | 2015 | 18.979 | 1.240 | – | 7.125 | 27.344 |
| | 2016 | 18.873 | 1.242 | – | 14.783 | 34.898 |
| | 2017 | 18.216 | 1.124 | – | 15.458 | 34.798 |
| | 2018 | 15.776 | 1.010 | – | 14.186 | 30.972 |
| | 2019 | 15.525 | 0.989 | – | 14.075 | 30.589 |
| | 2020 | 17.026 | 0.943 | – | 12.620 | 30.589 |
| Market value rates | | | | | | |
| | 2011 | 0.196 | – | – | – | 0.196 |
| | 2012 | 0.215 | – | – | – | 0.215 |
| | 2013 | 0.217 | – | – | – | 0.217 |
| | 2014 | 0.223 | – | – | – | 0.223 |
| | 2015 | 0.215 | – | – | – | 0.215 |
| | 2016 | 0.201 | – | – | – | 0.201 |
| | 2017 | 0.188 | – | – | – | 0.188 |
| | 2018 | 0.222 | – | – | – | 0.222 |
| | 2019 | 0.210 | – | – | – | 0.210 |
| | 2020 | 0.219 | – | – | – | 0.219 |

Note 1: A tax rate based on market value is used for the District's referendum, equity, and transition levies.

Note 2: The levy for the Capital Projects – Building Construction Fund is a capital projects levy, which is included as a component of the general referendum levy based on net tax capacity. Starting in 2012, the tax capacity for this levy is included in the General Fund.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 273

Property Tax Levies and Receivables
Last Ten Years

| For Taxes Collectible | Original Levy | | | |
|--------------------------|---------------|--------------------|-------------------------|---------------|
| | Local Spread | Fiscal Disparities | Property Tax Credits | Total Spread |
| 2011 | \$ 33,450,877 | \$ 1,083,275 | \$ 164,911 | \$ 34,699,063 |
| 2012 | 38,740,332 | 1,064,935 | — | 39,805,267 |
| 2013 | 38,221,083 | 1,091,528 | — | 39,312,611 |
| 2014 | 38,892,673 | 1,069,308 | — | 39,961,981 |
| 2015 | 41,891,155 | 1,077,753 | — | 42,968,908 |
| 2016 | 50,099,457 | 1,093,428 | — | 51,192,885 |
| 2017 | 50,638,605 | 1,356,628 | — | 51,995,233 |
| 2018 | 53,267,718 | 1,453,095 | — | 54,720,813 |
| 2019 | 54,928,392 | 1,535,271 | — | 56,463,663 |
| 2020 | 57,725,395 | 1,585,499 | — | 59,310,894 |

Note 1: Delinquent taxes receivable are written off after seven years.

Note 2: A portion of the total spread levy was paid with state aid through various property tax credits for residential homestead properties through 2011. This tax credit program ended in 2012.

Source: State of Minnesota School Tax Report

Uncollected Taxes Receivable as of June 30, 2020

| Delinquent | | Current | |
|-------------------|---------|----------------------|---------|
| Amount | Percent | Amount | Percent |
| \$ — | — % | \$ — | — % |
| — | — | — | — |
| — | — | — | — |
| 108,485 | 0.27 | — | — |
| 10,938 | 0.03 | — | — |
| 73,502 | 0.14 | — | — |
| 26,095 | 0.05 | — | — |
| 50,815 | 0.09 | — | — |
| 203,866 | 0.36 | — | — |
| — | — | 30,910,894 | 52.12 |
| <u>\$ 473,701</u> | | <u>\$ 30,910,894</u> | |

INDEPENDENT SCHOOL DISTRICT NO. 273

Student Enrollment
Last Ten Fiscal Years

| Year Ended June 30, | Average Daily Membership (ADM) (for Students Served or Tuition Paid) | | | | | Total Pupil Units |
|------------------------|--|--------------|------------|-----------|----------|----------------------|
| | Handicapped and Pre-Kindergarten | Kindergarten | Elementary | Secondary | Total | |
| 2011 | 72.25 | 506.30 | 3,808.45 | 3,875.72 | 8,262.72 | 9,571.81 |
| 2012 | 70.30 | 507.92 | 3,821.35 | 3,918.16 | 8,317.73 | 9,640.67 |
| 2013 | 78.84 | 502.78 | 3,807.72 | 3,979.41 | 8,368.75 | 9,710.33 |
| 2014 | 61.97 | 537.17 | 3,814.26 | 4,017.20 | 8,430.60 | 9,770.48 |
| 2015 | 79.79 | 518.55 | 3,827.59 | 4,030.07 | 8,456.00 | 9,261.99 |
| 2016 | 66.76 | 504.56 | 3,812.42 | 4,045.60 | 8,429.34 | 9,238.47 |
| 2017 | 61.94 | 558.16 | 3,783.81 | 4,075.40 | 8,479.31 | 9,294.37 |
| 2018 | 66.96 | 528.85 | 3,801.31 | 4,066.43 | 8,463.55 | 9,276.82 |
| 2019 | 114.71 | 506.53 | 3,761.88 | 4,029.08 | 8,412.20 | 9,218.13 |
| 2020 | 115.12 | 520.09 | 3,759.05 | 3,971.16 | 8,365.42 | 9,159.63 |

Note 1: Student enrollment numbers are estimated for the most recent fiscal year.

Note 2: ADM is weighted as follows in computing pupil units:

| | Pre-Kindergarten | Handicapped Kindergarten | Half-Day Kindergarten | Full-Day Kindergarten | Elementary 1-3 | Elementary 4-6 | Secondary |
|-----------------------------|------------------|-----------------------------|--------------------------|--------------------------|-------------------|-------------------|-----------|
| Fiscal 2011 through 2014 | 1.250 | 1.000 | 0.612 | 0.612 | 1.115 | 1.060 | 1.300 |
| Fiscal 2015 through 2020 | 1.000 | 1.000 | 0.550 | 1.000 | 1.000 | 1.000 | 1.200 |

Source: Minnesota Department of Education student reporting system

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA No. | Federal Expenditures | Noncash Assistance |
|--|---------------------|----------------------|-----------------------|
| U.S. Department of Agriculture | | | |
| Passed through Minnesota Department of Education | | | |
| Child nutrition cluster | | | |
| School Breakfast Program | 10.553 | \$ 59,344 | |
| National School Lunch Program | 10.555 | 466,577 | \$ 111,996 |
| COVID-19 – Summer Food Service Program for Children | 10.559 | <u>175,229</u> | |
| Total child nutrition cluster | | \$ 701,150 | |
| U.S. Department of Education | | | |
| Passed through Minnesota Department of Education | | | |
| Special education cluster | | | |
| Special Education Grants to States | 84.027 | 1,373,991 | |
| Special Education Preschool Grants | 84.173 | <u>51,964</u> | |
| Total special education cluster | | 1,425,955 | |
| Special Education – Grants for Infants and Families | 84.181 | 30,637 | |
| Title I Grants to Local Educational Agencies | 84.010 | 170,509 | |
| Supporting Effective Instruction State Grants | 84.367 | 102,385 | |
| English Language Acquisition State Grants | 84.365 | 69,578 | |
| Passed through SouthWest Metro Intermediate District No. 288 | | | |
| Career and Technical Education – Basic Grants to States | 84.048 | <u>12,218</u> | |
| Total federal awards | | <u>\$ 2,512,432</u> | |

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the District's basic financial statements.

Note 2: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 3: The District did not elect to use the 10 percent de minimis indirect cost rate.

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 School Board and Management of
Independent School District No. 273
Edina, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon date December 28, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify one deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as finding 2020-001, that we consider to be a material weakness.

(continued)

COMPLIANCE AND OTHER MATTERS

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

DISTRICT'S RESPONSE TO FINDING

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 28, 2020

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the School Board and Management of
Independent School District No. 273
Edina, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Independent School District No. 273, Edina, Minnesota's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2020. The District's major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

(continued)

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Questioned Costs as finding 2020-002, that we consider to be a significant deficiency.

DISTRICT'S RESPONSE TO FINDING

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosenich & Co., P.A.

Minneapolis, Minnesota
December 28, 2020

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 273
Edina, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 28, 2020.

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 sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, except as described in the Schedule of Findings and Questioned Costs as finding 2020-003. 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.

DISTRICT'S RESPONSE TO FINDING

The District's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The District's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 28, 2020

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued? X Unmodified
 Qualified
 Adverse
 Disclaimer

Internal control over financial reporting:

Material weakness(es) identified? X Yes No
Significant deficiencies identified? Yes X None reported
Noncompliance material to the financial statements noted? Yes X No

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified? Yes X No
Significant deficiencies identified? X Yes None reported

Type of auditor's report issued on compliance for major programs?

U.S. Department of Agriculture – child nutrition cluster Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes No

Programs tested as major programs:

| <u>Program or Cluster</u> | <u>CFDA No.</u> |
|---|-----------------|
| The U.S. Department of Agriculture – child nutrition cluster consisting of: | |
| – School Breakfast Program | 10.553 |
| – National School Lunch Program | 10.555 |
| – COVID-19 – Summer Food Service Program for Children | 10.559 |

Threshold for distinguishing between type A and B programs. \$ 750,000

Does the auditee qualify as a low-risk auditee? X Yes No

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020

B. FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

2020-001 Timeliness and Accuracy of Reconciliations

Criteria – Internal controls over financial reporting are intended to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. To be effective, control procedures, such as periodic and year-end account and subledger reconciliations, must be performed regularly, accurately, and in a timely manner.

Condition – During our audit, we noted several instances where reconciliations prepared by Independent School District No. 273, Edina, Minnesota's (the District) staff were not being performed as timely as in the past, or were not reconciled to the District's general ledger and underlying records. In addition, due to delays in the monthly reconciliation of cash and investments, investment income and electronic fund transfers receipts that cleared the bank were not being recorded in the District's general ledger in a timely manner. In previous audits of the District, we have generally found the District's internal controls over financial reporting to be well designed, implemented, and functioning properly. In the current year, although the internal controls were still considered to be well designed, the effectiveness of some control procedures was diminished, due to a lack of timeliness and accuracy.

Questioned Costs – Not applicable.

Context – This condition was noted in several areas, including cash and investments, property tax receipts, and capital assets.

Repeat Finding – This is a current year finding.

Cause – The performance of these control procedures was delayed, due to turnover in the District's business office staff.

Effect – This condition subjects the District to higher risk that misstatements could occur, due to errors or fraud, and not be prevented or detected in a timely manner.

Recommendation – We recommend that district management review the internal controls over the reconciliation of cash and other accounts, and ensure that periodic and year-end account reconciliations are completed timely and accurately.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. District management will continue to review its internal control procedures to ensure periodic and year-end cash and other account reconciliations are accurately completed in a timely manner going forward. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – U.S. DEPARTMENT OF AGRICULTURE, PASSED THROUGH MINNESOTA DEPARTMENT OF EDUCATION, CHILD NUTRITION CLUSTER – CFDA NOS. 10.553, 10.555, AND 10.559

2020-002 Internal Control Over Compliance With Federal Suspension and Debarment Requirements

Criteria – 2 CFR § 180 requires the District to establish and maintain effective internal control over compliance with requirements applicable to federal program expenditures, including suspension and debarment requirements applicable to the child nutrition cluster federal program.

Condition – During our audit, we noted the District did not have sufficient controls in place within its child nutrition cluster federal programs to assure that it was not contracting for goods or services with parties that are suspended or debarred, or whose principals are suspended or debarred from participating in contracts involving the expenditures of federal program funds. For one of two vendors tested, the District did not have the required documentation of vendor checks as required by Uniform Guidance.

Questioned Costs – None. Our testing did not indicate any instances of noncompliance with these requirements.

Context – The District did not obtain the appropriate documentation for one of two vendors tested to ensure the vendor was not suspended or debarred from participation in federal program contracts.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – Noncompliance with the suspension and debarment requirements could result in the District expending federal funds with vendors that are not eligible to be parties to such transactions, which could be viewed as a violation of the award agreement. However, no instances of noncompliance were noted upon testing these vendors.

Recommendation – We recommend that the District review its internal control procedures relating to suspension and debarment for the child nutrition cluster federal program. Internal controls over compliance for this area should include verification that any vendor with which the District contracts for goods or services exceeding \$25,000 is not listed as suspended or debarred on the federal Excluded Parties List System website.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review and update its policies and procedures relating to suspension and debarment for its federal programs to ensure compliance with the Uniform Guidance in the future. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2020

D. MINNESOTA LEGAL COMPLIANCE FINDINGS

2020-003 Withholding Affidavit

Criteria – Minnesota Statutes § 270C.66.

Condition – Before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor or subcontractors, the District must obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minnesota Statutes § 270C.66 (either a Commissioner of Revenue Form IC134 or a Contractor's Withholding Affidavit). The District did not obtain the required certificate for one of five contracts selected for testing prior to making final settlement during fiscal 2020.

Questioned Costs – Not applicable.

Context – One of five contracts tested was not in compliance.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – The District did not obtain the required documentation of either a Commissioner of Revenue Form IC134 or a Contractor's Withholding Affidavit as required by state statutes prior to making final settlement.

Recommendation – We recommend that the District review contracting requirements and procedures in place to ensure future compliance with this statute.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review requirements with appropriate staff to assure the planned controls are being followed and the required Commissioner of Revenue Form IC134 or a Contractor's Withholding Affidavit are obtained.

INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2020

| | | Audit | UFARS | Audit – UFARS |
|--------------------------|--|----------------|----------------|---------------|
| General Fund | | | | |
| Total revenue | | \$ 118,354,080 | \$ 118,354,080 | \$ – |
| Total expenditures | | \$ 117,667,501 | \$ 117,667,501 | \$ – |
| Nonspendable | | | | |
| 460 | Nonspendable fund balance | \$ – | \$ – | \$ – |
| Restricted | | | | |
| 401 | Student activities | \$ 26,531 | \$ 26,531 | \$ – |
| 402 | Scholarships | \$ – | \$ – | \$ – |
| 403 | Staff development | \$ – | \$ – | \$ – |
| 407 | Capital projects levy | \$ – | \$ – | \$ – |
| 408 | Cooperative revenue | \$ – | \$ – | \$ – |
| 413 | Projects funded by COP | \$ – | \$ – | \$ – |
| 414 | Operating debt | \$ – | \$ – | \$ – |
| 416 | Levy reduction | \$ – | \$ – | \$ – |
| 417 | Taconite building maintenance | \$ – | \$ – | \$ – |
| 424 | Operating capital | \$ 1,328,338 | \$ 1,328,338 | \$ – |
| 426 | \$25 taconite | \$ – | \$ – | \$ – |
| 427 | Disabled accessibility | \$ – | \$ – | \$ – |
| 428 | Learning and development | \$ – | \$ – | \$ – |
| 434 | Area learning center | \$ – | \$ – | \$ – |
| 435 | Contracted alternative programs | \$ – | \$ – | \$ – |
| 436 | State approved alternative program | \$ – | \$ – | \$ – |
| 438 | Gifted and talented | \$ – | \$ – | \$ – |
| 440 | Teacher development and evaluation | \$ – | \$ – | \$ – |
| 441 | Basic skills programs | \$ – | \$ – | \$ – |
| 448 | Achievement and integration | \$ 104,363 | \$ 104,363 | \$ – |
| 449 | Safe schools levy | \$ – | \$ – | \$ – |
| 451 | QZAB payments | \$ – | \$ – | \$ – |
| 452 | OPEB liability not in trust | \$ – | \$ – | \$ – |
| 453 | Unfunded severance and retirement levy | \$ – | \$ – | \$ – |
| 459 | Basic skills extended time | \$ – | \$ – | \$ – |
| 467 | Long-term facilities maintenance | \$ – | \$ – | \$ – |
| 472 | Medical Assistance | \$ – | \$ – | \$ – |
| 473 | PPP loans | \$ – | \$ – | \$ – |
| 474 | EIDL loans | \$ – | \$ – | \$ – |
| 464 | Restricted fund balance | \$ – | \$ – | \$ – |
| 475 | Title VII – Impact Aid | \$ – | \$ – | \$ – |
| 476 | Payment in lieu of taxes | \$ – | \$ – | \$ – |
| Committed | | | | |
| 418 | Committed for separation | \$ – | \$ – | \$ – |
| 461 | Committed fund balance | \$ 1,068,409 | \$ 1,068,409 | \$ – |
| Assigned | | | | |
| 462 | Assigned fund balance | \$ 3,752,941 | \$ 3,752,941 | \$ – |
| Unassigned | | | | |
| 422 | Unassigned fund balance | \$ 8,613,512 | \$ 8,613,512 | \$ – |
| Food Service | | | | |
| Total revenue | | \$ 2,475,919 | \$ 2,475,919 | \$ – |
| Total expenditures | | \$ 2,649,049 | \$ 2,649,049 | \$ – |
| Nonspendable | | | | |
| 460 | Nonspendable fund balance | \$ – | \$ – | \$ – |
| Restricted | | | | |
| 452 | OPEB liability not in trust | \$ – | \$ – | \$ – |
| 474 | EIDL loans | \$ – | \$ – | \$ – |
| 464 | Restricted fund balance | \$ 927,125 | \$ 927,125 | \$ – |
| Unassigned | | | | |
| 463 | Unassigned fund balance | \$ – | \$ – | \$ – |
| Community Service | | | | |
| Total revenue | | \$ 7,453,883 | \$ 7,453,883 | \$ – |
| Total expenditures | | \$ 7,858,032 | \$ 7,858,032 | \$ – |
| Nonspendable | | | | |
| 460 | Nonspendable fund balance | \$ – | \$ – | \$ – |
| Restricted | | | | |
| 426 | \$25 taconite | \$ – | \$ – | \$ – |
| 431 | Community education | \$ 364,259 | \$ 364,259 | \$ – |
| 432 | ECFE | \$ 61,180 | \$ 61,180 | \$ – |
| 440 | Teacher development and evaluation | \$ – | \$ – | \$ – |
| 444 | School readiness | \$ 75,443 | \$ 75,443 | \$ – |
| 447 | Adult basic education | \$ – | \$ – | \$ – |
| 452 | OPEB liability not in trust | \$ – | \$ – | \$ – |
| 473 | PPP loans | \$ – | \$ – | \$ – |
| 474 | EIDL loans | \$ – | \$ – | \$ – |
| 464 | Restricted fund balance | \$ 27,173 | \$ 27,173 | \$ – |
| Unassigned | | | | |
| 463 | Unassigned fund balance | \$ – | \$ – | \$ – |

INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2020

| | | Audit | UFARS | Audit – UFARS |
|------------------------------------|----------------------------------|---------------|---------------|---------------|
| Building Construction | | | | |
| Total revenue | | \$ 7,027,724 | \$ 7,027,724 | \$ – |
| Total expenditures | | \$ 19,691,000 | \$ 19,691,000 | \$ – |
| Nondisposable | | | | |
| 460 | Nondisposable fund balance | \$ – | \$ – | \$ – |
| Restricted | | | | |
| 407 | Capital projects levy | \$ 416,531 | \$ 416,531 | \$ – |
| 413 | Projects funded by COP | \$ – | \$ – | \$ – |
| 467 | Long-term facilities maintenance | \$ 11,997,408 | \$ 11,997,408 | \$ – |
| 464 | Restricted fund balance | \$ – | \$ – | \$ – |
| Unassigned | | | | |
| 463 | Unassigned fund balance | \$ – | \$ – | \$ – |
| Debt Service | | | | |
| Total revenue | | \$ 16,109,011 | \$ 16,109,011 | \$ – |
| Total expenditures | | \$ 15,735,561 | \$ 15,735,560 | \$ 1 |
| Nondisposable | | | | |
| 460 | Nondisposable fund balance | \$ – | \$ – | \$ – |
| Restricted | | | | |
| 425 | Bond refundings | \$ – | \$ – | \$ – |
| 433 | Maximum effort loan | \$ – | \$ – | \$ – |
| 451 | QZAB payments | \$ – | \$ – | \$ – |
| 467 | Long-term facilities maintenance | \$ – | \$ – | \$ – |
| 464 | Restricted fund balance | \$ 3,026,960 | \$ 3,026,960 | \$ – |
| Unassigned | | | | |
| 463 | Unassigned fund balance | \$ – | \$ – | \$ – |
| Trust | | | | |
| Total revenue | | \$ – | \$ – | \$ – |
| Total expenditures | | \$ – | \$ – | \$ – |
| 401 | Student activities | \$ – | \$ – | \$ – |
| 402 | Scholarships | \$ – | \$ – | \$ – |
| 422 | Net position | \$ – | \$ – | \$ – |
| Custodial Fund | | | | |
| Total revenue | | \$ – | \$ – | \$ – |
| Total expenditures | | \$ – | \$ – | \$ – |
| 401 | Student activities | \$ – | \$ – | \$ – |
| 402 | Scholarships | \$ – | \$ – | \$ – |
| 448 | Achievement and integration | \$ – | \$ – | \$ – |
| 464 | Restricted fund balance | \$ – | \$ – | \$ – |
| Internal Service | | | | |
| Total revenue | | \$ 855,860 | \$ 855,860 | \$ – |
| Total expenditures | | \$ 744,260 | \$ 744,260 | \$ – |
| 422 | Net position | \$ 601,205 | \$ 601,205 | \$ – |
| OPEB Revocable Trust Fund | | | | |
| Total revenue | | \$ – | \$ – | \$ – |
| Total expenditures | | \$ – | \$ – | \$ – |
| 422 | Net position | \$ – | \$ – | \$ – |
| OPEB Irrevocable Trust Fund | | | | |
| Total revenue | | \$ – | \$ – | \$ – |
| Total expenditures | | \$ – | \$ – | \$ – |
| 422 | Net position | \$ – | \$ – | \$ – |
| OPEB Debt Service Fund | | | | |
| Total revenue | | \$ – | \$ – | \$ – |
| Total expenditures | | \$ – | \$ – | \$ – |
| Nondisposable | | | | |
| 460 | Nondisposable fund balance | \$ – | \$ – | \$ – |
| Restricted | | | | |
| 425 | Bond refundings | \$ – | \$ – | \$ – |
| 464 | Restricted fund balance | \$ – | \$ – | \$ – |
| Unassigned | | | | |
| 463 | Unassigned fund balance | \$ – | \$ – | \$ – |

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

Management Report

for

Independent School District No. 273
Edina, Minnesota

June 30, 2020



PRINCIPALS

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

To the School Board and Management of
Independent School District No. 273
Edina, Minnesota

We have prepared this management report in conjunction with our audit of Independent School District No. 273, Edina, Minnesota's (the District) financial statements for the year ended June 30, 2020. We have organized this report into the following sections:

- Audit Summary
- Funding Public Education in Minnesota
- Financial Trends of Your District
- Legislative Summary
- Accounting and Auditing Updates

We would be pleased to further discuss any of the information contained in this report or any other concerns that you would like us to address. We would also like to express our thanks for the courtesy and assistance extended to us during the course of our audit.

The purpose of this report is solely to provide those charged with governance of the District, management, and those who have responsibility for oversight of the financial reporting process comments resulting from our audit process and information relevant to school district financing in Minnesota. Accordingly, this report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 28, 2020

AUDIT SUMMARY

The following is a summary of our audit work, key conclusions, and other information that we consider important or that is required to be communicated to the School Board, administration, or those charged with governance of the District.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND TITLE 2 U.S. CODE OF FEDERAL REGULATIONS PART 200, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS* (UNIFORM GUIDANCE)

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you verbally and in our audit engagement letter. Professional standards also require that we communicate to you the following information related to our audit.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously discussed and coordinated in order to obtain sufficient audit evidence and complete an effective audit.

AUDIT OPINION AND FINDINGS

Based on our audit of the District's financial statements for the year ended June 30, 2020:

- We have issued an unmodified opinion on the District's basic financial statements. Our report included a paragraph emphasizing the District's implementation of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities* during the year. Our opinion was not modified with respect to this matter.
- We reported one deficiency in the District's internal control over financial reporting that we considered to be a material weakness. Due to the significant amount of staff transition in the District's Business Services Department, the effectiveness of some internal control procedures was diminished, due to a lack of timely periodic and year-end account reconciliations.
- The results of our testing disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
- We reported that the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements.
- We reported one matter involving the District's internal controls over compliance that we considered to be a significant deficiency with the types of compliance requirements that could have a direct and material effect on each of its major federal programs. The District did not have sufficient controls in place in its child nutrition cluster federal programs to ensure compliance with suspension and debarment requirements to document verification that vendors used are not suspended or debarred from participating in a contract involving federal funds.

- The results of our tests indicate that the District has complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major federal programs.
- We reported the following finding based on our testing of the District's compliance with Minnesota laws and regulations. For one of five contracts selected for testing that were completed during the 2020 fiscal year, the statutory requirement to obtain a Form IC134 or Contractor's Withholding Affidavit prior to making the final payment to a contractor, was not met.

OTHER OBSERVATIONS AND RECOMMENDATIONS

Capital Asset Records

The District has been performing a number of large improvement projects at various sites over the last few years, financed with bonds issued in fiscal 2018. During our audit, we noted the District does not have an adequate process in place to track construction in progress costs by project. This created significant difficulties in the identification of the individual completed assets produced through these projects, and hampered the District's ability to efficiently and accurately remove them from work in process in order to set them up and depreciate them in the capital asset accounting system. The aggregation of this information also does not allow for the accurate classification of asset additions between categories such as land improvements, buildings, and furniture and equipment; which is necessary to ensure assets are assigned proper useful lives and depreciated in accordance with the District's policies. We recommend that the District review its procedures for tracking construction in progress and recording capital asset additions to enhance the accuracy of these records, and to reduce the amount of business office staff time spent reconciling these records for audit.

Performance and Payment Bonds

During our audit, we tested a sample of construction contracts that were awarded through competitive bids for compliance with applicable Minnesota Statutes. We noted that for one such contract, the District had elected to utilize a vendor that had been approved through a state-wide bidding process, which is an acceptable practice. However, even when awarding a contract to a state approved vendor, the District should obtain performance and payment bonds from the vendor if the dollar amount of the contract exceeds the statutory threshold at which they are required, which was not done for this contract. We recommend that the District review its competitive bidding procedures to ensure that the requirements for performance and payment bonds are followed, even for contracts awarded to state approved vendors.

Impact of Novel Coronavirus (COVID-19)

Starting in March 2020, the onset of the novel coronavirus (COVID-19) pandemic caused substantial volatility in economic conditions and tremendous disruption in the way schools, governments, businesses, and individuals function. Minnesota school districts may experience the impact of this pandemic in a myriad of financial areas, such as: declines in investment rates of return, cash flow issues, significant increases in the number and frequency of employees working remotely, challenges in processing general and payroll disbursements, disruption of prescribed internal control procedures, delays in internal and external financial reporting, and new compliance requirements attached to current and potential federal relief subsidies. As your District continues to adapt to the new normal of operating in a post-COVID-19 world, the assessment of and responses to new risks that may accompany operational changes will be critical to the safeguarding of resources and sound financial stewardship. We encourage management and governance to include a robust financial risk assessment process when planning responses to these challenges, and to reassess and adapt internal controls over financial transactions and reporting to align with significant changes made to daily operations, even those intended to be temporary.

Electronic Funds Transfer Fraud

As the use of electronic funds transfers and payment methods has become more prevalent, we have seen increases in both the incidences of fraud related to these transactions and the dollar amounts involved. Unfortunately, operational changes related to the COVID-19 pandemic, including greater reliance on technology and more employees working remotely, tend to increase risk in this area. We urge districts to carefully review controls over these transactions, and consider best practices to address this risk, such as:

- Ensuring segregation of duties over these transactions by involving more than one employee in the process.
- Requiring multi-factor authentication of requests for electronic payments from new vendors or for changes in wiring instructions for existing vendors. It is recommended that changes for existing vendors be verified with the vendor through trusted contact information used previously for that vendor, not as provided in the change request, to verify the accuracy of the change.
- Educate employees on the controls in place to protect the organization's financial assets and ensure management is supportive and accepting of the processes in place. These scams are often initiated using the profile of a supervisor. Employees must be comfortable questioning unusual transactions or requests, and instructed not to circumvent internal control procedures regardless of whom they believe initiated the transaction.
- Recommended cyber security measures, such as limiting network access and requiring robust passwords that are changed regularly, should be implemented and followed by all district employees, not just those directly involved with financial transactions.
- Review insurance policies to understand the coverage provided for financial losses, due to cybersecurity risks, and evaluate whether they provide adequate coverage based on management's assessment of these risks.

Community Service Kids Club Bank Reconciliations

We noted that the District's Kid's Club bank reconciliations were being completed outside of the business office's oversight and were not being reconciled to the District's general ledger. A lack of sufficient controls subjects the District to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business. Although the amount held in this account and the typical transaction size it is used for are not material, smaller accounts of this type are often vulnerable to fraud or abuse. We recommend that the District review its cash/bank reconciliation procedures to ensure that this account is reconciled regularly with proper oversight.

SIGNIFICANT ACCOUNTING POLICIES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 of the notes to basic financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2020. However, the District implemented the following governmental accounting standard during the fiscal year ended June 30, 2020:

- GASB Statement No. 84, *Fiduciary Activities*, which established criteria for identifying fiduciary activities of local governments. The focus of the criteria is generally on (1) whether a government is controlling the assets of the fiduciary activity, and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and post-employment benefit arrangements that are fiduciary activities.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

General education revenue and certain other revenues are computed by applying an allowance per student to the number of students served by the District. Student attendance is accumulated in a state-wide database—MARSS. Because of the complexity of student accounting and because of certain enrollment options, student information is input by other school districts and the MARSS data for the current fiscal year is not finalized until after the District has closed its financial records. General education revenue and certain other revenues are computed using preliminary information on the number of students served in the resident district and also utilizing some estimates, particularly in the area of enrollment options.

Special education state aid includes an adjustment related to tuition billings to and from other school districts for special education services, which are computed using formulas derived by the Minnesota Department of Education (MDE). Because of the timing of the calculations, this adjustment for the current fiscal year is not finalized until after the District has closed its financial records. The impact of this adjustment on the receivable and revenue recorded for state special education aid is calculated using preliminary information available to the District.

The District has recorded a liability in the Statement of Net Position for severance benefits payable for which it is probable employees will be compensated. The "vesting method" used by the District to calculate this liability is based on assumptions involving the probability of employees becoming eligible to receive the benefits (vesting), the potential use of accumulated sick leave prior to termination, and the age at which such employees are likely to retire.

The District has recorded activity for pension benefits and other post-employment benefits (OPEB). These obligations are calculated using actuarial methodologies primarily described in GASB Statement Nos. 68, 73, and 75. These actuarial calculations include significant assumptions, including projected changes, healthcare insurance costs, investment returns, retirement ages, proportionate share, and employee turnover.

The depreciation of capital assets involves estimates pertaining to useful lives.

The District's self-insured activities require recording a liability for claims incurred, but not yet reported, which are based on estimates.

We evaluated the key factors and assumptions used by management to develop the estimates discussed above in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The disclosures included in the notes to the basic financial statements related to OPEB and pension benefits are particularly sensitive, due to the materiality of the liabilities, and the large and complex estimates involved in determining the disclosures.

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

We proposed one audit adjustment to the financial statements to record unearned revenue of \$307,697, and thereby, reduce the amount of revenue recognized in the governmental activities and General Fund for fiscal 2020 by that amount. Management evaluated the effects of the proposed adjustment, determined it to be immaterial to the financial statements, and elected not to make the adjustment.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated December 28, 2020.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

We applied certain limited procedures to the management's discussion and analysis, and the pension and OPEB-related required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplemental information, Schedule of Expenditures of Federal Awards, and the Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table accompanying the financial statements, which are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory section and other district information, which accompany the financial statements, but is not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

FUNDING PUBLIC EDUCATION IN MINNESOTA

Due to its complexity, it would be impossible to fully explain the funding of public education in Minnesota within this report. A summary of legislative changes affecting school districts included later in this report gives an indication of how complicated the funding system is. This section provides selected state-wide funding and financial trend information.

BASIC GENERAL EDUCATION REVENUE

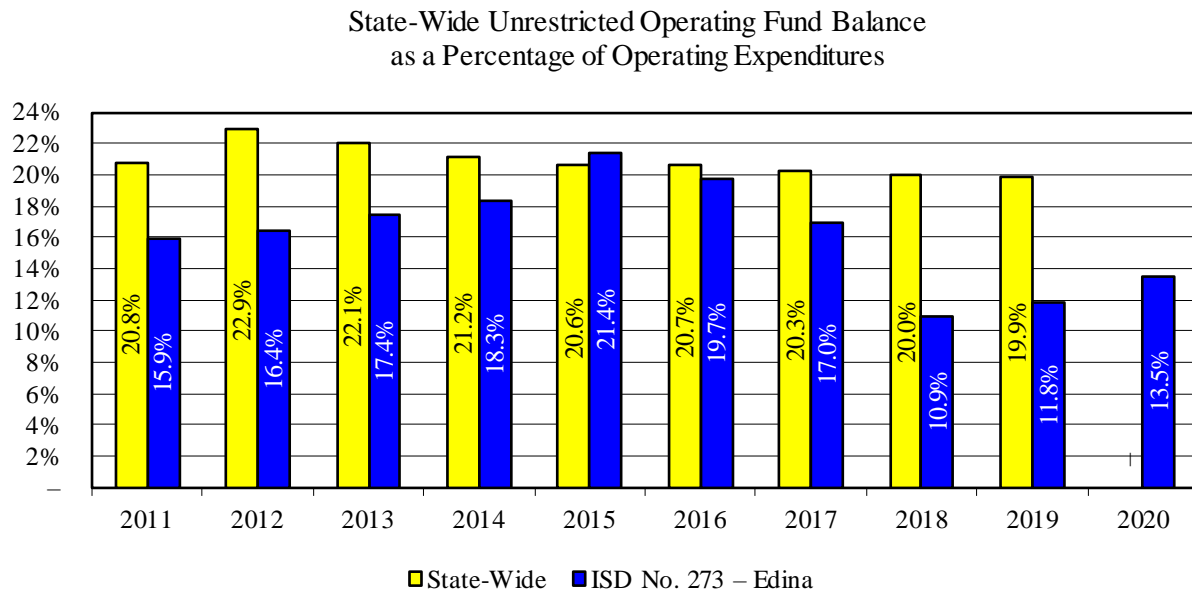
The largest single funding source for Minnesota school districts is basic general education aid. Each year, the Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to average daily membership (ADM). Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

The table below presents a summary of the formula allowance for the past decade and as approved for the next year. The amount of the formula allowance and the percentage change from year-to-year excludes temporary funding changes, the “roll-in” of aids that were previously funded separately, and changes that may vary dependent on actions taken by individual districts. The \$529 increase in 2015 was offset by changes to pupil weightings and the general education aid formula that resulted in an increase equivalent to approximately \$105, or 2.0 percent, state-wide.

| Fiscal Year Ended June 30, | Formula Allowance | |
|-------------------------------|-------------------|---------------------|
| | Amount | Percent Increase |
| 2011 | \$ 5,124 | – % |
| 2012 | \$ 5,174 | 1.0 % |
| 2013 | \$ 5,224 | 1.0 % |
| 2014 | \$ 5,302 | 1.5 % |
| 2015 | \$ 5,831 | 2.0 % |
| 2016 | \$ 5,948 | 2.0 % |
| 2017 | \$ 6,067 | 2.0 % |
| 2018 | \$ 6,188 | 2.0 % |
| 2019 | \$ 6,312 | 2.0 % |
| 2020 | \$ 6,438 | 2.0 % |
| 2021 | \$ 6,567 | 2.0 % |

STATE-WIDE SCHOOL DISTRICT FINANCIAL HEALTH

One of the most common and comparable statistics used to evaluate school district financial health is the unrestricted operating fund balance as a percentage of operating expenditures.



Note: State-wide information is not available for fiscal 2020.

The calculation above reflects only the unrestricted fund balance of the General Fund, and the corresponding expenditures, which is the same method the state uses for the calculation of statutory operating debt. We have also included the comparable percentages for your district.

During the economic downturn that began in 2008, the average unrestricted fund balance as a percentage of operating expenditures maintained by Minnesota school districts increased, peaking at 22.9 percent at the end of fiscal 2012. This trend reflected districts' efforts to limit budget cuts, retain educational programs, and maintain adequate operating cash flow during a period of uncertain funding. As the state's economic condition improved in subsequent years, this ratio has gradually decreased to 19.9 percent at the end of fiscal 2019.

The District's unrestricted operating fund balance as a percentage of operating expenditures was 13.5 percent at the end of the current year, as compared to 11.8 percent at June 30, 2019.

The table below shows a comparison of governmental fund revenue per ADM received by Minnesota school districts and your district. Revenues for all governmental funds are included, except for the Capital Projects – Building Construction Fund. Other financing sources, such as proceeds from sales of capital assets, insurance recoveries, bond sales, loans, and interfund transfers, are also excluded.

| Governmental Funds Revenue per Student (ADM) Served | | | | | | | | |
|--|------------------|------------------|------------------|------------------|---------------------|------------------|------------------|--|
| | State-Wide | | Metro Area | | ISD No. 273 – Edina | | | |
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2020 | |
| General Fund | | | | | | | | |
| Property taxes | \$ 2,024 | \$ 2,140 | \$ 2,638 | \$ 2,796 | \$ 3,560 | \$ 3,915 | \$ 3,991 | |
| Other local sources | 520 | 556 | 433 | 454 | 592 | 600 | 541 | |
| State | 9,614 | 9,883 | 9,625 | 9,885 | 8,684 | 9,067 | 9,362 | |
| Federal | 450 | 475 | 474 | 499 | 216 | 285 | 216 | |
| Total General Fund | 12,608 | 13,054 | 13,170 | 13,634 | 13,052 | 13,867 | 14,110 | |
| Special revenue funds | | | | | | | | |
| Food Service | 559 | 559 | 554 | 556 | 355 | 360 | 295 | |
| Community Service | 642 | 676 | 752 | 797 | 872 | 954 | 889 | |
| Debt Service Fund | 1,128 | 1,229 | 1,120 | 1,287 | 1,825 | 1,793 | 1,920 | |
| Total revenue | <u>\$ 14,937</u> | <u>\$ 15,518</u> | <u>\$ 15,596</u> | <u>\$ 16,274</u> | <u>\$ 16,104</u> | <u>\$ 16,974</u> | <u>\$ 17,214</u> | |
| ADM served per MDE School District Profiles Report (current year estimated) | | | | | <u>8,493</u> | <u>8,445</u> | <u>8,388</u> | |
| Note: Excludes the Capital Projects – Building Construction Fund. | | | | | | | | |
| Source of state-wide and metro area data: School District Profiles Report published by the MDE | | | | | | | | |

ADM used in the table above and on the following page are consistent with those used in the MDE School District Profiles Report, which include extended time ADM, and may differ from ADM reported in other tables.

The mix of local and state revenues vary from year to year primarily based on funding formulas and the state's financial condition. The mix of revenue components from district to district varies, due to factors such as the strength of property values, mix of property types, operating and bond referendums, enrollment trends, density of population, types of programs offered, and countless other criteria.

Changes in enrollment also impact comparisons in the table above and on the next page when revenue and expenditures are based on fixed costs, such as debt levies and principal and interest on outstanding indebtedness.

The District earned approximately \$144.4 million in the governmental funds reflected above in fiscal 2020, an increase of \$1.1 million (0.7 percent), or \$240 per ADM, from the prior year. Increases in revenue from property taxes, state general education aid, and state special education aid contributed to an increase of \$243 per ADM in General Fund revenue. Revenues from other local sources in the General Fund (down \$59 per ADM), along with food service revenues (down \$65 per ADM) and community service revenues (down \$65 per ADM), all decreased from last year, due primarily to the impact of COVID-19 restrictions. Debt service revenue, which is primarily from property taxes, increased \$127 per ADM, due to an increase in scheduled debt levies.

The following table reflects similar comparative data available from the MDE for all governmental fund expenditures, excluding the Capital Projects – Building Construction Fund. Other financing uses, such as bond refundings and transfers, are also excluded.

| Governmental Funds Expenditures per Student (ADM) Served | | | | | | | |
|--|------------------|------------------|------------------|------------------|---------------------|------------------|------------------|
| | State-Wide | | Metro Area | | ISD No. 273 – Edina | | |
| | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2020 |
| General Fund | | | | | | | |
| Administration and district support | \$ 1,031 | \$ 1,065 | \$ 1,045 | \$ 1,078 | \$ 756 | \$ 736 | \$ 693 |
| Elementary and secondary regular instruction | 5,646 | 5,787 | 5,976 | 6,112 | 6,447 | 6,592 | 6,703 |
| Vocational education instruction | 170 | 180 | 154 | 165 | 52 | 44 | 50 |
| Special education instruction | 2,298 | 2,380 | 2,418 | 2,505 | 2,328 | 2,504 | 2,687 |
| Instructional support services | 658 | 669 | 748 | 751 | 681 | 675 | 666 |
| Pupil support services | 1,118 | 1,178 | 1,209 | 1,282 | 1,107 | 1,206 | 1,165 |
| Sites, buildings, and other | 936 | 960 | 896 | 907 | 1,101 | 1,198 | 1,421 |
| Total General Fund – noncapital | 11,857 | 12,219 | 12,446 | 12,800 | 12,472 | 12,955 | 13,385 |
| General Fund capital expenditures | 658 | 721 | 636 | 675 | 238 | 476 | 644 |
| Total General Fund | 12,515 | 12,940 | 13,082 | 13,475 | 12,710 | 13,431 | 14,029 |
| Special revenue funds | | | | | | | |
| Food Service | 553 | 561 | 545 | 556 | 381 | 349 | 316 |
| Community Service | 640 | 675 | 750 | 799 | 842 | 939 | 937 |
| Debt Service Fund | 1,308 | 1,313 | 1,230 | 1,308 | 1,730 | 1,737 | 1,876 |
| Total expenditures | <u>\$ 15,016</u> | <u>\$ 15,489</u> | <u>\$ 15,607</u> | <u>\$ 16,138</u> | <u>\$ 15,663</u> | <u>\$ 16,456</u> | <u>\$ 17,158</u> |
| ADM served per MDE School District Profiles Report (current year estimated) | | | | | <u>8,493</u> | <u>8,445</u> | <u>8,388</u> |
| Note: Excludes the Capital Projects – Building Construction Fund. | | | | | | | |
| Source of state-wide and metro area data: School District Profiles Report published by the MDE | | | | | | | |

Expenditure patterns also vary from district to district for various reasons. Factors affecting the comparison include the growth cycle or maturity of the District, average employee experience, availability of funding, population density, program participation, and even methods of allocating costs.

The District spent approximately \$143.9 million in the governmental funds reflected above in fiscal 2020, an increase of \$4.9 million (3.5 percent), or \$702 per ADM. General Fund noncapital expenditures increased \$430 per ADM. The largest increases were in sites and buildings (\$223 per ADM), special education instruction (\$183 per ADM), and elementary and secondary regular instruction (\$111 per ADM). General Fund capital expenditures were \$168 per ADM higher than last year, due to an increase in facilities maintenance capital projects. Debt service expenditures increased \$139 per pupil, mainly due to scheduled interest payments on recent bond issues.

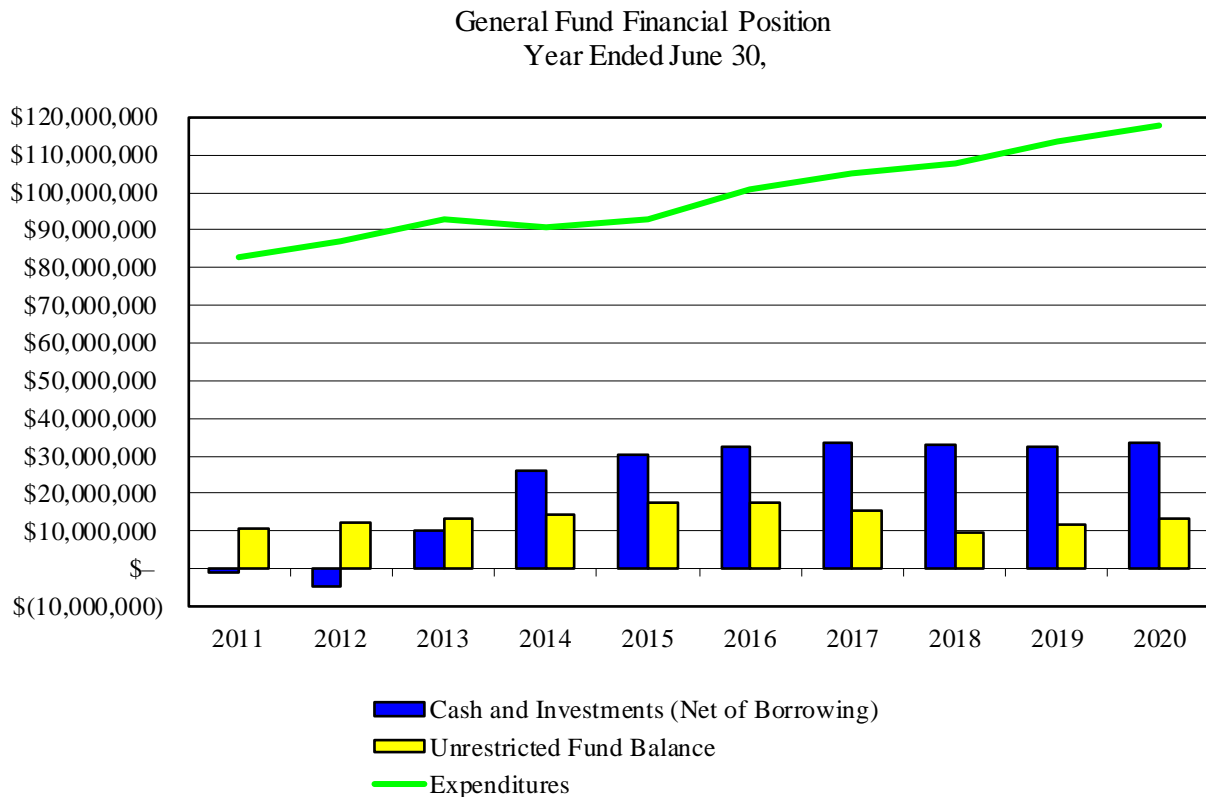
SUMMARY

Funding for Minnesota school districts generally has not kept pace with inflation and an increasing need for services, despite recent enhancements to the basic general education state aid formula and other categorical aids. This has increased reliance on local revenue sources like voter-approved operating referenda and user fees to maintain district programs. The recent COVID-19 pandemic has and will continue to create additional financial challenges, as districts struggle to provide a safe and effective learning experience for their students under unprecedented circumstances.

FINANCIAL TRENDS OF YOUR DISTRICT

GENERAL FUND FINANCIAL POSITION

The following graph displays the District's General Fund trends of financial position and changes in the volume of financial activity. Unrestricted fund balance and cash balance are two indicators of financial health, while annual expenditures are often used to measure the size of the operation.



The District ended fiscal year 2020 with a General Fund cash balance of \$33,419,553 (net of any interfund receivables and payables), an increase of \$937,688 from the previous year.

Total fund balance at year-end was \$14,894,094, an increase of \$686,579, excluding the previously discussed change in accounting principle, compared to a budgeted decrease of \$3,487,491. Unrestricted fund balances as pictured above (consisting of committed, assigned, or unassigned fund balances) at year-end were \$13,434,862, an increase of \$1,908,263.

Legislatively-approved changes in the metering of state aid payments to school districts and in the tax shift significantly impacted cash and investment balances in certain years presented in the above graph.

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

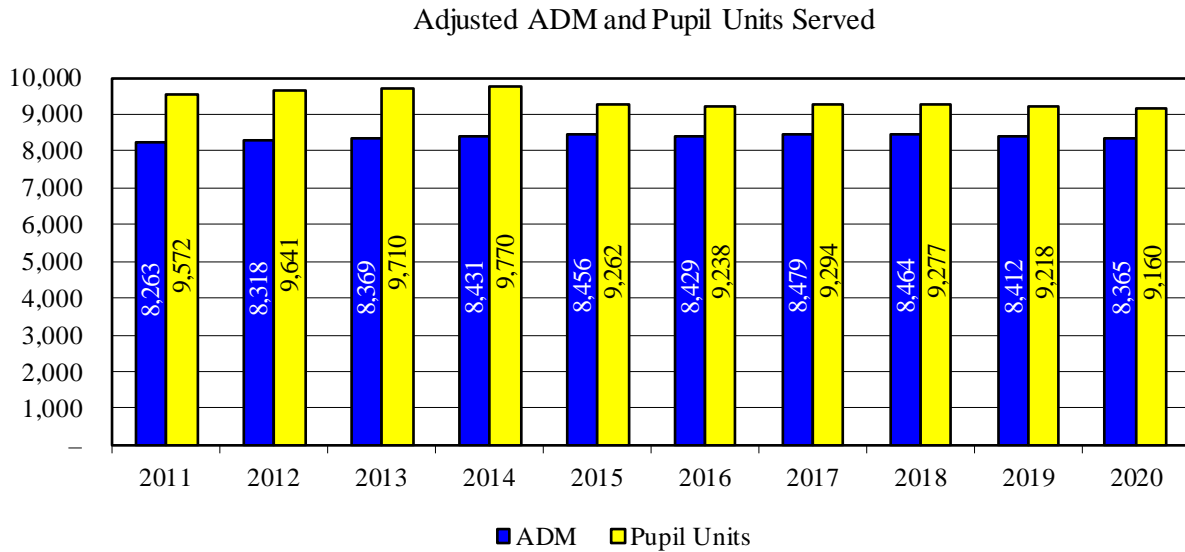
| | June 30, | | | | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Nonspendable fund balances | \$ 89,550 | \$ 128,765 | \$ 714,427 | \$ 31,133 | \$ — |
| Restricted fund balances (1) | 1,622,611 | 3,107,162 | 3,289,820 | 2,624,734 | 1,459,232 |
| Unrestricted fund balances | | | | | |
| Committed | 2,871,328 | 2,838,407 | 927,819 | 1,037,614 | 1,068,409 |
| Assigned | 6,490,753 | 5,773,902 | 3,535,342 | 3,534,808 | 3,752,941 |
| Unassigned | 8,324,600 | 6,843,919 | 5,268,594 | 6,954,177 | 8,613,512 |
| Total fund balance | <u>\$ 19,398,842</u> | <u>\$ 18,692,155</u> | <u>\$ 13,736,002</u> | <u>\$ 14,182,466</u> | <u>\$ 14,894,094</u> |
| Unrestricted fund balances as a percentage of expenditures | <u>17.5%</u> | <u>14.7%</u> | <u>9.0%</u> | <u>10.2%</u> | <u>11.4%</u> |
| Unassigned fund balances as a percentage of expenditures | <u>8.3%</u> | <u>6.5%</u> | <u>4.9%</u> | <u>6.1%</u> | <u>7.3%</u> |
| (1) Includes deficits in restricted fund balance accounts allowed to accumulate deficits under UFARS, which are part of unassigned fund balance on the accounting principles generally accepted in the United States of America-based financial statements. | | | | | |

The table above reflects the total General Fund unrestricted fund balance and percentages, which differs from those used in the previous discussion of state-wide fund balances, which are based on a state formula. The resources represented by this fund balance are critical to a district's ability to maintain adequate cash flow throughout the year, to retain its programs, and to cushion against the impact of unexpected costs or funding shortfalls.

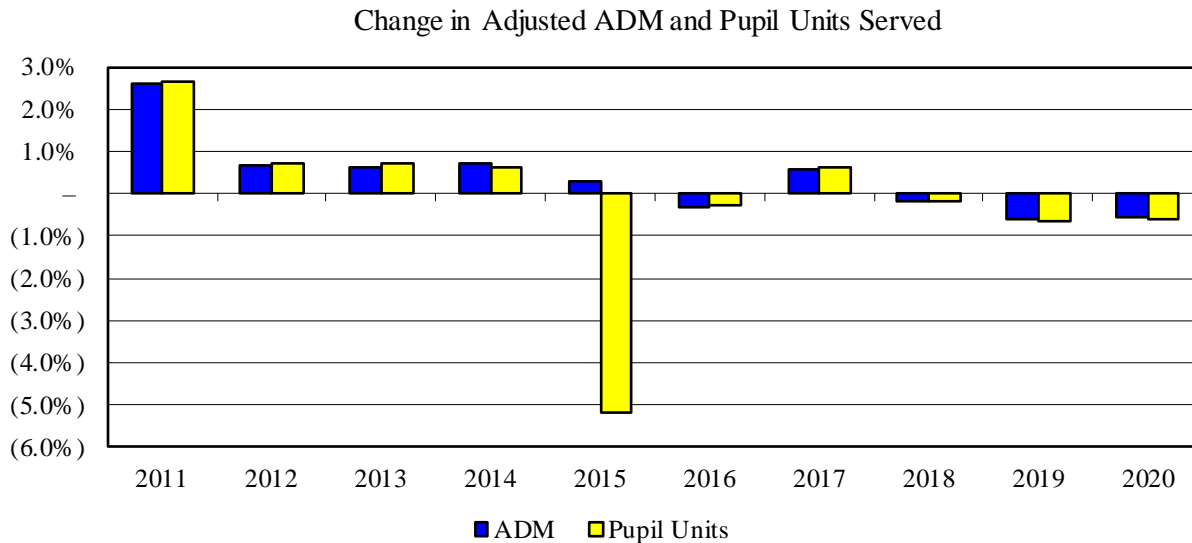
At June 30, 2020, unrestricted fund balances in the General Fund represented 11.4 percent of annual expenditures, or about 6 weeks of operations assuming level spending throughout the year.

AVERAGE DAILY MEMBERSHIP (ADM) AND PUPIL UNITS

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



The following graph shows the rate of change in ADM served by the District from year-to-year, along with the change in the resulting pupil units:



Note: the change in pupil units for 2015 includes the effect of legislative reductions to pupil weights.

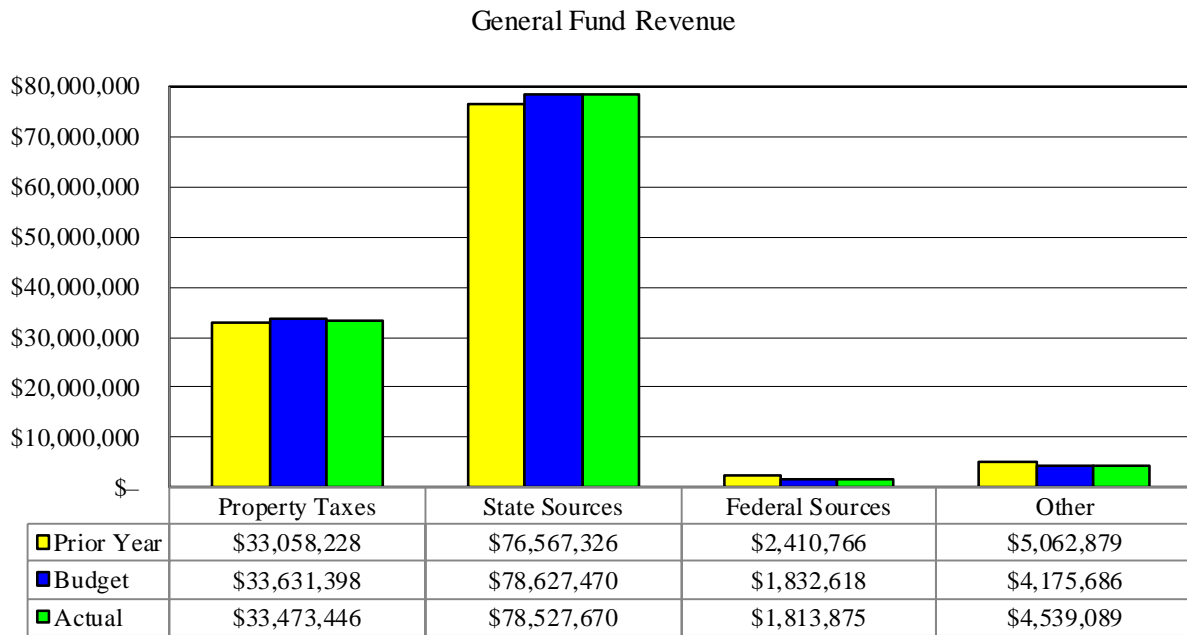
ADM is a measure of students attending class, which is then converted to pupil units (the base for determining revenue) using a statutory formula. Not only is the original budget based on ADM estimates, the final audited financial statements are based on updated, but still estimated, ADM since the counts are not finalized until around January of the following year. When viewing revenue budget variances, one needs to consider these ADM changes, the impact of the prior year final adjustments, which affect this year's revenue, and also the final adjustments caused by open enrollment gains and losses.

Adjusted ADM served by the District decreased 47 from the prior year to 8,365.

The number of pupil units served by the District for aid in fiscal 2020 was 9,160, a decrease of 58 (0.6 percent) from the prior year.

GENERAL FUND REVENUES

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

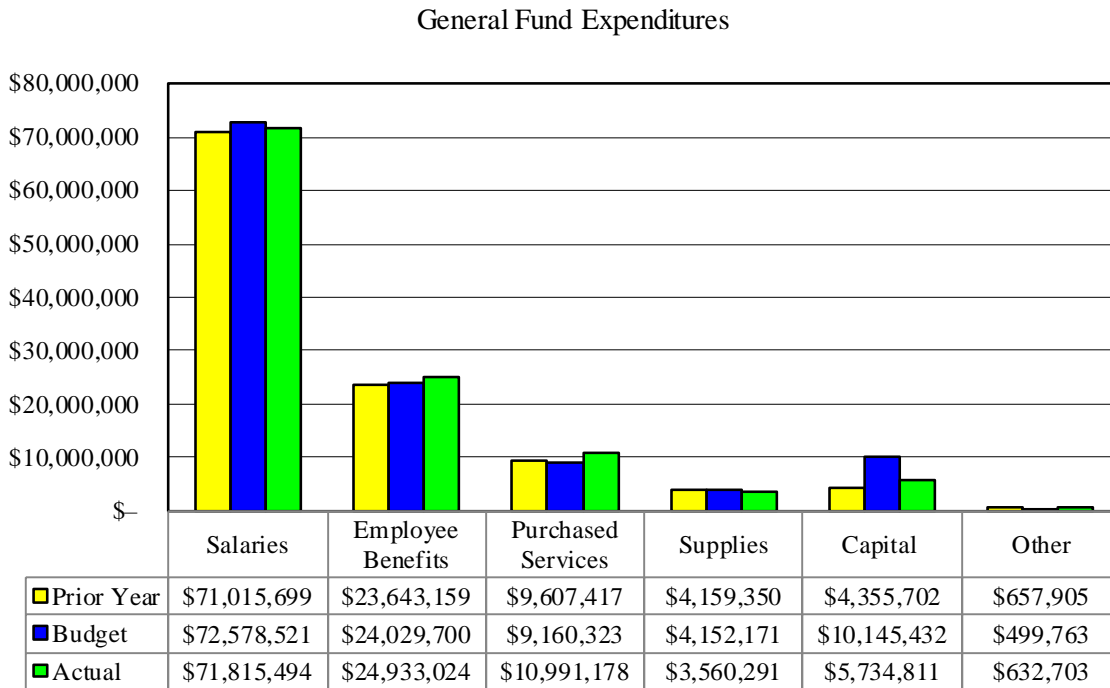


Total General Fund revenues were \$118,354,080 for the year ended June 30, 2020, which was \$86,908 (0.1 percent) over the final budget. Property tax revenue was under budget by \$157,952, as the District experienced higher than anticipated abatements and adjustments than allowed for in the budget. Revenues from other local sources (including gifts, bequests, tuition, rental, and investment income) were \$363,403 over budget, mainly due to conservative budgeting for these revenues, which are difficult to project.

General Fund total revenues were \$1,254,881 (1.1 percent) more than the previous year. Property taxes were \$415,218 more than last year, due to an increase in the voter-approved levy. Revenue from state sources was \$1,960,344 higher than the previous year, primarily due to increases in general education and special education aids. Revenue from federal grants decreased \$596,891, primarily in special education, due to decreased entitlements in the current year.

GENERAL FUND EXPENDITURES

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

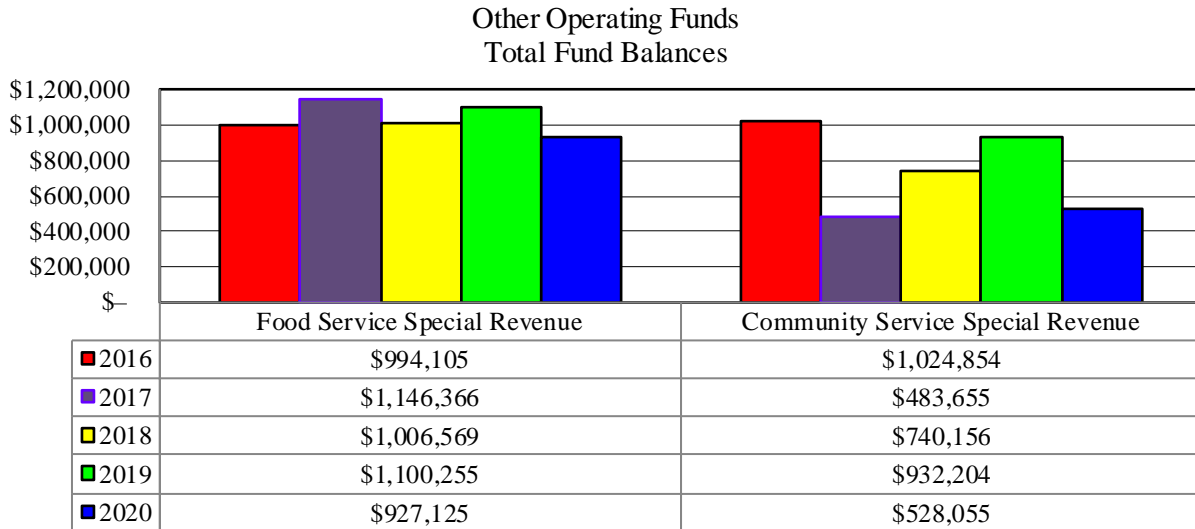


Total General Fund expenditures were \$117,667,501 for the year ended June 30, 2020, which was \$2,898,409 (2.4 percent) under the final budget. Expenditures were mainly under budget in the elementary and secondary regular instruction, instructional support services, and site and buildings program areas, due to implementing distance learning from March through the end of the year.

Total General Fund expenditures were \$4,228,269 (3.7 percent) more than the prior year. Salaries and benefits were \$2,089,660 (2.2 percent) higher than last year, due to contractual wage increases and inflationary increases to benefits. Purchased service costs were \$1,383,761 higher than last year, primarily in sites and buildings. Capital outlay expenditures increased \$1,379,109 from the prior year, due to the District completing more maintenance projects than last year.

OTHER FUNDS OF THE DISTRICT

The following graph shows what is referred to as the other operating funds. The remaining nonoperating funds are only included in narrative form below, since their level of fund balance can fluctuate significantly, due to such things as issuing and spending the proceeds of refunding or building bonds and, therefore, the trend of fund balance levels is not necessarily a key indicator of financial health. It does not mean that these funds cannot experience financial trouble or that their fund balances are unimportant.



Food Service Special Revenue Fund

The District's Food Service Special Revenue Fund ended fiscal 2020 with a fund balance decrease of \$173,130, compared to a budgeted decrease of \$259,649. Food service revenue was \$2,475,919, which is less than budget by \$469,833, mainly in full-price and ala carte meal sales, due to the COVID-19 pandemic. Expenditures were \$2,649,049, under budget by \$556,352, mainly in purchased service costs. The ending fund balance of \$927,125 in this fund represents 35.0 percent of current year expenditures.

Community Service Special Revenue Fund

The District's Community Service Special Revenue Fund ended fiscal 2020 with a fund balance decrease of \$404,149, compared to a budgeted increase of \$82,988. Revenues were \$7,453,883, which was less than budget by \$873,086, mainly due to a significant decrease in program fees and tuition, due to the COVID-19 pandemic. Expenditures were \$7,858,032, under budget by \$385,949, with the variance spread across most expenditure categories. The \$528,055 year-end fund balance represents 6.7 percent of current year expenditures.

Capital Projects – Building Construction Fund

Total fund balance in the Capital Projects – Building Construction Fund decreased \$12,663,276 in fiscal 2020, compared to a budgeted decrease of \$11,157,879. The decrease was due to the District continuing construction and renovations of district buildings, which was funded by the building bonds issued in the previous years. The year-end fund balance of \$12,413,939 includes: \$416,531 restricted for capital projects levy projects; and \$11,997,408 restricted for long-term facilities maintenance.

Debt Service Fund

The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. At June 30, 2020, this fund had a fund balance of \$3,026,960 available for future debt service needs.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The District's financial statements include fund-based information that focuses on budgetary compliance, and the sufficiency of the District's current assets to finance its current liabilities. The governmental reporting model also requires the inclusion of two government-wide financial statements designed to present a clear picture of the District as a single, unified entity. These government-wide financial statements provide information on the total cost of delivering educational services, including capital assets and long-term liabilities.

Theoretically, net position represents district resources available for providing services after its debts are settled. However, those resources are not always in expendable form, or there may be restrictions on how some of those resources can be used. Therefore, this statement divides net position into three components: net investment in capital assets, restricted, and unrestricted. The following table presents a summarized reconciliation of the District's governmental fund balances to net position, and the separate components of net position for the last two years:

| | June 30, | | |
|--|------------------------|------------------------|-----------------------|
| | 2020 | 2019 | Change |
| Net position – governmental activities | | | |
| Total fund balances – governmental funds | \$ 31,790,173 | \$ 43,889,112 | \$ (12,098,939) |
| Total capital assets, net of depreciation | 265,650,906 | 258,530,095 | 7,120,811 |
| Bonds, certificates, capital leases, and other | (200,362,447) | (210,461,514) | 10,099,067 |
| Pension and OPEB liabilities and deferrals | (140,684,642) | (132,046,974) | (8,637,668) |
| Other adjustments | (2,299,413) | (2,040,646) | (258,767) |
| Total net position – governmental activities | <u>\$ (45,905,423)</u> | <u>\$ (42,129,927)</u> | <u>\$ (3,775,496)</u> |
| Net position | | | |
| Net investment in capital assets | \$ 69,414,627 | \$ 64,290,068 | \$ 5,124,559 |
| Restricted | 11,777,774 | 14,352,180 | (2,574,406) |
| Unrestricted | (127,097,824) | (120,772,175) | (6,325,649) |
| Total net position | <u>\$ (45,905,423)</u> | <u>\$ (42,129,927)</u> | <u>\$ (3,775,496)</u> |

Some of the District's fund balances translate into restricted net position by virtue of external restrictions (statutory restrictions) or by the nature of the fund they are in (e.g., Food Service Special Revenue Fund). The unrestricted category consists mainly of the General Fund unrestricted fund balances, offset against noncapital long-term obligations, such as pension, severance, and OPEB benefits payable.

Total net position decreased \$3,800,545 in fiscal 2020, excluding the change in accounting principle, which increased beginning net position by \$25,049.

Net investment in capital assets, which increased by \$5,124,559, is typically determined by the relationship between the depreciation of capital assets and the repayment of the debt issued to construct or acquire the assets. The current year increase was also impacted by capital asset additions financed through tax levies or other nondebt related resources. Restricted net position decreased \$2,574,406, mainly in amounts restricted for capital asset acquisition, food service, and community service. Unrestricted net position decreased \$6,325,649, mainly due to the changes in the funding levels of the state-wide Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) pension plans.

LEGISLATIVE SUMMARY

The 2020 Minnesota Legislature session was expected to be short and focused on making tweaks to the biennial budget. By early March, it became clear the session would unfold differently than anyone could have predicted. As the novel coronavirus (COVID-19) spread reached Minnesota, Governor Walz issued an Executive Order declaring a peacetime emergency. The declaration was enacted, which allowed his administration to quickly impose measures aimed at mitigating the COVID-19 health threat. These measures, which were issued through dozens of executive orders over the months that would follow, included: closing schools and requiring instruction be provided through distance learning; allowing schools to offer summer programs and extended school year services through distance learning or a hybrid model; requiring districts to deliver meals and instructional materials; requiring districts to provide childcare for essential workers, and authorizing fund transfers and flexibility in the use of revenues for districts to cover school-age care, transportation, and other COVID-19 related costs.

The following is a brief summary of specific legislative changes from the 2020 regular and special sessions or previous legislative sessions impacting Minnesota school districts in future years.

Coronavirus Aid, Relief, and Economic Security (CARES) Act – The CARES Act provides federal economic relief to protect the American people from the public health and economic impacts of COVID-19.

This CARES funding includes an Education Stabilization Fund, which in turn contains two major sources of funding for schools that may be used for expenditures incurred from March 13, 2020 through September 30, 2022:

1. Governor's Emergency Education Relief (GEER) Fund

These funds were allocated to support efforts in getting children back to school in the fall, while prioritizing the safety of students and staff. These funds support operational costs, such as: cleaning supplies and disinfectant sprayers, screening supplies, personal protective equipment, and increased transportation costs associated with transporting students in a socially distant manner. These funds also support student, family, and educator needs, such as technology devices and internet access, technology training, tutors or mentors to address learning loss, translation services, school-age care for essential workers, and professional development focused on learning models. To spend funds from this source, an expenditure must be a reasonably necessary expense that is directly related to the COVID-19 pandemic, and the expenditure must not be one that was planned for in the current school year budget.

2. Elementary and Secondary School Emergency Relief (ESSER) Fund

These funds are divided into two streams: a formula-based allocation and state-directed grants. The formula-based allocation to districts and charter schools is based on their allocations under Title I, Part A of the Elementary and Secondary Education Act (ESEA). These funds can be used for a wide range of expenses to meet local needs.

State-directed grants, provided to districts and charter schools that do not receive a formula-based allocation, districts and charter schools that receive less than \$10,000 from their formula-based allocation, and districts and charter schools whose share of students from historically underserved populations is more than their share of other ESSER funds, can be used for a combination of supplementing GEER funds for summer school programming, supporting mental health, and meeting the needs of historically underserved populations.

The CARES Act also provided funding through the Coronavirus Relief Fund (CRF). These funds were allocated to districts and charter schools based on a two-part formula: 1) 60 percent for operating costs based on average daily membership (ADM) as reported for the 2018–2019 school year, and 2) 40 percent for student, family and staff support costs allocated based 40 percent on ADM and 60 percent on the historically underserved population of students each district or charter school serves. The expenditure of these funds is not required to match the 60 percent/40 percent allocation breakdown, and may be used for costs incurred between July 1, 2020 and December 31, 2020.

General Education Revenue – The Legislature had previously approved annual increases of 2 percent to the basic general education formula allowance for the fiscal year (FY) 2020–2021 biennium. The per pupil allowance will increase \$129 to \$6,567 for FY 2021.

Compensatory Revenue – The requirement to reserve a portion of compensatory revenue for extended time programming is eliminated beginning in FY 2021.

Special Education Revenue – The Legislature had previously approved enhancements to special education funding designed to hold the state average cross subsidy per pupil constant at the FY 2019 level of \$82 per ADM for FY 2021. The changes included:

- Establishing a new component of the state special education funding formula, known as cross subsidy reduction aid. Cross subsidy reduction aid will equal a percentage of each district’s “initial cross subsidy” for the prior fiscal year, with the percentages set at 6.43 percent for 2021. Initial cross subsidy is defined as the district’s nonfederal special education costs, including transportation, less state special education aid after tuition adjustments and general education aid attributable to students receiving special education services outside of the regular classroom for at least 60.00 percent of the school day. Charter schools are not eligible for cross subsidy reduction aid.
- Updating the pupil-driven portion of the initial special education aid formula to use FY 2018 data beginning in FY 2021, rather than continuing to use 2011 data adjusted for inflation.
- Phasing out the special education aid cap over two years, with the cap eliminated for FY 2021 and beyond.
- Reducing the tuition rate paid by the resident school district for open enrolled special education students served by another district or charter school from 90.00 percent of unfunded costs to 80.00 percent for FY 2021 and later. Charter schools will be eligible for additional special education aid from the state to fully offset the impact of the tuition rate change.
- Reducing the hold harmless guarantee by changing the formula to reduce reliance on the FY 2016 base year so that schools where special education expenditures have fallen or grown slowly since FY 2016 do not benefit disproportionately from the hold harmless guarantee compared to other schools. The percentage of FY 2019 regular program costs used to calculate the hold harmless will decrease to 85.00 percent for FY 2021, 80.00 percent for FY 2022, and 75.00 percent for FY 2023. In addition, the annual inflation adjustment used to calculate the hold harmless will be reduced by 0.20 percent annually from the 4.60 percent factor used in FY 2019 until the adjustment reaches 2.00 percent.
- The 2020 Legislature added that for FY 2020, expenditures for employees and contracted services that would have been eligible for state aid in the absence of school closure, due to COVID-19, must be included as eligible expenditures for calculation of aid and for tuition billing, regardless of whether special education services were actually provided during the closure.

Achievement and Integration Revenue – School districts are authorized to carry over any unspent balance of their approved achievement and integration budget from FY 2020 into FY 2021. If spent for approved purposes in FY 2021, the districts would generate additional FY 2021 revenue over and above the regular formula limitations.

Operating Referendum/Local Optional Revenue – Effective for the tax levy payable in FY 2021, the operating referendum and local optional revenue (LOR) levies were simplified by transferring \$300 per pupil unit (PU) of referendum revenue to LOR, thereby eliminating the board-approved referendum levy and increasing the LOR levy authority to \$724 per PU. The referendum cap is reduced by the \$300 per PU transferred to LOR. The annual recalculation of referendum allowances approved prior to FY 2014 based on the amount of LOR a district opts to receive is also eliminated. Inflation adjusted referendum authority transferred to LOR will continue to be adjusted for the life of the referendum. This change is revenue neutral for all districts.

Operating Referendum Equalization – Effective for the tax levy payable in FY 2021, the equalizing factor for Tier 2 of the referendum (New Tier 1) is increased from \$510,000 to \$567,000. This is expected to provide \$9.4 million of property tax relief to taxpayers, and result in \$600,000 of additional referendum state aid for charter schools.

Fund Transfers – For fiscal years 2020 and 2021 only, a school district, charter school, or a cooperative unit may transfer any funds not already assigned or encumbered by staff salary and benefits, or otherwise encumbered by federal law, from any accounts or operating fund to the undesignated balance in any other operating fund. A fund transfer is allowed if the transfer meets the following criteria from Minnesota Laws 2020, Chapter 116/House File 4415 Article 3 Section 8:

1. The transfer does not increase state aid obligations to the district or school or result in additional property tax authority for the district.
2. A transfer is limited to the operating funds of a school district, charter school, or cooperative unit.
3. A school board must approve any fund or account transfer before the reporting deadline for the respective fiscal year.
4. A school district, charter school, or cooperative unit must maintain accounting records for the purposes of this section that are sufficient to document both the specific funds transferred and use of those funds. The accounting records are subject to auditor review.
5. Any execution of this flexibility must not interfere with or jeopardize funding per federal requirements.
6. Any transfer must not interfere with the equitable delivery of distance learning or social distancing models.

Debt Service Payments – For FY 2021 only, a school district unable to make a required debt service payment due to a delay in property tax receipts may apply for modified cash flow payments from the state under Minnesota Statutes, Section 127A.45.

Pension Benefit Reforms – The 2018 pension bill included a number of reforms to the various defined benefit pension plans across the state. Employer contribution rates were increased for the Teachers Retirement Association (TRA) plan (a total increase of 1.25 percent phased in over a six-year period, beginning in FY 2019) and the St. Paul Teachers Retirement Fund Association (SPTRFA) plan (a total increase of 2.50 percent phased in over a 6-year period beginning in FY 2019). Employee contribution rates were also increased by 0.25 percent beginning in FY 2024 for the TRA plan and beginning in FY 2023 for the SPTRFA plan. The pension adjustment component of the general education aid formula was increased by an amount equal to the product of the salaries paid to members of these two plans times the district's pension adjustment rate for the fiscal year to help offset the cost of the employer contribution increases.

Workers' Compensation Claims – COVID-19 Presumption – The Legislature added several provisions to state unemployment statutes related to COVID-19, including a presumption that an employee who contracts COVID-19 has an occupational disease arising out of and in the course of employment if the employee works in one of the specified occupations and has a confirmed case of COVID-19. Covered occupations include nurses, healthcare workers, and workers required to provide childcare for first responders and healthcare workers under Executive Orders 20-02 and 20-19.

ACCOUNTING AND AUDITING UPDATES

The following is a summary of GASB standards expected to be implemented in the next few years. Due to the COVID-19 pandemic, the GASB has delayed the original implementation dates of these and other standards as described below.

GASB STATEMENT NO. 87, *LEASES*

A lease is a contract that transfers control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Examples of nonfinancial assets include buildings, land, vehicles, and equipment. Any contract that meets this definition should be accounted for under the leases guidance, unless specifically excluded in this statement.

Governments enter into leases for many types of assets. Under the previous guidance, leases were classified as either capital or operating depending on whether the lease met any of the four tests. In many cases, the previous guidance resulted in reporting lease transactions differently than similar nonlease financing transactions.

The goal of this statement is to better meet the information needs of users by improving accounting and financial reporting for leases by governments. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. This statement increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Under this statement, a lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

To reduce the cost of implementation, this statement includes an exception for short-term leases, defined as a lease that, at the commencement of the lease term, has a maximum possible term under the lease contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this statement are effective for fiscal years beginning after June 15, 2021.

GASB STATEMENT NO. 92, *OMNIBUS 2020*

The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other post-employment benefit (OPEB) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for post-employment benefits

- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to post-employment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

The requirements of this statement are effective for fiscal years beginning after June 15, 2021. Earlier application is encouraged.

GASB STATEMENT NO. 96, *SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS*

This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended.

A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability.

This statement provides an exception for short-term SBITAs with a maximum possible term under the SBITA contract of 12 months, including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources.

This statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information.

The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter.

GASB STATEMENT NO. 97, CERTAIN COMPONENT UNIT CRITERIA, AND ACCOUNTING AND FINANCIAL REPORTING FOR INTERNAL REVENUE CODE SECTION 457 DEFERRED COMPENSATION PLANS—AN AMENDMENT OF GASB STATEMENT NO. 14 AND NO. 84, AND A SUPERSESSION OF GASB STATEMENT NO. 32

The primary objectives of this statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this statement that (1) exempt primary governments that perform the duties that a government board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans, and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this statement.

Corrective Action Plans and
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

A. FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS IN INTERNAL CONTROL OVER FINANCIAL REPORTING

2020-001 Timeliness and Accuracy of Reconciliations

Finding Summary

Due to a significant amount of staff transition in the Independent School District No. 273, Edina, Minnesota's (the District) Business Services Department, the effectiveness of some internal control procedures, including periodic and year-end account reconciliations, were diminished due to a lack of timeliness and accuracy.

Corrective Action Plan

Actions Planned – The District will continue to review its internal controls over financial reporting, assure adequate training is provided to the individuals responsible for performing critical financial reporting control procedures, and monitor the effectiveness of these controls.

Official Responsible – John Toop, Director of Business Services.

Planned Completion Date – June 30, 2021.

Disagreement With or Explanation of Finding – The District agrees with this finding.

Plan to Monitor – John Toop, Director of Business Services, will monitor the implementation of these corrective actions as determined by the Controller to ensure these control procedures are completed timely and accurately, and that district controls over financial reporting are functioning appropriately in the future.

INDEPENDENT SCHOOL DISTRICT NO. 273

Corrective Action Plans and
Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2020

B. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – U.S. DEPARTMENT OF AGRICULTURE, PASSED THROUGH MINNESOTA DEPARTMENT OF EDUCATION, CHILD NUTRITION CLUSTER – CFDA NOS. 10.553, 10.555, AND 10.559

2020-002 Internal Control Over Compliance With Federal Suspension and Debarment Requirements

Finding Summary

2 CFR § 180 requires the District to establish and maintain effective internal control over compliance with requirements applicable to federal program expenditures, including suspension and debarment requirements applicable to the child nutrition cluster program. The District did not have sufficient controls in place within its child nutrition cluster of federal programs to ensure that it was not contracting for goods or services with parties that are suspended or debarred, or whose principals are suspended or debarred from participating in contracts involving the expenditures of federal program funds.

Corrective Action Plan

Actions Planned – The District will review policies and procedures relating to suspension and debarment for its federal programs and will ensure that all parties with which it contracts for goods or services are eligible to participate in contracts involving the expenditures of federal program funding.

Official Responsible – John Toop, Director of Business Services.

Planned Completion Date – June 30, 2021.

Disagreement With or Explanation of Finding – The District agrees with this finding.

Plan to Monitor – John Toop, Director of Business Services, will assure appropriate internal controls are in place to verify that any vendor with which the District contracts for goods or services exceeding \$25,000 is not listed as suspended or debarred on the federal Excluded Parties List System website.

INDEPENDENT SCHOOL DISTRICT NO. 273

Corrective Action Plans and
Summary Schedule of Prior Audit Findings (continued)
Year Ended June 30, 2020

C. MINNESOTA LEGAL COMPLIANCE FINDINGS

2020-003 Withholding Affidavit

Finding Summary

Minnesota Statutes require the District to obtain Form IC134 or a Contractor's Withholding Affidavit prior to making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor and by subcontractors. For one project selected for testing, the District did not obtain a Form IC134 or a Contractor's Withholding Affidavit before making final payment to the contractor.

Corrective Action Plans

Actions Planned – The District will review policies and procedures to ensure compliance with this statute in the future.

Official Responsible – John Toop, Director of Business Services.

Planned Completion Date – June 30, 2021.

Disagreement With or Explanation of Finding – The District agrees with this finding.

Plan to Monitor – John Toop, Director of Business Services, will ensure policies and procedures are updated and in place to ensure compliance with state statutes in the future.

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No audit findings were reported for the year ended June 30, 2019.



Board Meeting Date: January 4, 2021 Special Meeting

TITLE: Elementary Semester One Report Card Recommendations, 2020-2021 School Year

TYPE: Action

PRESENTER(S): Dr. Randy Smasal (Assistant Superintendent), Jody De St. Hubert (Director of Teaching and Learning), Mark Deyoung (Assistant Principal at Concord Elementary)

BACKGROUND: Due to the COVID-19 Pandemic, slight adjustments are recommended for 2020-2021 Semester One Report Card. This report provides background and recommendations for the elementary level. This appears on January 4 for discussion and will be up for approval on January 11.

RECOMMENDATION: Approve the recommended Semester One Report Card adjustments for the 2020-2021 school year at the elementary level.

PRIMARY ISSUE(S) TO CONSIDER: Please consider the impact of the Covid-19 Pandemic on the recommended Semester One Report Card for 2020-2021 school year at the elementary level.

ATTACHMENTS:

1. Elementary Report (next page)
2. Kindergarten Report Card Narrative
3. Secondary Report presented on December 14, 2020

Semester One Report Card for Distance Learning 2020-2021

Background Process:

Throughout the month of December, Elementary staff met on Wednesday's during designated Cross District Collaboration meetings to talk about progress reporting for semester one in order to ensure consistent and accurate report card communication in January. The meetings were organized by grade level and specialist area. At each meeting there was representation of staff from every building, including EVA. In addition, an Elementary Dean, Assistant Principal, or Instructional Support staff supported conversations and listened to feedback. The facilitators then met on a weekly basis to share insights and build agendas for future meetings.

Emerging Themes:

In each grade level meeting the facilitators reported that the conversation around the quality of instruction that has occurred thus far this year was remarkable. The opportunity to hear our teachers discussing what they have taught and what could be used as benchmarks to determine a level of understanding of what has been taught for each student was affirming. In the meeting conversations the facilitators recognized the dedicated efforts of our instructors to provide educational excellence despite challenging and changing situations. In the meeting conversations our teachers acknowledged that a primary responsibility of any school is communication about the achievement status of students to parents. That being said, complying with Emergency Executive Order 20-82 and the MN Safe Learning Plan has created some challenges related to reporting. The challenges are:

- 1) The fall semester began later than planned while teachers planned for hybrid and EVA learning models along with another disruption in November while planning for distance learning.
- 2) As a result, the amount of in person learning was reduced from a typical school year.
- 3) With a reduction in the amount of learning time available this year compared to a typical year, the amount of material presented in some content areas was similarly reduced. Our instructional focus areas have been Literacy, Math, and Social and Emotional Learning (ICCAR Values).
- 4) Some aspects of assessment in a hybrid and/or virtual environment can be difficult (e.g. level of student independence in completing work) and/or not recommended as best practice by some assessment vendors (e.g. FastBridge, NWEA MAP, etc.)
- 5) Each student and family will experience learning differently this year depending on their environment, ability to access resources, and level of pandemic related stress.

Differences in Semester One Elementary Report Card:

Due to the challenges listed above, there are some differences that will be reflected in the Semester One Elementary Report Card. They are:

- Instruction (in person and asynchronous) and grading focused most heavily on collecting artifacts and evidence of learning in Math and Literacy
- N/A means "Not Assessed at this time"--this means that students have been learning in these content areas, but there may not have been enough concrete evidence of learning at this point in the school year to determine an exact level of mastery

- The numeric scale (4, 3, 2, 1) on the report card offers just one of the many ways to measure and communicate mastery along with comments, teacher feedback on student work, conferences and contacts with your student's teacher(s)

Grade 1- 5 Semester One Report Card Specific Decisions:

- In Grades 1- 5 the report card line items and scale (4, 3, 2, 1) will remain the same.
- Every grade level, across each learning model will be consistent in the line items that will be graded.
- Line items in Mathematics, English Language Arts, and ICCCAR Values will be marked closely matching what would be marked in a typical year at this time.
- Science/Social Studies/Health will be marked using NA.
- Music, Art, and Physical Education will be marked using NA and comments will be shared that include:
 - What standard was covered?
 - What was done to cover it?
- Edina teachers are dedicated to the progress of our students and are prepared to share additional information about their progress with families at any time.

Kindergarten Semester One Report Card Additional Decisions:

- Math, English Language Arts, and ICCCAR Values will have a Narrative Statement that explain what learning experiences students were exposed to in semester one. This Narrative Statement will be shared with parents as a cover letter to the report card.
- All line items will be marked NG: Not Graded.
- Teachers will comment in the comment section for Math, English Language Arts, and ICCCAR Values on a positive about the student's learning and an area for growth in relation to the narrative statement descriptors.
- Music, Art, and Physical Education will be marked using NG and comments will be shared that include:
 - What standard was covered?
 - What was done to cover it?
- Edina teachers are dedicated to the progress of our students and are prepared to share additional information about their progress with families at any time.

Narrative of English Language Arts, Mathematics, and Social & Emotional Learning**Descriptors:**

A highlight of the learning your child has experienced this year

English Language Arts:

Using our “Collaborative Classroom” curriculum, we covered the following concepts during our first semester:

- Identifying letters, letter sounds and concepts of print
- Isolating sounds in words, & blending and segmenting syllables and sounds and in words (Phonemic awareness skills)
- Listening and responding to key details in stories, making text-to-self connections, and retelling the beginning, middle and end of stories
- Vocabulary development & introduced semester 1 sight words
- Communicating opinions, information and stories through drawing, dictating and writing
- Reading emergent level text with purpose and understanding

Mathematics:

Using our “Math in Focus” curriculum, we covered the following concepts during our first semester:

- Number sense (one more/one less, ordering, sequencing, one-to-one correspondence, and representation of numbers 0-20.)
- Number identification and counting
- Spotting differences and comparing attributes
- Comparing and ordering based on different attributes (size, weight, shape, length...etc)
- Composing and Decomposing Numbers to 5
- Identifying 2-dimensional and 3-dimensional shapes
- Creating, identifying and extending patterns

Social Emotional & Learning: ICCCAR Values

The primary focus in kindergarten is to stay connected with families and students; teach students how to be successful members of our classroom community; and help students feel supported, cared for, safe and secure.

Using a variety of research based curriculum materials, we covered the following skills during our first semester:

- Following teacher directions and school rules
- Working independently and using self help skills
- Self awareness of feelings and how to use self regulation strategies
- Appropriate response to others ideas and feelings



Board Meeting Date: December 14, 2020

TITLE: Grade Reporting Recommendations, 2020-2021 School Year

TYPE: Action

PRESENTER(S): Dr. Randy Smasal, Andrew Beaton (Edina High School Principal), Shawn Dudley (Valley View Middle School Principal) and Tim Anderson (South View Middle School Principal).

BACKGROUND: Due to the COVID-19 Pandemic, a few grading adjustments are recommended for 2020-2021 Grading Process. This report provides background and recommendations for grading at the middle and high schools. This appears on December 14 for discussion and will be up for approval on January 4. On January 4, the Board will also receive a recommendation for the elementary schools.

RECOMMENDATION: Approve the recommended grading adjustments for the 2020-2021 school year.

PRIMARY ISSUE(S) TO CONSIDER: Please consider the impact of the Covid-19 Pandemic on the recommended grading adjustments for 2020-2021 school year at the Secondary Schools.

ATTACHMENTS:

1. Report (next page)

Grading Adjustments for Distance Learning, 2020-2021

As the district moves through the different models during the COVID crisis, Edina school leaders are making recommendations to the grading of students at elementary and secondary level.

An important consideration is how any pandemic related grade adjustments will be viewed by Colleges and Universities. Post-secondary institutions are aware of the extenuating circumstances K-12 schools are facing during this pandemic, and they have made a commitment to factor in distance learning challenges as they review academic marks earned this school year. Our district's grading guidance for the current school year reflects the need to balance two important factors:

1. Ensuring students are encouraged and motivated to achieve excellence;
2. Holding harmless students who faced significant distance learning-related obstacles that were beyond their control.

All students, all grades

Grades that are documented during first semester 2020-2021 reflect a hybrid and a distance learning period resulting from the COVID-19 pandemic. Future use of these grades for academic placement, admission, and/or acceleration, should be used with great caution after balancing the information against student performance in other grading periods.

Note: This message will appear on HS transcripts.

Middle School students

As we make the shift to full remote/distance learning, we are taking the opportunity to adjust our grade reporting to be more reflective of the learning process and to address some of the challenges that we have seen with our new learning models this year.

Moving forward if a student's grade is below 70%, rather than seeing the grade as a D or F, they will now see the grade being reported as "NY". This stands for "Not Yet" and is intended to inform the learner, parents/guardians and teacher that the student has not yet achieved the required standards that are expected in any given class. As a result, the student should inquire and work with their teacher to show evidence of the learning that they have not yet shown. Once this has happened, the grade will then shift from "NY" to the appropriate grade to reflect new learning. Upon completion of the semester, any remaining "NY" term grades will then make a final shift to "I" (Incomplete)

High School students

At the end of this semester, all final grades will be submitted using A, B, C, D, I or NG (No Grade)

- An Incomplete (I) should be entered for students who have incomplete work but are working with their assigned teacher to complete assigned work.

- No Grade (NG) will be entered for a student who did not complete enough acceptable work throughout the semester to receive a grade at this time; a grade of NG earns no credit. An NG will not impact a student's GPA.
- In addition, High school students will have the opportunity to turn one or more of their *passing* letter grades this semester to a "P" or Pass. This option will be available AFTER grades are posted. Students applying to change a grade to a "P" should fill out [this form](#) after grades are posted at the end of the semester. A P will not impact a student's GPA.
- Students who are currently seniors and who earned a final grade of NG in a course required for graduation will need to enroll in credit recovery at the high school to graduate in 2021; please connect with your school counselor to enroll in credit recovery.

Credits earned during this distance learning timeframe will count toward graduation.